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The Honourable Wayne Easter

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● (1530)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Pursuant to Standing Order 108(2), we'll continue our study of consumer protection and oversight in relation to schedule I banks.

Today, we have with us, as an individual, Sally Watson. Members have copies of her remarks, which have been translated.

Also as an individual, we have Mr. Elford, who has remarks, but they haven't been distributed to committee members because we don't have them translated yet.

On the phone, from the Small Investor Protection Association, we have Stan Buell. He'll say hello when he comes on.

We will start with Ms. Watson.

Welcome. I believe some members have told you what the procedure is. You'll make an opening statement and then we'll go back and forth with questions. The floor is yours.

Ms. Sally Watson (As an Individual): Thank you.

I would like to thank the chair for providing me with this opportunity to speak on such an important matter.

I was first hired by the CIBC in 1974 as a teller in Hamilton, Ontario. I was there for one year before I accepted a position at Scotiabank in 1975, also as a teller.

Tellers were historically paid at a bit above minimum wage by all banks. Let it be clear that I only worked for these two banks, but I had so many acquaintances throughout the bank system that I can comfortably state that the practices we are discussing here were pervasive throughout all the major banks.

I was an excellent teller. I never had a single unresolved difference and my customers, who were also my neighbours, found me friendly and approachable. Eventually, I became the head teller, the commercial teller, and the bulk teller. I was then moved to the back office, as an accounting clerk. The bank justified paying back office staff less money because they had no customer contact, thereby making it a less stressful job.

For the first four years of my employment, I was classified as part-time, even though I worked 40 hours per week. At that time, the branch that I worked at was open for extended hours, which meant until 8 p.m. on Thursdays and 6 p.m. on Fridays. I started at 9 a.m. every day and worked all extended hours. No overtime was ever paid. There was no such thing.

The Chair: Ms. Watson, I'll just cut in for a minute. I believe Mr. Buell just came on the phone.

I'll just tell you that we can hear you, Mr. Buell. I hope you can hear us. We have two individual witnesses first, then we'll turn to you and all the members will be able to hear you.

Mr. Stan Buell (Founder and President, Small Investor Protection Association): That's very good. I hear you loud and clear.

The Chair: That's good. Thank you, Stan.

Go ahead, Ms. Watson.

Ms. Sally Watson: We were given a supper allowance of $5. I received no benefits, as I was classified as part-time. After several years of attempting to be reclassified as full-time, I finally went to the federal labour board, who contacted my manager, and I was subsequently made full-time. I was never quite sure if it was worth it, as I was labelled a troublemaker from that point on.

It is often standard practice at all banks for the staff to “volunteer” to make RSP calls during the months of January and February. Anyone who didn't offer to stay after hours to make these calls faced having a note put in their personnel file stating that they were not a team player. Payment for making these calls three times a week until 8 p.m. was a slice of pizza, eaten at your desk, and a can of pop.

I remained working at the same branch for 20 years. At that time we were totally convinced that we owed the bank for giving us employment, and we were unlikely to ever get jobs anywhere else. I suppose it was almost a case of Stockholm Syndrome, in which you become convinced that your very existence relies on the people who control you.

I eventually transferred to the Ontario central accounting unit in downtown Hamilton to escape an abusive supervisor, and things began to improve. For one thing, there were no sales goals.

Sales goals were an insidious thing for all branch employees. The number of cross-sells, upsells, and referrals for large credit products that were required in order to get an acceptable rating on your annual performance report was staggering. It simply wasn't attainable in the course of normal working hours; hence, more unpaid overtime, but that's another story.

I congratulate the women who came forward from both the CIBC and Scotiabank and successfully pursued class action lawsuits that at least resulted in some of their colleagues getting the lost wages that they deserved. Sadly, hundreds of employees were not in those numbers of the defined class, and they were left behind and will likely never be compensated for all the hours they worked.

The pressure to achieve sales goals did more than coerce staff into working for nothing. It also urged them to sell products to customers that they had no need for. Raising credit card limits, urging people to take out car loans, RSP loans, open a line of credit, or be approved for overdraft protection were commonplace. The one that disturbed me the most was approving people for much larger mortgages than they could afford—anything to raise the profit of the bank, whether the consumer could afford the product or not.

I can clearly remember the day when my husband and I went to get a pre-approved mortgage from the bank so that we could go house hunting. I was appalled at the amount they were willing to lend us, even though we had understated my husband's income. I saw the big smile on his face. When we got outside, I gave him the bad news that we could actually only handle a mortgage half that size and that he would have to lower his expectations. I also told him that there were going to be a lot of rough times ahead for a lot of people who were overburdening themselves with huge mortgages they might not be able to handle. That was in 1999.

Thank you.

● (1535)

The Chair: Thank you, Ms. Watson.

Turning to Mr. Elford, the floor is yours.

Mr. Larry Elford (Independent Financial Industry Analyst, As an Individual): Thank you very much, sir. I'm grateful to this committee for allowing the opportunity for my voice to be heard.

I began working in the financial industry in Canada in 1984. By the 1990s, most of the investment firms in Canada had been purchased by the big banks. I worked inside those financial firms for 20 years and I participated in one of the first investment offices to be housed inside a Royal Bank branch at that time. I'm well versed in the sales practices and incentives for employees and the codes of conduct and regulatory systems.

Before I get into my presentation, I must first tell you why I believe this topic is of utmost importance to Canadians and could be important to listeners.

The reason I believe this topic is important is that systemic cheating and short-changing of Canadians by financial institutions costs Canada as much money as the cost of all criminal acts in the country combined. Those are criminal acts measured by the Government of Canada and Statistics Canada. If this belief of mine were found to be true, then the topic you are charged with hearing is far more important to Canada than we could ever imagine.

To begin, point number one is that nobody whom I knew in the financial industry went into that business with the intention to harm clients or to violate them financially. Point number two is, I know that I did not go into the financial industry in order to do financial harm to my clients, nor did I expect that to be the case.

I also know that I did not join a top Canadian financial institution with the understanding that they would require me to harm my clients financially in any way. I did not enter the field with the understanding that any bank would do harm to me as an employee if I refused to do harm to my clients financially, if I refused to step outside the rules, which required that I deal honestly, fairly, and in good faith with my clients. I did not expect to be harmed by my bank if I refused to do so.

Last, if I could get around the first two, I did not enter the financial industry in Canada to stand by silently while 70% or 80% of my sales associates made themselves richer by harming their clients financially.

All those things took place and take place today in the financial industry to make financial firms richer. They take place in secret and are invisible on the radar of all current attempts to regulate and protect Canadians from these harms.

I've worked in a bank branch environment; however, my background was on the investment industry side. Starting in the early 1990s, Canada's largest banks purchased 90% of the investment brokerage firms in the country. The banking industry thus also owns the largest portion of the investment industry in Canada. That is important, because my truck driver friend in Taber tells me that we're not talking about rich people; we're talking about every single person who works, saves, and hopes to invest to retire some day—every person in Canada.

When my firm was taken over, we had 1,000 investment sales persons. They were legally licensed as salespersons under the law up until 2009. The bank had between 12,000 and 15,000 account managers. I don't know what their licence was. That's a different area. What I've discovered is that the bank objective was to force those 12,000 to 15,000 account managers to step out of their old role of helping people and become licensed as salespersons and begin the process of pushing clients into bank investment products. The profits could soar if we could get all of our clients to go into bank investment products.

In 2007, the University of Toronto's Rotman School of Management did pension studies led by Canada's foremost expert, Dr. Keith Ambachtsheer. They found that clever marketing and not necessarily good financial advice was gouging Canadians, not serving Canadians—and I'm talking about the gouge only—by $25 billion a year. That was in 2007. the $25 billion was the benefit to the dealers and the harm to investors at that time. His calculation was that 3.8% was how much more retail investors were paying for financial products than they needed to be paying when compared with professional investors or institutions.

● (1540)

If I update Dr. Ambachtsheer's numbers to 2017, I can easily estimate $40 billion to $50 billion per year in financial harm to investors. This number is from the abuse of market dominance that allows banks and their dealers to control the market to the extent that they can deceive and harm Canadians.

I repeat, I'm not talking about a fair fee, a 1% fee to manage money. I'm talking about an overcharge, or an excessive fee that clients know nothing about, so that they're getting added costs without added value.

This mutual funds example from the Rotman School of Management is only on one investment product, mutual funds, and is one marketing tactic out of hundreds. There are easily another dozen methods of harming Canadians that allow the financial harm to Canada to exceed the harm from all other crime in the land. A study on demonstrating that is under way, and the results so far support the premise.

Your first question as a committee might be, "But, Larry, shouldn't our regulators require Canadian financial institutions to deal with clients only in a manner that is fair, honest, and in good faith?" That's what they'll tell you next week when they come here, and the answer to that is obviously, yes, it should, but in practice, no, it doesn't.

A regulator should require financial institutions to deal fairly, honestly, and in good faith as is required by rules, the laws, and the codes of conduct of every industry member who will speak to you, but as I said, they don't. I have not yet met a regulator who was not picked and paid by the very financial institutions who pay the regulators salaries. The regulators have their hands on the wheel and are paid by the industry they are charged with policing. I repeat, they are paid by the industry they are charged with policing. As no one can serve two masters, they have a record of ignoring the public interest when their job security is at stake. Regulators' job security is every bit as much at stake as bank employees' job security can be, and regulatory employees thus face ethical double binds similar to those placed on bank or financial system employees.

Regulatory capture by paycheques that are only funded by those who are being regulated is a highly unskilful and suspect system. It is not professional. It almost seems designed to fail, and if it does, then it is a huge success to the industry by being a failure to Canadian investors.

● (1545)

The Chair: If I could, and I really hate to do this, but I know you're only about halfway through. We try to hold the comments to five minutes, and we're at eight, so if you could highlight.... The problem is, we need time to get to questions. If you could, please sum up as quickly as you can, but don't miss your key points.

Mr. Larry Elford: I'll speed it up.

I'll sum up with a quote from David Dodge, the former governor of the Bank of Canada in 2005, who suggested that there is a perception in international financial circles that Canadian markets are the "Wild West", and that it hurts Canadian companies when they try to raise money abroad. As he said, "This is a very common refrain that we hear when we visit markets in New York or in Boston or in London or in Europe, a perception that somehow this is kind of a little bit more like a Wild West up here in terms of the degree to which rules and regulations are enforced."

I'll only add to that with a thank you for listening to me. The Wild West applies to the regulatory system of retail investors and affects retail investors, much to the detriment of society.

Thank you for your time.

The Chair: Thank you, Larry.

There is another point you might want to draw out later in answer to a question, and that relates to your point on investment victims. You can think about that in the meantime.

Turning to the phone now, we have Mr. Buell, with the Small Investor Protection Association. Mr. Buell, the floor is yours. Please try to hold it to about five or six minutes, if you could.

Mr. Stan Buell: Good afternoon. I will be brief.

SIPA, or the Small Investor Protection Association, is incorporated as a national non-profit organization. We are fortunate to have the support of many volunteers who devote their time and energy to our work as we try to raise awareness among Canadians.

Three decades ago I lost my life savings due to fraud and wrongdoing by a major financial institution. Like most Canadians, I trusted them to look after my best interests. The impact was devastating and life-altering. It was another 10 years before I suspected anything wrong was done. I investigated for six months. What I found was distressing. It was not unusual. It was commonplace. I found that my adviser had been disciplined and fined several times. I tracked down a half-dozen of his victims. All had received the same treatment. He had been doing the same things for 15 years.

One of his victims had died during the legal process. Who knows how many were victimized? When I spoke with his widow, Shirley, I knew I must do something to try to help other Canadians. She is the reason SIPA was founded in 1998. Shirley and her husband had operated a family business for 25 years. He contracted terminal cancer. The business and the house were sold, and the proceeds and all of their savings were placed in the care of this adviser. About $1 million in total she trusted to him. It seemed enough to support a senior widow. Three years later, she was called into their office to hear them explain that her money was gone. They were sorry, but they could do nothing.

Since founding SIPA, I've talked with many hundreds of victims. Their stories are all quite similar: lives are ruined, health is harmed, families are broken up, many talk of committing suicide, and some do.

The CBC *Go Public* TV and radio programs over the last two months have raised public awareness more than SIPA has been able to do in two decades. There's a new awareness that is building. Any government inquiry must talk to the victims to hear the truth.

It is not the bank teller upselling or being pushed to meet sales targets that is the major issue, but it is indicative of the culture and attitude of the financial institutions that extends to their financial advisers, who are motivated by sales targets and the need to generate commissions to satisfy the commission grid. The soothing words of codes of ethics and regulators' rules and guidelines do little to save Canadians from harm. Self-regulation in this industry does little to protect Canadian consumers. Rather, it adds to the deception that encourages Canadians to place their trust in the financial institutions.

SIPA has issued a series of reports that reveal some of the facets of strategic insidious deception. Members of the committee are urged to peruse some of these reports. However, it is most important that you talk with many witnesses—CBC's *Go Public* has heard from thousands—and then try to reconcile what you're hearing from the industry and what you hear from Canadian citizens.

Recognizing that there are provincial and federal regulatory jurisdictions, we believe it is essential that the Government of Canada establish a national consumer protection authority that will work with all the regulators, but have the power to order investigations and to pay restitution when it's found to be appropriate.

Thank you.

● (1550)

The Chair: Thank you very much, Mr. Buell.

I don't know whether you can see us or not, but so you understand the set-up here, there are five members of the governing party, three members of the official opposition, and one member of the third party, and we will rotate on questions.

We'll start our questions with a seven-minute round.

Mr. Ouellette.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Mr. Elford, thank you very much for coming here today. I very much appreciate it.

I was wondering if you could talk a little about payment of regulators. You mentioned regulators had their hands on the wheel. Could you actually say what regulators are being paid by schedule I banks? I was a little unclear on that. How does that work?

Mr. Larry Elford: I have to admit that my experience is totally on the investment side of the banking industry. As a result, I was licensed under the Canadian Securities Administrators, which is the umbrella organization of 13 provincial and territorial securities commissions. Those securities commissions are not government funded, they're funded by fees and payments by the investment industry. They're selected from members of the investment industry, and their salaries go as high as $700,000 at some of the various securities commissions across the country.

Beneath the Canadian securities administration, there is nothing left except for self-regulatory bodies, and those are fully industry self-paid, self-protected bodies. In my view, they provide a pretense of public protection, which is more of a facade, in my experience.

Mr. Robert-Falcon Ouellette: You also mentioned the separation between banks and investment companies. Why is that important? Why do we need a separation between banks and investment companies?

Mr. Larry Elford: I don't know that we necessarily need a separation, but we need independent protection and independent eyesight on the behaviours that banks undertake with regard to investment customers because we're dealing with Canadians' life savings.

If the professor at the University of Toronto is correct that it's a 3.8% harvest or additional gouge of investor savings.... Canadians have $1 trillion in mutual funds. If the banks are allowed to take 3.8% from that, or even 2% if the numbers were too high, 2% cuts every Canadian's retirement in half. Two per cent compounded over a 35-year period cuts every Canadian's lifestyle in half during retirement. Dr. Ambachtsheer's numbers said that mutual fund costs in 2007 were 3.8% higher. It's draining society at the retirement level.

Mr. Robert-Falcon Ouellette: I have a question for both Mr. Buell and Ms. Watson.

Mr. Buell, you talked about culture. We've heard in the media about employees who sign up people for services they don't really need, perhaps extra banking accounts, but those are minor fees, $3 here, $3 there, maybe $30.

What is the impact on the culture within an institution, in your opinion? What type of culture does that create in the long term? What risks are there for that culture and for Canadian society if people aren't really following these regulations and rules in a good way?

● (1555)

Ms. Sally Watson: Is that for me?

Mr. Robert-Falcon Ouellette: For you and for Stan as well.

The Chair: We'll start with Ms. Watson and then turn to Mr. Buell.

Ms. Sally Watson: What is the question exactly, in a nutshell? Do you want me to tell you how that affects the employees, that they have to sell all these products to scoop all these extra service charges?

Mr. Robert-Falcon Ouellette: Yes, essentially. What's the impact overall? Not their health, but if you have to sell a product day in and day out, and you're just skirting the law a little bit—you sign someone up for something and no one can really verify it—what type of culture does that create within an institution or within a company?

Ms. Sally Watson: It's not great, because of this huge competitive thing. Everybody's trying to grab a new customer whenever they come in the door. You're forced to sell products to people.

You see the same customers every day, day in and day out. How many times can you sell that one person another product? You've just run out of things to sell them. When you do, you're in big trouble, because if you don't meet those sales goals of selling *x* number of accounts per month or per week, or sometimes even per day, you're in big trouble. You have things put in your file saying that you're not adequate, you're not up to the job, and you're not a team member. Eventually, when it comes time for your performance appraisal to be written, you get absolutely no raise. There is nothing. If you get no raise two or three times in a row, the next thing is the door.

It creates a lot of tension and a lot of pressure. In my very early bank days, when I worked for Scotiabank 40 years ago, I changed the coding on 100 bank accounts to be what they called Scotia 59er accounts. They were retirement accounts. They had extra perks for senior citizens. I got points for selling that account. All I did was go into the system and recode them all. It was something I felt I could do without feeling guilty, because it was a benefit to those people to have those accounts, but at the same time, I got points for selling all those new products.

That's the kind of thing I had to figure out, how to be able to this and still be able to sleep at night.

Mr. Robert-Falcon Ouellette: If you were young doing that, and as you get older and you move up higher through the ranks in a large institution, does that impact the way people view their jobs?

Ms. Sally Watson: Absolutely. People literally dread getting up in the morning because of the horrible things they know they're going to have to do when they get to work. They're going to have to sell somebody a mortgage they can't afford. They're going to have to let somebody buy a more expensive car than they can afford.

Mr. Robert-Falcon Ouellette: Does that create managers who might not see a problem because they succeeded using that system?

Ms. Sally Watson: The managers don't see a problem, because there's this big thing that goes on in the bank. It's called the annual campaign. It's a campaign where each branch, usually in the springtime, has a three-month period in which to sell the maximum number of products. It's like a competition. The winning branch gets its name published in the *Scotiabanker* quarterly magazine, and the winning manager gets to go on a trip to the tropics somewhere. He started off the campaign by coming out and saying, “Ladies, send me south.” That means sell as much as you can so he gets to go south.

The Chair: Mr. Buell, do you have anything to say on this point?

Mr. Stan Buell: The problem I see is this sales culture is not what employees expect when they go to the bank. They feel they're providing a bank service that is good for clients, and I think most Canadians do trust the banks and financial institutions. However, the requirements of the positions have changed so it's more of a retail sales outlet.

I've not talked to a lot of bank employees, but I have talked to a lot of financial advisers, who would turn to me as a father confessor almost, because they were explaining how they had taken advantage of 75-year-old widows. They would list all the bad things they had done, but I have no record of that, just telephone conversations.

What I do know from talking to hundreds of people is that a culture exists where people are driven to create sales. They're paid on commission, so they do things to generate income because they have to feed their families. They're forced to do this, but it's against their human nature. That is what is happening with the tellers.

I have heard of people who have joined the bank and have been pushed to do things. For example, one young fellow suggested to his client that the client get a line of credit to pay off his credit card debt to get control over his finances. The next day he was called in by the manager and told he shouldn't do that because the bank made more money from credit cards than they did on lines of credit. This young man left the job and went to work at another organization.

● (1600)

The Chair: Thank you, Mr. Buell.

I'm turning to Mr. Deltell.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

Madame et messieurs, welcome to your House of Commons.

Madam Watson, I read your statement and I listened to what you had to say, and to tell you the truth, I'm very touched by your experience. You recall how it was 40 years ago when you started your career. You talked about your personal experience.

Do you know if the other financial institutions work the same way for the employees in Hamilton or elsewhere?

Ms. Sally Watson: Yes, absolutely, they're all the same.

Mr. Gérard Deltell: Do you chat with other people?

Ms. Sally Watson: Absolutely, yes. I chatted with people in the other financial institutions all the time, especially after I went to the Ontario centralized accounting unit where I had to have a lot of dialogue with a lot of branches of the different banks because of the nature of the transactions I was doing. You chat about how things are in your office. It was pretty much the same story.

Mr. Gérard Deltell: Is it right to say that at that time it was the culture of the financial institution instead of what happened in one particular bank or some...?

Ms. Sally Watson: It was an overall culture because this campaign that I was talking about was global. It wasn't just the Canadian branches of Scotiabank; it was all of them all over the world. They all had to go through this selling campaign every year in the spring. It was an incredibly stressful time. Every Monday morning, we'd start with a sales meeting to pump us up to sell stuff. Every day, the manager would tell us to send him south. He wanted to win that prize for his branch getting the most sales.

It didn't matter what you sold: investment products, credit products, accounts, anything. It became incredibly difficult, especially for somebody who.... I live in a small town. I know all these people. These people are all my friends and my neighbours and my family. They want you to ask your family to open new accounts. They want you to sell products to your family. It's incredibly demoralizing and embarrassing.

Mr. Gérard Deltell: Especially because, as you said, you were a teller 40 years ago, at a time when there were no ATMs or things like that.

Ms. Sally Watson: That's right.

Mr. Gérard Deltell: People went to their bank every week, usually on Thursday evening, to cash cheques, get money, and go to the grocery store after that. So you knew everything about everybody.

Ms. Sally Watson: No teller expects, or they didn't at the time I was hired, to be a professional salesperson. They just don't expect to have to do that. It becomes kind of a culture shock. You start off as a teller doing a teller's job, and then gradually you start to become a salesperson. Then you have sales goals.

After I moved into the back office area, where I didn't have any direct customer contact, I no longer had sales goals. I had referral goals. This meant that I had to refer customers, and ideas I had for sales, to the front-line sales staff.

So I still had goals. They were different, but I still had to put up with these incredible goals. It was absolutely impossible—impossible—to do them in an eight-hour day.

Mr. Gérard Deltell: As you said in your testimony and in the document you tabled for us, especially when you talked about housing and having to borrow money, it was tough. Sometimes you had to hard-sell people when you knew they wouldn't be able to afford that amount of borrowing.

Ms. Sally Watson: Well, it's funny, because I used to talk to my husband about that. When we went to get our mortgage, he was absolutely stunned at the amount they were willing to lend us. He asked me, “Is that right?” I said, “No. No, we cannot afford that. That's what they want us to borrow, but no, we can't afford to borrow that.”

Of course, that was 1999. I told him at the time that the house of cards was going to fall down, and that's exactly what happened.

Mr. Gérard Deltell: I'll now go to my main question, namely, that was true 30 or 40 years ago, but to your knowledge, is it the same situation today?

● (1605)

Ms. Sally Watson: Today it is far worse than it was back then.

Mr. Gérard Deltell: Far worse?

Ms. Sally Watson: It is far, far worse than it was back then.

We have a little street festival in my hometown of Dundas. I was at the street festival on Saturday. I happened to meet an old banking colleague. She worked in the bank when I first started, in the same branch, and she still works for the bank. I told her where I was coming today, and she said, “Oh, Sally, however bad it was back then, it is a thousand times worse now. I can barely stand it.” Her husband was sitting across from me. We were sitting at a picnic table just having a hot dog during the street festival. Her husband told me that it was a message I needed to get across. People are getting sick. They are having to take early retirement. They're having to quit. They don't get any severance packages. My own husband was threatened with loss of severance when he was entitled to one.

It is just terrible. It is absolutely brutal, and she told me it's far worse now than I could ever imagine, even having gone through it myself for 33 years.

Mr. Gérard Deltell: Thank you, Madam.

The Chair: Thank you, Mr. Deltell.

Members, keep in mind that if you have any questions for Mr. Buell, he is on the line as well.

Go ahead, Mr. Dusseault.

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Chair.

Thanks to all of you for appearing before our committee.

My first question is for you, Madam Watson, and is also about sales targets. How do they decide on these targets? Who decides what the targets will be for the annual campaign?

Ms. Sally Watson: The targets are set down by head office, I think, and all based on ROE, return on equity. They want to make a certain return on equity each year. That's how the banks state their profit margin. It's about the value of their stocks and keeping the stockholders happy. It's all based on ROE.

There is also something every year called incentive pay. If the bank doesn't make its ROE, you don't get your incentive pay. Incentive pay is kind of like a Christmas bonus. It's usually 1% or 2% of your salary or something like that. If you don't get your ROE, you don't get that. It's just gone.

As well, if you don't meet your sales targets, as I said, you're threatened with the loss of your job. That's pretty tough for people who have been with the bank for 20 or 25 years.

Mr. Pierre-Luc Dusseault: Is it different for each branch? Do they set different targets, or are they for the entire country?

Ms. Sally Watson: The targets are set for the entire country. It varies from branch to branch. It depends on how many customers the branch has and how many staff members. The size of the branch dictates what your targets will be.

Mr. Pierre-Luc Dusseault: In your experience, was the target always higher, year after year?

Ms. Sally Watson: Yes. They became more and more unrealistic, if that's what you mean.

Mr. Pierre-Luc Dusseault: You said there are rewards when managers get to their targets.

Ms. Sally Watson: Yes, there's a reward for the manager.

Mr. Pierre-Luc Dusseault: Are there consequences for those employees who don't get to these targets? What kinds of consequences have you been aware of? Are there things like being put on a blacklist of people who will be fired at some point if they don't get in line with the target?

Ms. Sally Watson: Yes, exactly. Notes are put in your personnel file saying that you didn't achieve your targets. Then you get to sit down with the manager, and he has to say, “How can I help you achieve your targets?” But there really is no help, because it's impossible to do. You can't help somebody to do something that's just completely impossible. They get around it by saying, “Well, I've offered my help. I've offered you this and I've offered you that to make your goals attainable.” But they are never attainable.

Mr. Pierre-Luc Dusseault: Mr. Elford, I have the same question about targets.

In investment banking, in the investment sector, is it also the practice to have targets for sales of investment vehicles, for which they're asking to sell more and more each year, so the targets are always higher each year?

● (1610)

Mr. Larry Elford: I believe it is.

Two years ago, TD caused all of their commission grid payout to be adjusted. If you were a salesman for TD Wealth Management, and you did not produce more than $2,000 a day in fees or commissions, your pay would be cut by 60%.

This is the kind of thing that happened in the last two years to every employee of the wealth management division. My recollection of the policy—and it's online or it's available; it's a public policy—is, “Okay, guys, you either produce over $2,000 a day...”. I'm paraphrasing. I think $400,000 was the annual fee or commission generation required to be at a certain level of payout. Anybody below that is old fruit. You're ready for the grave. “Your fees, your commissions are cut? Sorry, your payout is cut 60% from what it used to be.”

Just last year, two or three people I know in my community in Scotia were unceremoniously met at the office at 8 a.m. and told they no longer had jobs, because they were people who weren't producing a minimum of $500,000. That was the level across Canada. I don't know how many, but I'm told it was between 50 and 100 people across Canada at Scotia. Again, I don't have the details on this, except for knowing of the three individuals in my community who weren't producing $500,000 and were let go.

Mr. Pierre-Luc Dusseault: My other question is related to fees. You said that when you sell an investment product, a vehicle, there are fees associated with that, or compensation or other kinds of fees.

Can you tell us what the regulatory framework is for setting those fees? Is the client supposed to know the fees? In your experience, have there been cases in which there have been some expenses and the clients didn't know about the exact fees for those investment products?

Mr. Larry Elford: Yes, in many instances the fees are as opaque or as well hidden as is the licence of the person calling himself an adviser. In the time that I've been in the business, the licence has been kept behind the back of representatives. No one in the industry wants to tell you, “I'm a salesperson.” No one wants to disclose that. They say, “I'm a wealth manager. I'm a financial adviser. I'm a retirement specialist. I'm an elder estate planning specialist”, any name in the book to prevent them from having to say to you, “I'm sorry, but I'm just a salesperson, and I don't have to place your interests first.”

The concealment applies to the fees as well. There are any number of ways to double-charge a person, triple-charge a person, churn their account so that they pay a fee today, and then move their investment six months from now and they pay another fee.

The latest and the greatest trend in the banking and financial industry is to put all investment clients on an adviser account, with advisory fees, on which they pay 1% or 2% extra on every dollar, in every client account, every day, for the rest of their lives. That would take place whether or not they even have a licensed adviser, so it's a fairly large harvest.

In 2001 RBC's numbers included $35 billion under that process—a fee every day, in every account, for every dollar.

Mr. Pierre-Luc Dusseault: I know you are aware of Monday's testimony from the FCAC and the Canadian Bankers Association. What are your thoughts about the Financial Consumer Agency of Canada and the way they regulate, the way they protect consumers, and the work they have done in the past? What are your thoughts on what they said on Monday?

Mr. Larry Elford: I'm afraid my thoughts aren't very complimentary. I've been in the industry since 1984, and I hadn't really heard of, seen, or noticed any action by the FCAC until this hearing. I hadn't heard at all that they had spoken out to protect investors, until CBC did a program, and then they looked at it. I hadn't heard that they had made any reports on banking, except in 2016, when they made a glowing report on the banking system and said how wonderfully it worked.

CBC showed that was incorrect, unfortunately, and the FCAC may be one of those regulators that what we would do in Alberta, and Ron can back me up on this, is we would trade the regulator for a broken-legged yellow dog. We would take that dog out to my brother Norman's farm, and we would put it out of its misery. Forgive my imagery.

Thank you.

● (1615)

The Chair: Thanks to both of you.

Mr. Fergus.

Mr. Greg Fergus (Hull—Aylmer, Lib.): First of all, thank you very much.

Thank you, Mr. Buell, for participating over the phone.

I would like to explore that aspect of things, but not the vivid imagery, Mr. Elford. All of your testimony comes back to the notion that there is a lot of internal pressure to achieve certain sales targets at the risk of poor job evaluations or, in several cases, actual termination of employment.

I want to back this up now to another aspect. What is the effect of that pressure on you, either on the investment side or the teller's side? What is the effect on how you treat your customers? In other words, how do you achieve those targets through your customers? Do your customers understand what products they're buying or engaging with? Do they have informed consent or are there efforts to just get to that sale?

Ms. Sally Watson: Personally, I did not achieve my sales goals. I didn't even try to. As I said, I did this one trick where I recoded a bunch of accounts to be seniors accounts after going through everybody's profiles and figuring out how old they were so that I could do that.

I left the branch banking system and went to the central accounting unit to get away from the sales targets and the sales goals, but I know a lot of people who become terribly ill. They just can't do it.

Mr. Greg Fergus: Sure, I get that from the employees' side. I'm trying to figure out what the effect was on the clients, on the people, on Canadians like me who are not in the banking industry and trust their banks. I'm just trying to figure it out.

I'm just trying to figure out how the people who did stay—not you —achieved their targets. Did they force a sale on their clients?

Ms. Sally Watson: They pretty much do force a sale on their clients.

In my branch in particular, which is very close to a university, they sold hundreds of credit cards to graduate students. Graduate students shouldn't have credit cards. Most graduate students will tell you that. They gave them huge limits. There were $10,000 limits for graduate students on credit cards they didn't ask for.

They'd look at their profile, see that they were a grad student, and it was "in you come and here's your credit". That's not a good thing.

Mr. Greg Fergus: I can say that did happen to me.

Mr. Elford, what is your experience?

Mr. Larry Elford: Thank you. It's a great question.

The clients don't know they're being harmed. The fees, commissions, and trailer fees, all those things, are not fairly and fully disclosed. Again, it's just like the licence I held when I was with the bank. During the entire time I worked at the bank—a period of 20 years—my licence, my agency duty, and my duty of care were not disclosed. If that's concealed, then of course the methods of concealment of fees, commissions, and charges are easily confusing. Clients don't know, and they're happy.

There's a difference between fraud and theft. In fraud, something has been taken from you; you don't know about it, and you're happy. In theft, something has been taken from you; you know about it, and you're sad. The types of deception that we are able to practise in the financial industry are a type of fraud that no one knows about.

In terms of the effects on the salespersons, the employees, they become stressed. They are put under pressure. They're told that they have to abuse their clients or be abused themselves by sales targets and those kinds of things.

Mr. Greg Fergus: That's where I'm trying to go. I understand in terms of the stress of the employees. Again, I'm trying to get down to how this plays out for ordinary Canadians who are clients of the bank.

Let me tell a story. One summer when I was 17 years old, I think, I couldn't find a summer job. It was late in the season so I went and joined a telephone service for a now-defunct Montreal newspaper. Boy, we had to sell, we just had to sell. We sold to people who didn't speak English or French and we got them

● (1620)

[*Translation*]

"*abonnements*". I forget the word in English.

[*English*]

It's subscriptions. Thank you.

That wasn't informed consent. I kept that job for a couple of weeks.

Is it that same kind of high pressure tactics whereby Canadians, again, the clients of these banks, don't realize what they're getting? They're being sold products and services they don't need and have no benefit to them. As a matter of fact, it will cost them money.

Ms. Sally Watson: Recently—

Mr. Larry Elford: Go ahead, please.

Ms. Sally Watson: Recently, I went into my own bank profile and found there was a Mastercard on my profile. I didn't have a Mastercard and I never applied for a Mastercard. I didn't know anything about Mastercard. I had a staff Visa. I contacted the bank and asked why I had this Mastercard. They said, "It's free." I said, "I don't care. It has a zero balance. It's never been used. Take it off my profile." They said, "But it's good for your profile. It's good for your credit profile for you to have that on it." I said, "No, no, no. I didn't apply for this Mastercard. Take it off."

I was having a discussion with somebody earlier today who said the same thing had happened to them. What it was is the bank had bought a Sears credit card customer list. I'd had a Sears credit card for about three weeks five years ago and all of a sudden, that turned into an active credit card on my Scotiabank profile. I never signed anything for it and I didn't want it. It took them three months to get it off my profile. I asked for a written letter from the bank stating that they had put this card on my profile without my knowledge or permission, but they wouldn't put it in writing. They wouldn't talk to me by email. They would only talk to me on the phone.

The Chair: I wonder if Mr. Buell has any comments to interject on this point on investments.

Mr. Stan Buell: Absolutely.

What I'm hearing is the truth. This is what we said to the committee: you need to talk to the witnesses to discover the truth, because the good words of the regulators, really, those rules and regulations are not applied. The problem is they're basically selling financial products. They're not advising clients and they're not looking after their best interests. This goes against the feelings of most ordinary Canadians. That is why they're distressed when they're forced to do it.

I've talked to many of the financial advisers by phone. They have confessed to me, for what it's worth, that they've resorted to alcohol and drugs to enable them to do the work they have to do to take advantage of their clients. To me, it's a real sociological problem when employees are treated that way. It is good that we are a society based on trust, but It's unfortunate that people are being forced to do things that are against their inner feelings. This creates a lot of distress in the individuals. As Sally said, it creates sickness and it creates lots of issues. I think that's something the committee should look at and seriously consider recommending to the government that they take action immediately.

The Chair: Mr. Fergus.

Mr. Greg Fergus: I have a very short question, perhaps for all three of you.

In Monday's testimony, we heard from the FCAC and we also heard from the Canadian Bankers Association. They indicated that the banks all have codes of conduct and they all want to promote an appropriate culture.

In your experience were you aware of any code of conduct training or any formal guidelines as to how to carry out your business in an ethical way?

Please give short answers if you could.

Ms. Sally Watson: All right.

The only codes of conduct that I recall—and I've put this in my talking points—while I was working at Scotiabank, where I worked for 33 years, is there was, one, a code of conduct pertaining to customer confidentiality. There was absolute adherence to that and if you didn't, you were fired, which was totally appropriate. There was a code of conduct pertaining to money laundering prevention rules. We had to sit down and watch videos every year and write tests. We were very well-versed in how to prevent money laundering. Also, there was a code of conduct about discrimination in the workplace. That was also very strict.

I remember no code of conduct whatsoever when it came to how you sold your products. There may have been one, but it was not something that I was ever made privy to in 33 years. I never had any training, never watched a video about it. We never had a meeting about it. You were simply given your goals and told to meet them.

● (1625)

Mr. Greg Fergus: Mr. Buell or Mr. Elford.

Mr. Stan Buell: We've recently looked at the FCAC, and we saw that they established rules and guidelines and then they told the banks to self-regulate.

In our experience in talking to hundreds and hundreds of people, if you listen to what the people are saying, it's contrary to what you're reading in the codes of ethics and the rules and guidelines that the regulators provide. There is a great difference between the two. I tend to put more credibility into what people are saying rather than what I hear from the regulators.

The Chair: Okay.

Turning to Mr. Albas, we'll go to five-minute rounds and we can get everybody on.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

To all three witnesses, I certainly thank you for your testimony. This is a very important study, and I appreciate your frank and honest responses.

I'm going to start first with Ms. Watson.

I was able to serve on a special committee for pay equity. One of the areas under examination was pay equity for women, but we also examined the federal labour standards in the federally regulated market. From our view of it, banks have really beefed up in the area around making sure people are properly compensated for any time and whatnot, and there are better mechanisms now, through implementation of a variety of new labour code standards.

I'm going to speak in general to all three, and then I'll be asking each one of you to voice in. Obviously in banking, there is more competition than ever. Customers, consumers, can go very quickly from a low-cost bank to a virtual bank. If they want to deal with mutual funds, they can choose their own self-directed options through a separate organization while still having the convenience of online banking. For a lot of people, the onus is on the banks to treat their customers...if they want to continue to keep them.

I certainly agree that there are going to be individual cases, for example, your mysterious Mastercard account. There are codes of conduct federally put in place on ensuring that there is consent and plain language used. I just want to delineate that I don't think there is anything wrong with a business offering an extra service to a client. When you go into a car dealership, they will often try to upsell you on a feature. It's up to the individual customer to decide. Where I do draw the line, though, is with behaviour like you mentioned, Ms. Watson, where things were unsolicited. By the same token, I think we need to examine the incentive systems and what effect they may have.

Right now, I've heard some concerns on how the FCAC is conducting an investigation, and I'm not going to prejudice that, but some would ask, whom do you hold accountable? Do you hold accountable the person in your role? Do you hold accountable the manager? Do you hold accountable the upper management, as in the CEO, for the systems of compensation that are put in place? Do you hold the directors of the company accountable for that?

One of the biggest challenges in my mind is that you may have one employee who has figured out a way to increase his or her incentive pay or other options, and that might not be complicit with the management or with the CEO or with the board of directors.

Let's just start there. If the system were to be improved on oversight, who would you say would be first accountable?

Ms. Sally Watson: It would be the CEO, without a doubt. It would be the CEO.

Mr. Dan Albas: Mr. Elford.

Mr. Larry Elford: It would be management, upper level sales managers, all the way up through the system, who all have bonuses and incentives depending on whether they're going to get sent on a trip or not, and regulators who pretend to protect Canadians when what they are doing is actually insulating the banks and investment dealers from—

Mr. Dan Albas: Again, we have to say that many of these things we've had before us. Mr. Liepert was quite clear last time that there are allegations we've heard on different shows, like *Marketplace*, but it's good for us to talk about these kinds of cases in general terms.

I'll go to my next question. We're asking the question about individuals and how they behave. If someone is acting unethically and signing people up for accounts that they didn't sign up for, or has initialled where there was no consent, to me, you would hold the person that was doing that accountable. You say, though, that it should be the system that is held accountable for that person's actions.

What about also someone's licensing? If they are licensed in some way provincially, is there not a code of conduct or a code of ethics like other professional, credentialed individuals?

● (1630)

Mr. Larry Elford: I'd say the answer to that is if it's a systemic wrong, if it's being done, if there are hundreds of employees across an institution doing wrong with forgery, or wrongly signing people up to things, systemic issues in my view are never punished, because it's very profitable to sign up hundreds and thousands of clients. If it interferes with the profits of the bank, they'll punish it. If the bank catches one bad apple, they'll punish that person, but if it's across-the-board, systemic, and profitable, that's not an offence.

Mr. Dan Albas: I have to say I do have some skepticism around mutual funds, etc., simply because when someone is dealing in investments, it's again *caveat emptor*, buyer beware. Obviously, someone will not purchase a stock if they do not feel there is a benefit to them. That being said, if someone is acting maliciously, then I do believe there should be recourse for that.

I'd like to focus on the FCAC. You specifically said earlier you think that in the system they are investigating there's too cozy a relationship. Can you explain what you mean? Again, I do note there is absolute privilege here, Mr. Chair, but I really think it's important that we all act responsibly here in what we say, so could you please simply explain that comment a little bit further?

Mr. Larry Elford: I'll try, thank you.

There is a number of regulators. When I made a documentary film in 2004, *Breach of Trust. The Unique Violence of Systemic White Collar Crime*, I researched how many regulators, self-regulators, ombudsmen, agency bodies there were. I found over 100 in Canada, most of which are paid by the industry that they purport to regulate. In my opinion, they act more as insulators to the industry rather than protectors to your constituents. They insulate the industry from being held to account for systemic issues which are highly profitable.

Mr. Dan Albas: You did mention the ombudsperson process. Some banks choose to have an in-house ombudsperson, which they can, and obviously there are some firewalls put in place. Others choose to use a third party ombudsman, and that information we've heard from the FCAC is directly shared with them.

Do you have any suggestions about how that process could be improved, or do you think enough people know about their rights to use an ombudsperson?

Mr. Larry Elford: That's a good question. I think that makes my point.

The ombudsman was giving recommendations that were fairly favourable and fair to clients on settlements, so Royal Bank and TD walked away, summarily firing the ombudsman and saying they will not deal with the ombudsman despite agreeing that they have to deal with the banking ombudsman. They went out and hired their own. That is the exact example of hiring another layer of a quasi-regulator to insulate yourself from harm and accountability. Hire your own people and within a year the ombudsman, OBSI, who was doing a good job, was told, “ You shall not look at systemic issues, you shall not investigate them, and you shall not touch them.” On the issues that are costing Canadians billions and billions of dollars—not one bad apple, not one bad guy in Mississauga—the systemic issues that cost every Canadian across the board, the message was, “You shall not look.”

That's my strongest message.

The Chair: Thank you, Dan. I hate to cut you off, but you're doubly over time. I simply thought I should let that line of questioning finish.

Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome, everyone. Stan, welcome on the line.

I'll ask two questions, and then please feel free to answer in the manner you feel appropriate.

With regard to the FCAC, they have announced a full review of the business practices by the banks and federally regulated institutions, to be technically correct, and I would like to know what you would individually like to see come out of that review.

The second question is on financial literacy. November is financial literacy month in Canada. We have a member in our caucus who is championing this, and I applaud her efforts. We also have the Province of Ontario adopting, beginning in September 2018, a requirement for students to undertake financial literacy in high school. I want to hear your take on that, because I think there is an education process that needs to go on with consumers in terms of financial products, which I have felt for a long time has not occurred.

I'll give you an example. You can get into a mutual fund and you'll be charged an MER, or you can buy an exchange-traded fund. Most people don't know that an exchange-traded fund is much cheaper to own. Your returns will be compounded much quicker if you buy an exchange-traded fund from a financial institution versus a mutual fund.

On the financial literacy component, then, and also on the broad review that FCAC is undertaking, what are your comments? Will each individual please answer?

● (1635)

Ms. Sally Watson: I'm not familiar with the FCAC broad review, so I can't comment on that, but I can comment on the financial literacy part.

I think there are so many products being offered by the banks now that it's virtually impossible to educate the public on all of the different products, especially when the products themselves keep changing in nature. Nobody gets something in the mail or in their email saying, "Oh, by the way, we've changed the interest rate on this, or we've changed the service charge structure, or we've changed the minimum balance requirement." Those things just don't go out to the public. You would have to retrain yourself on all these products every six months in order to keep up.

Mr. Francesco Sorbara: I worked at the same financial institution that you worked at, Ms. Watson, so I'm familiar, not on the retail side but on another side. I believe the banks do send information out and are required to send it out. If I'm mistaken, I'll excuse myself. When there are changes to service fee structures, customers are informed. There is information sent out to customers. For example, when there are changes regarding a minimum balance, a bounced cheque, or service charges, the banks do inform their customers.

I'm familiar with the information you provided on taking courses on money laundering and so forth. I had to take the same courses that you had to take. We had to take them bank-wide. They're informative. I agree with you.

However, the bank's customers are informed of the changes that take place with regard to service fee changes in the products they have. That I'm very well aware of.

Ms. Sally Watson: Well, it doesn't happen to me. I've been a bank customer for 41 years. I have not had any information from the bank regarding any of my products. Now, some of them, being flagged as "staff", don't incur service charges: I did officially retire from the bank, so I don't pay that many service charges. There are, however, other structural account changes that take place that I am never informed of.

Mr. Francesco Sorbara: Do you have any further comments on the financial literacy component, please?

Ms. Sally Watson: By the financial literacy component, do you mean getting the public to understand all the ins and outs of all their financial products?

Mr. Francesco Sorbara: Yes.

Ms. Sally Watson: Well, I guess the only way for a person to really be well informed is to do everything through a financial adviser. They have to go into the branch, make an appointment, and sit down with that person in order to get all the information they need to make an informed decision.

At the same time, that financial adviser has the pressure to sell them things they don't need. They trust the financial adviser. They trust their advice, and sometimes it's very bad advice indeed.

The Chair: Mr. Buell, did I hear you a moment ago try to come in?

Mr. Stan Buell: Yes, I'd like to make a general comment on investor education. As has been said, the industry is complex and the regulatory system is complex. There are myriad products out there, and really, people do need somebody to advise them.

What we need is advisers who can be trusted. The regulators claim to be protecting investors. Most Canadians believe they can trust the industry. In reality, it is "investor beware", but people cannot learn enough about investing to really protect themselves and make all the decisions. They need financial advice.

I think government must recognize that and must ensure that the people who are giving advice are qualified to give the advice and are held accountable. That's what I think is needed.

● (1640)

The Chair: Thank you, all. We're over on that round, too.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thanks, Mr. Chair.

When you get down to this end of the table, many of the questions have been asked and answered. I only have a couple of brief questions, so I'll give back some of the time my colleagues so inappropriately ate up.

Some hon. members: Oh, oh!

Mr. Ron Liepert: Mr. Elford, I think I heard you say something to the effect that you had no confidence in in-house investigations, if I heard that correctly. Would you consider the FCAC review of this to be an in-house investigation?

Mr. Larry Elford: No, I don't know that I'm extremely familiar with what the FCAC is able to do.

In response to that, however, I have not seen anything, from 1984 to 2017, nor including Monday's testimony, that gives me confidence that the FCAC, to answer your previous question, even understands or addresses the point that there is a systemic issue that costs Canadians more than all the crime in the land.

Page 4 of my submission shows one example in which $100 billion was removed from investors' pockets in one case of a systemic issue. Out of 14,000 such cases that research has come up with, one case removes $100 billion. I don't see the FCAC even being aware of those kinds of systemic issues. I'm shocked.

Mr. Ron Liepert: Well, I would hope they would be. That's their job.

Mr. Larry Elford: I would hope they would be, too.

Mr. Ron Liepert: Mr. Buell, could you comment on that?

If I understand correctly, you are a consumer versus an employee, or ex-employee, of the bank. You are representing a consumer organization. Is that correct?

Mr. Stan Buell: That's absolutely correct.

Mr. Ron Liepert: So the FCAC shouldn't have any difficulty looking into your allegations.

Mr. Stan Buell: We have focused on the securities industry simply because most Canadians own mutual funds, and as Larry has pointed out, people are losing billions of dollars investing in mutual funds.

The problem in Canada is that we don't have one single regulator. In Quebec, they're a bit closer to the truth, because they have one regulator that clients or customers can go to. In Canada, we have 13 provincial regulators for securities. We do have a secretariat in Montreal, but they will refer people to the provincial regulators. So there's no one source that people can go to.

However, the real problem is that the industry is based on selling product, and that is getting into the banks now, where they're based on selling product rather than being a trusted organization that customers can go to and expect that they will get the best advice. That's the fundamental problem. They're selling products instead of helping customers by giving them sound advice.

Mr. Ron Liepert: One of the challenges we have as a committee is that we hold a hearing and we listen to all the testimony, and this is no disrespect to what we're about to hear, but when the banks come before the committee I'm probably expecting to hear that, yes, they've investigated some of these concerns, that there were some situations where there were some—these are my words, not theirs—bad apples in the system, and they've dealt with them and it doesn't happen today.

That's part of the challenge we're going to have as a committee, trying to figure out the old "he said, she said" situation and we're stuck in the middle. That's why I would hope that the ongoing investigation by the FCAC could get more to the bottom of it than we as a parliamentary committee could.

Mr. Chair, that's about all I have.

The Chair: Thank you, Mr. Liepert.

Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thank you, witnesses, for being here.

Mr. Buell, my question is for you.

I have actually read some of the reports on your association's website. I have in front of me the report, "Above the Law", wherein the issue of financial advisor/adviser, an "o" or an "e", came up.

My colleague and I asked questions about that with the FCAC. Granted, the FCAC doesn't regulate on the investment side. However, there was a comment made along the lines of—and I'm definitely paraphrasing because I don't have the exact testimony in front of me—regardless of the spelling of the word, if the employee is acting in a regulated way, so if they're selling some type of investment, regardless of their title, they fall under the regulation.

That is not what we've heard or read about in certain things. Do you have any comments on that?

● (1645)

Mr. Stan Buell: If the rules and regulations were followed and if the codes of ethics were adhered to, I would not see much of a problem.

The problem I see is all that information is made available to the public, so they believe they can put their trust in these financial institutions. However, the reality is people are losing billions of dollars every year when they place their trust in these institutions. That is why I've recommended that the committee listen to some witnesses, and what I think should result is the committee should be making a recommendation to the government that they have a public inquiry and not just to listen to one or two or a half-dozen witnesses, but listen to hundreds.

I know from talking to thousands of people within the industry, within the regulators, and the public. I just talked to a 75-year-old gentleman who's learning to use the Internet, and now he's finding out information. He had a line of credit for $70,000 that he took out to help his son years ago. He went into the bank and said he didn't use the line of credit anymore, that he didn't need it anymore, and he wanted to cancel it because it's showing up on his home as an obligation. He has no mortgage on his house and he doesn't need the line of credit. He wanted to cancel it. The bank said okay, but there's a $200 fee to cancel that unused line of credit. That is unreasonable.

Ms. Jennifer O'Connell: From the side of the average Canadian about where to turn or where to get answers, is this where your recommendation—I tried to write it quickly, so correct me if I'm wrong—for a national consumer regulator that would...all the different silos that exist.... We heard testimony, too, that there are constitutional issues in terms of jurisdiction. If there was some kind of national oversight to ensure that there....

Is your suggestion to ensure that the regulators, as we heard from Mr. Elford, are actually regulating what they're supposed to be regulating?

Mr. Stan Buell: Well, I'm not arguing against different silos for regulation. What I am saying is that I believe the Government of Canada should be responsible for the welfare of all Canadians. I feel they should have the responsibility to ensure that all Canadians are protected and that agency or authority should work with all the different silos of regulation. It's not to replace them, but just to protect Canadians, because too many people are losing their savings.

Ms. Jennifer O'Connell: Thank you.

Then if I have time, Mr. Elford, there are a couple of things. One, you mentioned the TD policy around the $2,000 a day in fees and you said that it's public. I did a quick Google search and I couldn't find it. If you have access, would you be able to send that to the clerk for our reference?

Mr. Larry Elford: Yes, I would.

Ms. Jennifer O'Connell: Thank you.

In addition to that, one of the questions or concerns I think about, even for myself or my family members, is someone going into a bank.... You might go to one of the larger banks, if you have access, but I know in some communities you don't, and that's where credit unions come into play.

When we're talking about banks specifically, there is a level of trust and protection that when you put your money in, relatively speaking, you're going to be able to get it out when you need it. The concern is that it's almost an unfair advantage in the sense of this trust around protection of funds, the insurance that your funds are going to be there.

For Canadians who maybe decide not to invest through a large bank, what protections do they have? I was doing some research and I know there's the Canadian Investor Protection Fund. However, it goes back to that literacy. How do Canadians really know what their options are or do they just feel that the banks are the only option and those fees are just part of doing business? If they want to be investors, even small-time investors, then those are the options they're left with.

Mr. Elford, this is something I'm grappling with. What would be the average Canadian experience for someone like yourself who might have dealt with clients and things like that? Is that a fair assumption that some Canadians would worry about?

● (1650)

Mr. Larry Elford: Canadians are led to believe by advertising, marketing, promises, and every message out there that they should go to see a financial adviser and they should trust the advice of that adviser and if they have life-altering events, they should check with their financial adviser. The fact is there are 120,000 licensed, registered, dealing representatives found in Canada on the Canadian Securities Administrators' search page today. There are only 4,000 licensed advisers in Canada on that same search page, so that all salespersons in the country, including when I worked in the industry, were pretending to be financial advisers. Most salespersons don't even know that, because they've never held their licence in their hand. I've never seen a copy of a financial salesperson licence nor a financial adviser licence, despite working in the industry for 20 years.

It is like asking 10 million Canadians, which is the average number of investors in a population, to trust a doctor who's not a doctor, but he did take a St. John Ambulance first aid course. That's what the banking industry does by saying “trust our advisers”. It's a bait and switch thing. The banks are pushing salespeople at their customers as hard as they can push, with 120,000 versus 4,000. That's a lot of pushy salespersons and they all have to push product. They have to push product, so achieve or leave.

“Achieve or leave” was the letter that I got in the 1980s. Achieve or leave; that letter was given to my former associates at ScotiaMcLeod last year: achieve or leave.

The Chair: Thank you, both.

Mr. Dusseault, you have about two minutes.

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

I want to come back to something I asked on Monday about the concept of name and shame when banks are found guilty of anything and that the FCAC should name the bank at fault more often.

If I use the food sector as an example, the last thing you want is to be named as a bad company and to have to recall products, or if you're in the auto sector, you also don't want those kinds of things and your name being in the newspapers. Do you think one of the solutions would be a recommendation to be doing more investigations, being more thorough in those investigations, and at the end of the day, making sure that the banks that are not acting in the best interests of consumers are named, and people know who they are, and they can choose which banks they will do business with in light of these investigations?

Mr. Elford and Madam Watson.

Mr. Larry Elford: Thank you. I'll be brief.

Since 1984 I've never seen the FCAC name and shame anyone. In fact, until I had heard about this committee, I had never heard of the FCAC doing much of anything. The official banking ombudsman, OBSI, did name and shame companies, and they got their knuckles rapped for doing that. Certain companies unilaterally fired them and said they would not deal with the official banking ombudsman. Then they went out and hired their own referees who gave more favourable opinions and did not name and shame. That's the example of the double bind that the regulators are put in. It's exactly the situation that the bank employees are put in: “Either do what we say or else you're fired.”

The official banking ombudsman was neutered, effectively fired, and the FCAC stepped in as if they could or would do that. I've been waiting for 33 years.

Thank you

● (1655)

Mr. Pierre-Luc Dusseault: My last question will be on the culture.

Madam Watson, in your experience, is the culture in banks really what the Canadian Bankers Association said it was, that clients were always in front of everything, before profit even? What is the culture, in your opinion, in banks? Is it profit before anything else, or is it serving clients before anything else?

Ms. Sally Watson: It is absolutely profit before anyone else. It certainly has nothing to do with servicing the clients, as far as I could tell from the decades that I spent with Scotiabank. I also think this name and shame is starting to happen, because I don't think any of us would be sitting in this room here if it weren't for Wells Fargo bank and the employees at Wells Fargo finally coming forward and telling their story.

I think that's what got the Canadian bank employees to come forward and start telling their stories to the CBC, and I found out about it because I'm a news hawk. I watch the CBC all the time, and I read it online, and that's how I found out about this commission. I thought that was interesting because all these people are talking about things that happened in the last five to 10 years, so I got in touch with the CBC reporter and said, “I can tell you that I was doing that 40 years ago”, and she found that to be quite shocking. I think what's shocking is how long this has been going on without anybody ever making a fuss about it. I think it's time a fuss was made. That's why I think this commission is a great thing.

The Chair: Okay, thank you.

This is a committee, not a commission, Sally.

I'm going to come back to Mr. Liepert's question.

I think one of the difficulties that some of us are grappling with is what we can really do at the end of the day. I think a little over a year ago the government tried to put consumer protection from a federal standpoint into, I believe, it was the budget—I forget which bill it was. They had to pull it back because, as I think you said, Mr. Elford, there are 13 different systems in the country, and did we have the constitutional authority to do that, so that's a dilemma.

I would ask all three of you, including Mr. Buell in P.E.I. as well, if we were to make a recommendation, do you have any suggestions on where the federal government should go on this matter?

I'll start with you, Mr. Buell.

Mr. Stan Buell: As I said many years ago, I could not see a national regulator happening in Canada, and I still feel that way. I don't have the solution for it. I had hoped the government might be able to take action to protect Canadians in working with the established regulatory silos.

There's no quick solution, but I do think a public inquiry is in order. Right now, due to CBC's *Go Public*, Canadians have learned more about what's going on than they ever knew before. We're seeing in the feedback we get from the public that they are becoming more aware, and I believe government must act. It's not enough to rely upon the regulators saying, “We have codes of conduct and all these rules and regulations and we believe that investors should be protected.” It's not enough to say that. Actions speak louder than words, and you have had thousands of witnesses come forward. What you've heard from Sally today is very revealing.

I think the government must pursue this. I agree, you could have made your challenge. As I said before, I don't envy you, Wayne. You have an impossible task, but what the committee should do is make a very strong recommendation to government that we really do need a public inquiry.

The government needs to listen to some of the thousands of witnesses who have come forward. There is no doubt in my mind that most of them are telling the truth.

There is no doubt in my mind that the regulators are trying to whitewash the situation and put forward lots of fanciful words that really have no impact on protecting the Canadian public.

The Chair: Ms. Watson, do you have anything you want to add, or do you have any suggestions for the committee on where it should go?

● (1700)

Ms. Sally Watson: I'd just like to say that I agree with everything Mr. Buell said. He has articulated it extremely well, and I don't think there is much more I can add. It is a great idea to have this inquiry, but the media needs to stay on top of this. The media needs to keep naming names the way Wells Fargo was named and the way this has all started with Erica Johnson and the CBC.

The Chair: Mr. Elford, perhaps you could add this into your response. You mentioned the ombudsman. Can you expand on that a bit? I will admit that I find it difficult when you have an internal ombudsman working within the organization that they're supposed to police. That's not exactly an independent policing mechanism, from my point of view. Could you expand on that?

Mr. Larry Elford: I will. I'll quote my dear friend Debra McFadden, from LaSalle, Ontario, who says that a man cannot serve two masters, and what we have are regulators that are trying to serve two masters. They're trying to say they are protecting and fostering fair and efficient public markets and they are protecting citizens as well, and most of our regulators are only paid by those public markets. They're trying to serve dual masters and they have a dual mandate that they can't serve.

She would say, and I say—I shouldn't speak for her—establish federal investment protection bodies, which skips over the constitutional debate of whether it's in his backyard or mine, or federal or provincial, or who's in charge, because that's a Trojan Horse that leaves investors cheated for another 10 years. Establish an investor protection body that has nothing to do with financial regulation and has nothing to do with constitutional issues. It says, here's consumer protection on financial matters. Leave the regulation and the regulation argument to the guys arguing over whose territory it's in. Just protect people without letting the industry in the door saying, “We'll cover both of them. Don't worry. We have both sides of this fence covered.”

That's not working, sir.

The Chair: Thank you, all.

For those who are paying attention to this issue as well, I know there have been several requests to hear from more witnesses. When we started this hearing, we wanted to limit the hearing to three sets of days, and that is what is in the motion. For those who want to have their voices heard—and I know we've been getting some requests to the clerk and to the rest of us—if you go to the Standing Committee on Finance website, the information is there. The deadline for briefs is midnight this Friday night, June 9, and I can assure you that if you do submit your thoughts in your brief, they will be read, and we will assess those comments as well. I don't think we're going to go beyond the three days, but I encourage people to get their thoughts in by way of briefs by that deadline.

On Monday we will hear from six of the major schedule I banks, as well, and then the committee will have to take it from there.

I thank the witnesses, and I thank the committee members.

The meeting is adjourned.