



Canadian Club Luncheon Conference  
“Defending Trust: Banking for the 21<sup>st</sup> Century”

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Thank you very much \_\_\_\_\_ and bonjour Mesdames, messieurs, ladies and gentlemen.....

C'est merveilleux d'être de retour à Montréal. Certains d'entre vous étaient peut-être présents, dans le public lorsque j'ai parlé devant le Club, il y a de cela quelques années.

We were debating the merits of rules-based corporate governance such as that imposed by Sarbanes Oxley over the Canadian practice that rooted governance in understood principles and stated guidelines. I was arguing for a more "made in Canada solution", one that considered guidelines to be preferable to rules in most circumstances.

Today, you might assume that someone who has had to confront the Enron debacle in such an obvious and costly manner would reflect differently on comments made in defense of guidelines and the principles that attach to the notion of "comply or explain". Reflect and then perhaps offer a more considered view about resting trust with management.

So, in response to that observation let me say how pleased I was to learn that the Canadian Securities Administrators recently decided that they would not demand external audit opinions on the effectiveness of internal controls over financial reporting.

Many will recall that this was among the most controversial and costly aspects of SOX and the decision is a significant move away from the US rules in support of greater interpretation that considers a Canadian context.

Issuers may choose to engage the external auditor to assist in the evaluation process but there will be no requirement for the issuer to obtain an audit opinion on the effectiveness of these controls.

And that sounds very much like a guideline to me.

Rules are absolutely necessary in an ordered society. Don't get me wrong. But I don't believe that rules alone deter corporate misconduct.

And I don't believe that rules promote trust. That is rooted in understanding and the carefully developed relationships we rely upon whether personal or institutional.

In the world of governance, I am convinced that rules often persuade the dishonest to find other means to an end: to be more focused on the obstacles that constrain ambitions. This isn't the same as meeting expectations within a set of guidelines that are produced both to establish standards and yet encourage flexibility and creativity in meeting them.

Our development is about adaptation, after all and, of course, we all learn.

At least that's what the wisdom is in retail – that buyers learn. My remarks today are tied to this adage. But I think you'll find that our police and our regulators remain convinced that those intent on wrong doing learn as well – if only to get around or bend rules. So do those who meet rules head on but remain intent on achieving their goals with complete honesty.

So we need to be very sure of our intentions as rule makers. In a world constantly reshaped by extraordinary social and technological progress, a

world in which our individual expectations invariably change, this debate over rules as opposed to guidelines has become commonplace. In fact it has finally stretched into the far corners of our pop culture.

Take Elizabeth Swann for example. She was the young heroine who played opposite Johnny Depp in the recent motion picture *Pirates of the Caribbean*.

In her attempt to get a ship full of pirates to meet the terms of an agreement, Elizabeth called on her captors to respect the “Pirates Code”. She was told that not being a pirate she had no right to invoke the code. Even if she were a pirate she needed to recognize that the “code” was more a set of guidelines than a book of actual rules.

Unable to rely on the code, Elizabeth was forced to resort to other means.

So the debate is endless and perhaps only more amusing when prosecuted on the stern of a pirate ship lost in the warm sun of a Caribbean sea.

Up in Ottawa the point of view is slightly different if only influenced by geography but even there the premise must be recognized to be the same:

things change, people change. Expectations change and the world we share together of course changes too -- usually to accommodate those who share the world.

More than 90 years ago the British economist Charles Fay observed that “the tradition of Canadian banking is evolution not revolution.” In the context of what was happening in Canada at the time, I am not sure the man could have been more wrong.

If we walk from this building and turn toward the financial district here in Montreal we will come shortly to Rue St-Jacques or St James Street as the old English used to say.

There, exactly one hundred years ago this spring, at #147, a man named Edson Pease commissioned an American architect named Stone to design a new stone building, one that would become the head office of the Royal Bank of Canada. Pease wanted to be closer to the action. He wanted to aggressively respond to the rapid rise of Canada’s west and the opportunities he was sure would attend that promise.

At the time, he was a joint general manager of the Bank and was responsible for all territory west of Montreal. Later he became chief executive and managing director and a man convinced that success in Canada was tied to the men and women who were landing daily at the docks, having chosen to build their futures in this country.

His decision to move the Bank's head office from Halifax to Montreal set in motion an unprecedented period of business building for RBC -- a revolution if only in our corporate history.

But don't be misled. There was a lot going on in Canada generally over the first two decades of the 20<sup>th</sup> century. It was a time of enormous expansion. Fuelled by immigration and the boom in the west, economic growth was beginning to forever shape the face of the entire country.

By 1910 the banking industry in Canada was in the middle of an extraordinary cycle of consolidation that touched every province and territory – most of that operated from right here in Montreal.

And there is no question that through these heady times the face of Canadian banking was starting to assume another kind of image, one captured more in the architectural awe perceived in bricks and mortar and connected more to strength and stability than a sense of personal service and individual relationships.

There's an expression still in fashion around the water cooler today. "Clients love their bankers. It's their banks they hate."

The famous Canadian humourist Steven Leacock captured the apparent discomfort between client and bank, sharing a feeling of complete intimidation in a short piece called My Financial Career that found its way into his book, Literary Lapses.

It was published in 1910, the same year the Royal Bank embarked on an acquisition and building program that saw 526 branches added over the next eight years, beginning with those of the Union Bank of Halifax and wrapping up with the 113 far west branches of the Northern Crown Bank.

“When I go into a bank,” wrote Leacock, “I get rattled. The clerks rattle me; the wickets rattle me; the sight of money rattles me; everything rattles me. The moment I cross the threshold of a bank and attempt to transact business there, I become an irresponsible idiot. I knew this before hand, but my salary had been raised to fifty dollars a month and I felt that the bank was the only place for it.”

Without ruining this short story let me simply say that first impressions became lasting impressions for this fellow. The same might be said for Helen Goff or should I say for Pamela Travers. That’s the name Helen Goff, whose father was a bank manager, assumed when she wrote her books about the nanny, Mary Poppins, back in the mid-30s.

If you didn’t read any of the books I’ll wager you might have seen the Disney film. It was released into theatres first in 1964, again in 1973 and again in 1984. It told a story set in London – in 1910.

Any hope of escaping the scene captured by Leacock was lost forever in the image of the staid almost emotionless father of young Jane and Michael.

George Banks was a banker, an officer in The Dawes, Tomes, Mousely, Grubbs Fidelity Fiduciary Bank.

Mr. Banks accepted Mary Poppins suggestion and took his children for a visit to the dark and hushed, oak paneled temple in which he worked every day. He wanted to introduce them both to the bank and his son Michael, with tuppence in his pocket, to his first bank account.

Fans of the film will know that things went quickly down hill and, again without spoiling the story, it is safe to tell you that Michael failed to be convinced by the senior Mr. Dawes that the bank was the right place to deposit his “tuppence”.

Like Leacock’s depositor before him, he beat a hasty retreat from the tomb-like structure, cash in hand, with no immediate thought of returning.

Soon a century will separate us from these scenes. For those who measure the pace of change, it is instructive that Travers penned her picture of the bank more than a generation after Leacock put his emotional recollection on paper but both depositors were captured in the same time: in 1910. And both

banks failed to get the deposit apparently missing by miles the clients' expectations.

The Globe and Mail suggested a few weeks ago that the last five years have been enormous in terms that connect to meeting the evolving needs of the Canadian banking client. Elsewhere some recognize the close of the century as a point that would usher in a time of incredible opportunity for banks, investment dealers, financial planners and mutual fund companies alike.

In their widely celebrated book Boom Bust and Echo, David Foot and Daniel Stoffman suggested that by 2000 the financial services industry would be looking into the face of an entirely new and very large client base populated by a very different kind of client.

That was ten years ago.

Their theory was rooted in the irreversible aging of Canada's baby boomers. By the turn of the century they would all be over 40.

The notion is that anyone born before 1940 who had been financially successful in life would be handing that success over to those who were born after 1967, to the so-called “baby busters” or to members of the “echo” generation. For these people new spending would focus on “cars, houses and other necessities of life”, including a search for investment advice.

The potential for new opportunity forecast by Foot and Stoffman invariably links to our ability to accommodate change. The future presses into our lives and shapes immediate demands for increased balance and stability in everything we do but particularly in our investment decisions.

He might well have been speaking to everyone involved in the Canadian banking industry when the American author and futurist, Alvin Toffler, said, “The illiterate of the 21<sup>st</sup> century will not be those who cannot read or write but those who cannot learn and unlearn and relearn.”

And this is what all of us have been doing, particularly over the last few years, largely in response to the new demands of the echo generation and the opportunities presented both by technology and a highly educated workforce.

The parallels between the first two decades of this century and the first two decades of the last are irresistible in terms of the influence rapid change has had on this industry.

One hundred years ago we met expectations first by opening branches and extending the network. Trust was promised with a guarantee of reach, security and stability. And, yes: bricks and mortar presented the face of that early ambition.

Although it still attaches to security, today trust is defined much more within the development of individual relationships and, inside these, satisfying complex needs. In this respect we are working to anticipate an ever-widening set of individual expectations by increasing the depth of our skills and resources in the branches, on the phones, on line and in our mobile salesforces in an effort captured best by simply saying, “Client first”.

Yes, the banking client is, in most important ways, very different indeed today. Safety and stability are key determinants but so, as predicted, are demands for advice and the trust and performance that makes trust credible.

Motivated by new ambitions, and defined by increasing confidence and apparently limitless expectations, the banking client sets the standard today.

The clerks don't "rattle him". The wickets don't rattle him. What was once an almost daily visit to a banking hall for the average retail bank client has been reduced to actually visiting the bank no more than four or five times a year.

In fact, the individual banking client of today appears to have less and less time for banking. And the irony of that reality is that the banking client of today has never been confronted with more choice in terms of financial products and services. And so we work to uncover new ways to bring the bank to the client.

In every way this reveals the one thing that constantly requires reinvention and that rests in this question of trust. Trust remains illusive. It is fragile and easily lost.

Trust is the one thing no banker will be forever guaranteed by his client. In our view, it must be earned constantly with service and with improved performance and we have come to know that well.

This is what lies behind our “Client first” and the related, “First for you” positioning that today drives not only our external communications but also a great deal of our internal focus. These concepts have emerged from a new understanding that we have of our clients, one that demands that we be more knowledgeable and technically thoughtful.

We are determined to bring greater depth and dimension to the services we provide to our clients because these are the expectations. We are determined to broaden our product offerings across the bank because these are the expectations. We are no longer simply “order takers” in your mind or in our own minds. The image conjured by bricks and mortar is quickly falling away.

And it is this desire to meet expectations that lies behind our repeated calls on Government to ease the bizarre rules that forbid banks in Canada to sell insurance products through their branch networks.

Every defense of this quite unreasonable regulation seems to me to be a defense of the relationship between government and the insurance industry, not a defense of the relationship between the industry and the insurance client.

This is not about better service and it is not about protecting privacy. These are red herrings. This is about losing sight of the financial services client of today.

If he was alive, Leacock's assessment might have been more damning but probably more humorous as well. As it is we are allowed to open insurance retail outlets beside our banks; not in the banking hall; not upstairs; not downstairs; only beside the branch.

For example, there is one beside a branch in Scarborough, in Toronto, which does a brisk trade. We have just recently opened a retail insurance office in Montreal.

But if I was a teller and you came to my wicket at the neighbouring bank branch and asked me about insurance by rule, by law, there is nothing I am allowed to say to you.

I can't give you a brochure. I can't point to the building next door. There is no one to whom I am allowed to refer you. I have to be what I know you don't want me to be when it comes to your questions.

So when it comes to insurance, that's what you should expect at the branch because that's the law, that's the rule. In the branch we say nothing about insurance. True, you can buy it from us on the internet. Yes, we are available by telephone. But in the Branch we say nothing.

Along the lines of services designed to facilitate the language laws here in Quebec and in other provinces, we are thinking of having signs made that will sit at the wicket and simply say. "Insurance Not Spoken Here". It will avoid a lot of embarrassment.

Never mind that you can buy insurance at your local grocer at the same time you thought about picking up a steak for dinner. Never mind that you can

connect your decision to buy jumper cables at Canadian Tire with a decision to buy life insurance for the whole family. The fact is you can't buy it at any branch of the Bank. Stop asking!

And what about a mortgage? Oh well that's not an issue. You can get one of those over at your insurance company.

What about a savings account? Not a problem. Your insurance agent will open one for you at the same time you complete the policy application.

Heavens, out in Alberta at Bank West you can bank, trade securities and buy insurance all in one go. No holds barred.

Who are we kidding with these rules?

The insurance industry has said recent polling is unequivocal; a significant number of respondents believe that when you consider the products and services provided by banks today it is clear that they already have enough of a clients' personal information.

The suggestion apparently is someone someplace else should have more. And this is offered in defense of personal privacy.

These obviously aren't the same people who are buying RBC mortgage insurance to protect their homes. And they aren't the same people buying our travel insurance -- by my last count that was nearly everybody who traveled with additional insurance.

They must be the same people who didn't want banks and securities brokers to merge back in the late 80s. I have been wondering where those people got to after all this time.

Here in Quebec the story is even more sharply pronounced. The *caisse populaires* have been selling insurance since 1987. You can get information and advice in the branch. You can expect a sensible referral to a broker. In fact, they might even have a broker sitting there in the branch. How convenient is that?

Allowing the Caisse to get into the selling of insurance was forecast to be a body blow for the insurance industry. The sales agent “population” would shrink in the face of lost jobs.

Yet nearly 20 years later insurance ownership in Quebec is greater than in Canada as a whole, especially among low-income groups who have access to coverage at arguably lower costs than that offered by traditional carriers.

And the number of insurance sale agents? It has not declined. It has increased inside a very interesting shift between the agents tied to a specific company and those who operate independently across the Province. There has been a huge shift to independent status, likely in accommodation of change.

Let me come back to where I began a few minutes ago and restate a bias for guidelines over rules. In the wrong place rules simply increase costs unnecessarily and for no one’s benefit. Attempting to enhance a sense of security should not be confused with fostering trust.

In determining their role in the marketplace I am convinced that government must confront the same expectations as every other participant. In this respect none of us must ever lose sight of the buyer, his capacity to learn and his constant search for simplicity and reliability within a relationship he can trust.

We must never lose sight of the influences that shape that learning, particularly our shared circumstances and the ambitions that drive us to accept them.

In reaching to meet the expectations of more than 11 million Canadians every day we rely on the nearly 70,000 employees who are working very hard to adapt to change and discover a new paradigm inside the banking hall that distant history alone captures in terms of bricks and mortar.

In 2006 we are nothing more and nothing less than people like you, anxious to meet needs, build lives and dream.

Just as corporate governance can sometimes lose its wisdom in the face of rigid rules, creating barriers to market constrains our ability to meet the

needs of our clients. Government needs to reflect on that point as we await the opening of the 39<sup>th</sup> Parliament and approach yet another turn of the bank Act and the rules that stake its ground.

Thank you.

