

# INTEGRATION OF FINANCIAL SERVICES: A CANADIAN PERSPECTIVE

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## ABSTRACT

Integration financial services is a term with many meanings. Definitions might include:

- ownership of different segments of financial services,
- the distribution of products of one segment by another, and
- a consumer-centric strategy driven to satisfy the needs of the customer regardless of organizational structures.

For the purposes of my paper, I will define it as the erasing of boundaries leading to consumers receiving value propositions that are not restricted by traditional industry segment barriers.

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While there are important lessons the U.S. can take from the Canadian experience of the past 30 years of easing restrictions, it is important to remember that the Canadian and U.S. financial services markets are very dissimilar. Therefore, the strategy and results of what happens in Canada may not be entirely relevant when applied to the U.S. For example, compared to the U.S. market, the Canadian financial services market is small with few opportunities for niche strategies. A small number of large companies control most of market place. In Canada, banks control most of the domestic financial services sectors. The only area they have not penetrated significantly is insurance.

Having pointed out the differences between our markets, I will point out three lessons we've learned in Canada that I think Americans would do well to understand. First, ownership does not necessarily lead to integration of financial services. One shouldn't confuse what's happening in Canada with regard to ease of ownership and access with the delivery of integrated financial services. There are many other issues besides mere ownership that are much more important in delivering integrated financial services.

A second lesson is to watch regulations, they can kill you. I'm not talking about laws here, but the

regulations instituted by regulatory agencies that attend laws passed by Parliament or Congress. For example, regulations designed to implement privacy laws or distribution laws could be problematic. In Canada, regulations with respect to the distribution of insurance do not permit banks to use customer relations or data in effective ways to drive toward integrated proposition. This has been a huge stumbling block.

The third lesson American business can take from Canada is that internal resistance in large financial institutions may make the delivery of a customer-based model very difficult to achieve. This is because most business organizations are structured around the supply model, "we make then we sell it." In this scenario, the customer is the buyer. Restructuring is necessary because the integrated model only works if the customer is at the top of the value chain. The whole architecture needs to be re-engineered with the customer as the starting point.

While some Canadian institutions have been talking about this, few have followed through. To do so would be both hard and risky because it puts an institution's legacy income stream at risk. Key obstacles within a business include the "silo" mentality, difficulties in obtaining adequate, correct customer information, and the willingness to change.

Regulatory reform has had a profound impact on the Canadian marketplace but the environment is still restrictive for banks that want to distribute insurance products. For one thing, insurance agents

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wield tremendous political power and the expected change in regulations affecting banks and insurance has not occurred. Secondly, privacy concerns around information being used unfairly by financial institutions are very important to the Canadian public.

The picture is not yet complete. As global strategies, like e-commerce, start affecting Canada, it will be interesting to see the impact large international integrated players will have on the marketplace, on our domestic financial institutions, and on regulators.

In summary, I believe the lessons to be taken from the Canadian experience are that there are two

essential keys to unlocking financial services integration: focus on the customer and useable, affordable information. The critical barriers are generally internal and include discomfort with alliances, protection of legacy income streams and changing the talk but not the walk. And finally, the regulatory environment may limit the business opportunity.

*Additional discussions on this paper can be submitted until January 1, 2001. The author reserves the right to reply to any discussion. Please see the Submission Guidelines for Authors on the inside back cover for instructions on the submission of discussions.*