Wealthsimple

Submission to the Department of Finance Consultation on Strengthening Competition in the Financial Sector

March 2024

I. Introduction

> *"Our findings further highlight the need to* ***modernize Canada's competition laws and adopt a whole-of-government approach to promote competition.*** *Without the adoption of pro-competitive policies, Canada risks continuing down the road of declining competitive intensity. Taking action to increase competition will drive lower prices and make life more affordable for Canadians."*
>
> **Matthew Boswell, Commissioner of Competition, October 2023**

> *"More competition means lower prices, more choice, and more innovative products and services for Canadians."*
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> **The Honourable Chrystia Freeland, Minister of Finance, Fall Economic Statement November 2023**

Wealthsimple welcomes the opportunity to participate in the Department of Finance's consultation on measures the federal government could take to strengthen competition in Canada's financial services sector. We share the government's interest in ensuring Canadians can access a broad range of affordable and innovative products that meet customers' financial needs and objectives.

In our response to the Department's pre-Budget consultations in February, we recommended that the government coordinate with provinces to expand financial regulators' mandates to include consideration for competition and economic growth. This submission expands on that recommendation.

To address the longstanding lack of competition in financial services, governments at all levels must re-evaluate their definition of the public interest with respect to financial services supervision, update regulators' mandates and powers accordingly, and measure the results. **Unless and until improving competition becomes a mandatory consideration at all stages and all levels of the financial sector's policy, regulatory and rulemaking processes, there is no reason to expect meaningful increases in competition, or a reduction in the costs Canadians pay for financial services.**

Our position is informed by our experience building financial products for Canadians — including as a portfolio manager, securities dealer and money services business — over the last 10 years. Wealthsimple engages with policymakers and regulators both at the federal level — including through the Department's Open Banking Implementation Working Group, the Bank of Canada's Retail Payments Advisory Committee and Payments Canada's Member Advisory Committee — and at the provincial level, where we operate entities accountable to regulators including the CSA, its provincial securities regulator members, and the self-regulatory organization CIRO.

Throughout our evolution from a small managed investing platform to providing **more than 3 million Canadians with the ability to save, spend, invest and file their taxes**, we have engaged early and often with regulators and policymakers. All of these partners share a commitment to maintaining the integrity and stability of Canada's financial system. Wealthsimple agrees that the primacy of that objective is critical to maintaining the trust and confidence of Canadians. However, when we advocate for changes that would expand choice, improve service quality and transparency, and lower costs to consumers, we are frequently told by regulators that their options are limited by the absence of an explicit competition mandate.

This position shifts the full responsibility for financial sector competition onto the Competition Bureau. This is an insurmountable task for the Bureau, which does not have the power or resources to take on this effort alone, and it runs counter to the interests of consumers and the stated priorities of <u>all</u> provincial and federal governments to improve the affordability of essential goods and services. The Bureau is first and foremost a law enforcement agency and, while it does have a mandate to promote competition through advisory interventions, this function relies on the voluntary adoption of its recommendations, and cannot be relied on to safeguard competition across every regulated sector.

The questions posed in the consultation document primarily sought feedback on the degree to which the mergers and acquisitions framework is a barrier to Canadians accessing banking services. In our view, this is largely a distraction from the most significant of these barriers, which are systemic. Canada's money movement infrastructure is out of step with all its G7 peers, preventing Canadians from exercising free choice over their financial decisions. Most payments still settle the next business day — which can be as many as four days after the payment date — depriving individuals and businesses of the certainty they need to manage their finances efficiently and stay out of debt. Only 31% of Canadians benefit from no-cost chequing accounts, compared to 73% of Americans and 81% of Britons. And junk fees — including fees of up to $9 per ATM withdrawal and $250 per investment account transfer — unfairly disincentivize Canadians from choosing the financial services provider that gives them the best value and quality of service. The current M&A framework may not be optimal, but amending it will have little impact on the most significant barriers to competition in the financial services sector.

For this reason, our response focuses instead on the mandates of financial regulators and their lack of accountability for encouraging competition in their own sectors. **The best way to maintain and increase competition in financial services over the long term is to make doing so an explicit responsibility of regulators and policymakers at <u>every</u> stage of their activities, and to demonstrate a commitment to accountability by measuring their success.**

II. Wealthsimple's position on competition

Wealthsimple has consistently advocated for increased competition in the financial sector, and recommended policies and projects to achieve it — including via the 2021, 2022 and 2024 pre-Budget consultations, the 2023 Retail Payment Activities Act Regulatory Consultation, the Consultation on the future of competition policy in Canada, the Consultation on Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime, and the Consultation on Upholding the Integrity of Canada's Financial Sector.

In particular, we have shared detailed positions in support of:

- **Consumer-driven banking** — which will enable consumers to better manage their finances and improve their financial outcomes;
- **The Real-Time Rail** — which will have a transformative impact on the efficiency and affordability of financial services, including reducing Canadians' reliance on payday lenders and the impact of NSF fees and other excessive or hidden fees that disproportionately burden those least able to afford them; and
- **Mandated service standards for investment account transfers** — which will enable fair competition in the investing sector by enabling Canadians to move money to their preferred provider within a standard timeframe and without incurring punitive fees.

At the same time, Wealthsimple has developed innovative and affordable products including:

- **No-monthly fee high-interest chequing accounts** that pay a minimum of 4% interest and offer an industry-leading $300,000 of deposit protection;
- **Free or pay-what-you-like tax filing** that seamlessly imports data from the CRA and Revenu Québec and automatically applies the relevant credits and deductions;
- **Low-fee investing accounts** including RRSPs, TFSAs, RESPs and FHSAs (more than one third of all FHSAs in Canada are held with Wealthsimple);
- **Zero-commission stock and ETF trading**, the first such platform in Canada when it launched in 2019; and
- **Low-fee Group Retirement Savings Plans** serving hundreds of SMEs, 96% of which did not offer any workplace retirement savings before working with us.

In our experience advocating and building for a more competitive financial sector, we frequently encounter hesitation from regulatory partners who do not feel empowered to pursue this objective themselves. This is for good reasons. For one, effecting change in the financial sector is complicated by shared federal and provincial jurisdiction. For another, financial sector policymakers and regulators generally do not have mandates to consider affordability, service quality or market concentration. Where there is vague reference to "fair, efficient and vibrant capital markets" or "building Canadians' trust," it comes without clear authority or accountability.

And where a regulator's mandate or objectives make passing reference to competitive markets, they lack specific tools or processes to act on that aspiration or be held accountable to it.

To address persistent and ongoing increases in market concentration, profits, and costs to consumers, federal and provincial governments should:

1. Find consensus on a definition of the "public interest" as it relates to financial sector supervision, ensuring a proper balance between macroprudential risk and barriers to choice, affordability, productivity and economic growth;
2. Review, enhance and clarify all financial regulators' responsibility and accountability for increasing competition and affordability in financial services, including an explicit mandate to consider competition at the outset of all policy development;
3. Develop objective success measures and an audit mechanism to assess the impact of these changes on competition; and
4. Adopt a version of the Competition Bureau's 2017 recommendation to appoint a "fintech policy lead" — but rather than serving as a concierge or resource, this individual should be granted specific authorities, to account for the reality that the Bureau's advisory function has largely been ignored regardless of the merits of its recommendations.

Absent a coordinated strategy and shared political will, it is reasonable to assume the increase in concentration, the decrease in new entrants, the rising profit margins and the higher costs of financial services will continue unabated.

For years, Wealthsimple has argued that reducing friction and increasing transparency is consistent with existing mandates to maintain efficiency and build trust in the financial sector, to no avail. To give but one example: in 2023, a full 48% of investment account transfers into Wealthsimple were performed manually (by fax, mail and cheque). Despite carrying fees of up to $250, the average processing time for manual transfers is 3 weeks and 10% take more than 6 weeks, with no recourse available to the affected clients. Although fast, inexpensive and automated solutions are widely available, the lack of minimum standards governing these transfers incentivizes financial institutions to use high fees and slow processes as a deliberate and effective strategy to retain clients. Slow and opaque transfers are one of the most significant drivers of customer inquiries and, while Wealthsimple does not charge fees for outbound account transfers (the vast majority of which are completed in few days and 100% within 10 days), we have reimbursed clients more than $6 million in transfer fees charged by originating institutions.

This is a clear, longstanding and well-known barrier to competition at the expense of individual investors. But it is only one symptom of a broader problem within the financial services sector: that concerns put forward by institutions resistant to change are taking precedence over the public interest, while government entities lack the mandate, authority or accountability to affect change.

III. The Competition Bureau's role

Last fall, the Competition Bureau published an in-depth report, Competition in Canada from 2000 to 2020: An Economy at a Crossroads, which confirmed **Canada's competition problem has worsened** in that time. The number of highly concentrated industries in Canada *increased*; dominant firms are now *less* likely to be challenged; *fewer* firms have entered concentrated industries; and profits and markups in those industries have risen.

The Commissioner of Competition concluded:

> *"More needs to be done beyond modernizing our competition laws and re-equipping our federal law enforcement agency… **To effect truly meaningful change, we need a whole-of-government approach to promoting competition.** Siloed thinking and rigid structures won't solve the problem. What does solve it is having municipal, provincial, territorial and federal levels all operating from the same powerful assumption: that we all build a better, stronger economy when government policies are designed to nurture competition, not to restrict it. We can do this if we choose to."*

Today, the Competition Bureau is treated like the only regulator tasked with promoting competition in the financial sector. However, this promotion mandate has no corresponding authority to compel compliance. The Bureau's advisory function is supported by only $8 million annually (12.5% of its total budget), and relies on voluntary adoption without exception — even when its recommendations are clearly aligned with stated government objectives. Further, the Bureau's mandate to promote regulation that supports competition is not limited to financial services, but extends across all sectors including telecommunications, energy, transportation, retail, and many more. It is simply unreasonable to expect the Bureau to engage meaningfully and effectively throughout the policymaking process in every regulated sector in the country.

The fall 2023 report applied to all concentrated sectors of the economy. Looking specifically at financial services, the Bureau has been clear, consistent and unequivocal in a dozen submissions to financial sector consultations over the last decade. **What is less clear is whether anyone is listening.** Among the submissions below, it is difficult to identify a single recommendation that has been properly implemented, despite clear alignment with multiple government priorities, including **lowering inflationary pressures, increasing productivity and stimulating economic growth:**

- Competition Bureau comments to the Advisory Committee on Open Banking: Supporting a competitive and innovative open banking system in Canada, January 18, 2021
- Submission by the Commissioner of Competition to Bank of Canada Consultation: Renewing Canada's Monetary Policy Framework, October 1, 2020

- Proceedings of the Standing Senate Committee on Banking, Trade and Commerce, February 21, 2019
- Submission to Finance Canada: Open banking, February 11, 2019
- Canada's progress in FinTech, September 26, 2018
- Submission to Finance Canada: Review of the Canadian Payments Act, July 24, 2018
- Submission to BC Securities Commission: Securities law framework for Fintech Regulation, April 10, 2018
- Submission to Payments Canada: Modernization target state, February 23, 2018
- Technology-led innovation in the Canadian financial services sector, December 14, 2017
- Submission to Finance Canada: Financial sector, October 12, 2017
- Submission to Finance Canada: Retail Payments Oversight Framework, October 12, 2017
- Submission to Finance Canada: Oversight of national payment systems, June 19, 2015

Without question, the Competition Bureau and its team of experts have an important role to play in the development and implementation of measures to increase competition. But evidence from other jurisdictions makes very clear that success requires statutory authority and clear accountability throughout the financial regulatory system.

IV. Experience of other jurisdictions

International evidence supports a proactive and comprehensive approach to competition in the financial sector.

	Statutory competition mandates for payment and securities regulators	Real-Time Payment Rail	Consumer Driven Banking	Investment Transfers Standards	% of no-cost chequing accounts
AUS	✅	✅	✅	✅	n/a
US	✅ [via Executive Order]	✅	✅	✅	73%
UK	✅	✅	✅	✅	81%
CA	✖	✖	✖	✖	31%

Australia

- In 1993, Australia undertook an inquiry into competition policy (the Hilmer Report) which led to the 1995 National Competition Policy, a whole-of-government review of over 1,800 laws and regulations, finding opportunities to boost competition across numerous sectors. Australia's Productivity Commissioner later estimated that these reforms led to a permanent increase of at least 2.5% in Australia's GDP, or around $5,000 per household.
- In 2014 the Australian Treasury's Murray Inquiry found that "regulators have focused almost exclusively on prudential stability since the Global Financial Crisis," and made 44 recommendations to strengthen competition in the financial system. The Government accepted almost all of the Inquiry's recommendations, set timelines for their implementation and proposed additional measures.
- In 2022, 17% of Australians switched their primary bank account. Of those who switched, almost half (48%) cited competitive pricing or value for money as a primary motivation. (The vast majority of Canadians have never changed primary banking relationships.)
- In 2023, the Australian Competition and Consumer Commission's (ACCC) inquiry into the market for retail deposit products identified opportunities to further improve consumer outcomes, increase transparency and help overcome common consumer inertia, to make it easier for consumers to choose retail deposit products that better meet their needs.
- Today, Australia's Payments System Board, the Australian Securities and Investment Commission and the Australian Prudential Regulatory Authority each have explicit statutory obligations related to competition. The Reserve Bank of Australia (RBA) and the ACCC have a formal Memorandum of Understanding delineating the RBA's responsibility

for setting standards and the ACCC's authority to ensure that payment system arrangements comply with competition and access laws.

The United Kingdom

- In 2014, the UK Parliament expanded the statutory obligations of financial sector regulators (the Bank of England, the Prudential Regulation Authority and the Financial Conduct Authority), adding to their primary objective to protect and enhance the stability of the financial system an explicit new secondary objective requiring regulators to act in a way which facilitates competition, with a view to improving the quality, efficiency, and economy of regulated services.
- Based on the positive impact of this secondary competition objective, in 2023 Parliament introduced an additional secondary growth objective, to facilitate the international competitiveness of the UK economy and its growth in the medium to long term.
- The Bank of England has directed that competition and growth objectives be embedded throughout the policymaking process, so that "when making policy to pursue its primary objectives, the PRA does so in a way that facilitates its secondary objectives, as far as reasonably possible. The PRA is proactive in its approach to its secondary objectives – embedding analysis of competition, competitiveness, and growth considerations from an early stage of policy development and in all formal internal committee papers – and looking for specific opportunities to pursue them." The Bank underscores that while the competitiveness and growth objectives are secondary to its primary objectives, they shape how those primary objectives are advanced, as they cannot be advanced on their own.
- In 2015, the UK's Payment Systems Regulator was given three statutory objectives demonstrating the push to embed competition throughout the regulatory framework:
    - *To ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them;*
    - *To promote effective competition in the markets for payment systems and services — between operators, PSPs and infrastructure providers;* and
    - *To promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems.*
- In 2016, the Competition and Markets Authority (CMA) (the UK equivalent of the Competition Bureau), following a 2-year investigation into the supply of retail banking services to individuals and SMEs, published the 766-page Retail Banking Market Investigation Report and the abbreviated Making Banks Work Hard For You. The investigation found that too few Britons were accessing accounts that best served their needs — with **overdraft users having the most to gain from switching** (estimated savings of up to £564 per year).
- The government took action and issued the Retail Banking Market Investigation Order which introduced a large set of policy remedies including open banking, a monthly

maximum unarranged overdraft charge, a standardized business account display of the cost of unsecured loans and overdrafts, and a requirement for banks to publish service quality metrics. **The order set timelines for implementation and a clear enforcement mechanism empowering the CMA to take action in the event of breaches**.

- In 2021, the CMA's Current Account Switch Service — a free service available to anyone with a personal or business account in the UK that helps make the process of switching much simpler — was found to have decreased concentration in the personal current account market by 21%. Building on this success, in 2024, the Financial Conduct Authority leveraged its competition mandate to launch a £600,000 public education campaign (funded by fees they charge their regulated entities) encouraging consumers to review their savings and consider switching to access higher interest rates. The FCA created an online savings calculator for consumers to "check how much you could earn if you switch to a savings account with a higher interest rate," urging users to "shop around and consider switching if you find a better rate."

The United States

- In 2021, the President of the United States issued an Executive Order on Promoting Competition in the American Economy, directing a whole-of-government approach to address overconcentration, monopolization, and unfair competition in the American economy, and promote the interests of American workers, businesses, and consumers.
- The order directed multiple agencies, including the Department of the Treasury, the Federal Reserve System, the Federal Trade Commission, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission, and the Consumer Financial Protection Bureau (CFPB), to "adopt pro-competitive regulations and rescind regulations that create unfair barriers to entry that stifle competition."
- It also directed the CFPB to introduce a consumer-directed banking rule, "to facilitate the portability of consumer financial transaction data so consumers can more easily switch financial institutions and use new, innovative financial products."

V. Conclusions

Governments at all levels are acutely aware that Canadians are struggling with high costs in their daily lives. This January, 40% of Canadians either could not meet their regular expenses or were able to meet them with nothing left over. 51% of renters and 40% of mortgage holders were having difficulty making their payments. And a majority of Canadians under 55 say they could not meet an unexpected expense of $1,000.

The lack of competition in highly concentrated sectors in Canada has worsened since 2000. Perhaps that reality is too abstract. We must identify and execute specific opportunities to increase competition rather than wishing it to increase on its own. Every initiative of the last decade to improve competition in financial services, including consumer-directed finance (Finance Canada consultations launched 2018), a real-time payment rail (Payments Canada Roadmap 2016) and investment account transfer standards (MFDA's 2020 consultation on account transfers and 2021 commitment to propose transfer standards) remain without clear implementation dates.

Competition will not improve without the political will to put individuals and small businesses at the forefront of decision making, and to bring issues that directly impact the majority of Canadians on a daily basis to the top of the list of priorities.

Canada must learn from other jurisdictions, including Australia, the UK and the US, where concrete steps have been taken to ensure that accountability for advancing competition in financial services is a stated and statutory obligation that is shared, monitored, measured, adjusted and reported on publicly — and where competition regulators, like the Competition Bureau in Canada, are supported in their efforts to serve the public interest.

About Wealthsimple

Wealthsimple is one of Canada's fastest growing and most trusted financial services companies, serving over 3 million clients. Using smart technology, we take financial services that are often confusing, opaque and expensive and make them simple, transparent, and affordable.

We have a track record of launching innovative and inclusive financial products while prioritizing early engagement with policymakers. In 2022 we became the first ever non-bank, non-credit union to be granted a settlement account with the Bank of Canada. We serve on the Bank's Retail Payments Advisory Committee, the Department of Finance's Open Banking Implementation Group, and Payments Canada's Member Advisory Committee and RTR Working Groups.

As we approach our 10th anniversary, we are proud to serve over 3 million Canadians, including 1 in 5 adults under 40, and hold over $30 billion in assets. Our 1,000 employees work from coast to coast, in cities like Toronto and Calgary and smaller communities like Nelson, BC, Saint-Lazare, QC and New Glasgow, NS.