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Chair

The Honourable Wayne Easter

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• (1540)

[English]

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

Pursuant to Standing Order 108(2), the committee will continue its study of consumer protection and oversight in relation to schedule I banks. In the first hour and half session, we will have representatives of three banks. Welcome, gentlemen, we appreciate your coming.

We will start with the Canadian Imperial Bank of Commerce, Mr. Wambolt.

Mr. Scott Wambolt (Senior Vice-President, National Sales and Service, Retail Distribution and Channel Strategy, Canadian Imperial Bank of Commerce): Good afternoon. My name is Scott Wambolt, and I'm here in my capacity as senior vice-president of CIBC's national sales and service team. In this role, I lead all national sales leadership and business management activities in support of sales performance and service effectiveness for small business and personal banking on the retail side.

Thank you very much for the opportunity to speak with you today about CIBC, our values and culture, and our efforts to put our clients first. At CIBC, we have 43,000 team members who are working hard to build trusted and long-lasting relationships with our 11 million clients. Our number one priority is to put our clients at the centre of everything we do. It's what we want to be known for, and it's the kind of client-first culture we are building. This is true at our bank, regardless of whether you work behind the scenes on our risk team or human resources team, or whether you deal directly with our clients every day. As a bank, our shared purpose is helping our clients to prosper and grow. This means getting to know our clients, understanding their needs, and making sure they get the right advice and solutions to achieve their financial goals.

It also means living our values in our everyday decisions, actions, and interactions with our clients, team members, and communities. To give you some colour on what this means, I'd like to give you a few examples. It means speaking to clients in plain language. Life can be complicated, and it is our job to make sure that financial services are made simple and easy for our clients to understand. It also means taking on our clients' issues as our own and making it right for them by providing a fair and fast resolution. It means having the right escalation processes in place so that clients or employees can raise concerns at any point and have confidence that they will be addressed.

On this note, we should be clear that while the vast majority of client interactions go smoothly and as expected, in an industry with tens of millions of clients and billions of transactions completed each year, issues will arise from time to time. Our commitment is to ensure that we have the proper procedures in place to minimize the risk of issues arising in the first place, and to identify them quickly if they do. If issues do arise, we take them very seriously, investigate them immediately, and take appropriate actions. Our approach to these issues can be captured in three key themes: our people, our processes, and our culture.

Looking at our people, we make an ongoing investment in employee education and mandate that our employees refresh their training annually. In 2016 alone, we invested over \$60 million in training. We are continuously coaching our team on best practices, and provide the most current information that will enable them to best serve our clients.

Our code of conduct is also very important. It sets out the principles and standards for our team's behaviour, ensuring that our actions and words reflect our culture. It also sets out expectations and protections for employees to speak up and voice their concerns, including through confidential means. We're also working to ensure that our team is empowered to get to know their clients, understand their goals, and work with their clients to help them meet those goals.

From a process perspective, we are focused on having the right programs, measurement, and incentives in place to ensure that our team models appropriate behaviours and actions. Further, to ensure that these processes and systems are working, we have intelligent monitoring in place. CIBC is absolutely accountable for these processes and monitoring, but we also actively work with various external parties, including our regulators, as they provide oversight to our industry.

Finally, on culture, at the heart of our reputation and culture is a team that puts our clients at the centre of everything we do. For CIBC, this starts with the tone from the top. From the most senior levels, we are committed to reinforcing a culture that puts our clients first and ensuring that this is the lens through which all decisions are made.

We are also committed to building an inclusive and empowered team through a culture of employee engagement. Whether volunteering for one of our community events, participating in learning and development initiatives, or being recognized by peers and management, our culture of engagement helps ensure that we work as one team towards the same goal of putting our clients at the heart of everything we do.

To this end, in 2016 we were recognized as one of Canada's 10 most admired corporate cultures by Waterstone. Our employee survey showed that 86% of employees felt that different points of view were of value in their teams, 89% would recommend CIBC as a place to do business, and 88% were proud to be identified with our bank.

We've also been recognized by Mediacorp as one of Canada's top 100 employers for five years running, and as one of the 50 most-engaged workplaces in Canada by Achievers for the last four years. We've also been awarded "most admired corporate cultures" awards twice in a five-year span.

In closing, I would like to thank the committee members for their time and attention to this topic. We welcome the opportunity for input and discussion here today.

• (1545)

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

Turning to Scotiabank, Mr. McPhedran.

Mr. James McPhedran (Executive Vice-President, Scotia-bank): Thank you, and good afternoon, Mr. Chair.

My name is James McPhedran. I'm responsible for Scotiabank's retail distribution network in Canada. In this role I lead the bank's regional and local branch managers and employees and oversee our branch network. I have been a Scotiabank employee since 1996.

I want to acknowledge at the outset that we clearly understand the importance of the issues before the committee. The hearing addresses foundational elements, most important being culture and leadership, and I will address both topics in my brief remarks today.

Let me start by providing you with some context on Scotiabank's operations in Canada. We first opened our doors in 1832, and today we have more than 34,000 employees in Canada, including more than 14,000 employees in approximately 1,000 retail branches. We have more than eight million domestic customers, and we annually process more than 400 million customer transactions.

To better support our employees and serve our customers, we also collect more than one million pieces of employee and customer feedback each year.

Since the focus of the hearing is sales practices, let me begin by addressing that topic directly. We engage with customers in a robust process that includes four key elements.

The first is training to ensure employees are well equipped to support customers.

Next, our customer experience model guides employees to assess customer needs and develop a financial strategy.

Third, we have a variety of feedback mechanisms to ensure we hear from employees and customers regularly.

Lastly, we monitor sales to ensure compliance with our practices.

Scotiabank branches operate such that all of our employees are focused on the needs of the customer. Our tellers do not have sales targets, and branch advisers provide customers balanced advice based on their needs. We monitor and enhance sales practices and processes on an ongoing basis to ensure we are meeting the needs of our customers, and we are confident that our practices are sound. Occasionally there will be times when we don't meet customer needs. When this happens, we want to know so that we can make things right.

I also would like to take a moment to speak more broadly about culture and trust. At the heart of our culture is a singular mission. Scotiabank was founded to help people achieve their financial goals. The values of integrity and respect have always been core to our culture. They guide our behaviour. They define us as Scotiabankers, and they form the basis for our code of conduct.

Our industry is undergoing rapid change driven by customer preferences that are altering how banking services are delivered. The nature of the relationship between banks and their customers is evolving. Of the more than 400 million annual day-to-day transactions I mentioned earlier, more than 80% now take place outside the branch, mostly through online and mobile channels. Our digital transformation is driving many benefits for customers, simplifying their banking experience and offering improved convenience, ultimately leading to higher satisfaction. The changes are also empowering for our people. Digital technology allows us to be more customer focused and to spend more time giving advice.

Advice is a foundation of our retail business and it is core to the value that we provide to customers. We also hear from employees that providing customers with advice, whether it's about purchasing their first home, setting up an RESP for a child, or planning for retirement, is a big part of what they enjoy about their jobs.

Through it all, the foundation of banking remains relationships, and the cornerstone of every relationship is trust. Regardless of how services are delivered, we have never taken this trust for granted.

We have received input from more than 700,000 customers in Canada so far this year, and our satisfaction levels are strong. In fact, the highest feedback scores consistently go to our front-line teams that our customers appreciate for their friendliness and responsive and attentive behaviour.

Let me close by saying that our people take their responsibility very seriously and that we are deeply proud of our team of Scotiabankers across this country. They embody the values of our organization, they work hard on behalf of our customers, and they do so with integrity.

•(1550)

Thank you for the opportunity to participate in this hearing. I hope I have been able to shed some light on Scotiabank's culture and leadership approach, and the strong and enduring values that guide our team every day.

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

Now, we turn to the TD Bank Financial Group and Mr. Pilkington.

Mr. Andrew Pilkington (Executive Vice-President, Branch Banking, TD Bank Financial Group): Good afternoon. My name is Andrew Pilkington, and I am the executive vice-president for branch banking at TD Bank Group. I was born in the U.K. and have lived and worked in Europe, South America, and, for the last 14 years, Canada. I am proud to say that my family and I are dual Canadian-British citizens. In my role at TD, I lead 22,000 employees in 1,150 branches across Canada.

I appreciate the opportunity to be here today.

The Office of the Superintendent of Financial Institutions, or OSFI, is our home prudential regulator, the regulator that oversees the stability of Canadian financial institutions by ensuring that they, like TD Bank Group, are meeting agreed standards for capital, liquidity, and leverage, as well as conducting themselves in a safe and sound manner. OSFI also interacts with all the other regulators, both domestic and international, that oversee our individual lines of business.

With respect to the consumer protection rules, of the 22,000 employees in branch banking, those providing core banking services are overseen by the Financial Consumer Agency of Canada, or FCAC. About 4,000 of those 22,000 employees are registered with the Mutual Fund Dealers Association, or MFDA, to sell mutual funds. MFDA members are licensed by provincial securities commissions, and the MFDA is the national body that oversees the Canadian mutual fund industry.

We also have TD employees in TD Waterhouse Canada who are registered with the Investment Industry Regulatory Organization of Canada, IIROC, to provide investment advice. IIROC members are licensed with provincial securities commissions, and IIROC is a national body overseeing Canadian investment dealers.

I think this is important to understand, given the scope of the federal consumer protection regime.

Now, let me turn to the matter that is before this committee.

When we first heard the media report that started this discussion, frankly, we were all very surprised and very troubled. TD has always

been a customer-focused organization, with a strong track record of developing internal talent. That's not just our view—we know this from our ongoing surveys that evaluate customer experience and employee satisfaction. These findings are validated by external benchmarks like J.D. Power's consumer rankings and Aon Hewitt's study of top employers in Canada. What was reported in the media does not square with the organization that I, along with all my colleagues at TD, know and respect.

Soon after the allegations appeared, many of my colleagues and I spent time travelling the country and meeting our front-line people to talk with them face to face. There were two clear messages in the feedback I received: They told me the way TD is being portrayed in the media does not align with their experiences, and they also told me that if such problems are identified, they expect me, Andy, to stamp them out. I couldn't agree with them more.

In any large company, some challenging situations will occur that need to be dealt with. We have processes in place to monitor sales practices, detect issues, and address them if they do arise. It is our vision to be the better bank in every aspect of how we run our business, how we treat our customers, and how we support our people.

We constantly look for areas of opportunity and ways to improve, and this matter is no different. I can assure you that we are again looking at ways we can improve our processes to better monitor, identify, and deal swiftly with any potential inappropriate activity.

Our mission at TD is simple: to enrich the lives of our customers, communities, and colleagues. In our branches, day in and day out, our people fulfill that mission by welcoming customers, understanding their needs, offering them helpful advice, and enabling them to meet their own goals and aspirations.

Thank you very much.

•(1555)

The Chair: Thank you very much.

We'll go to the first round of questions. Mr. Fergus, you have seven minutes.

[Translation]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you very much, Mr. Chair.

First of all, I want to welcome our witnesses to Ottawa.

Welcome to your Parliament. It is a pleasure to have you here.

Thank you for all the comments you provided at the beginning. I have to tell you that, if we go by your comments, there is actually no reason to hold these committee sessions. I can assure you that we have also heard some other testimony from Canadians, from former bank employees, and from the Canadian agency that regulates your industry.

[English]

Lucie Tedesco, the commissioner for the Financial Consumer Agency of Canada, told this committee that FCAC staff have been asked to review banks' sales practices. She told this committee that the FCAC is "assessing whether sales targets and incentive programs are contributing to sales practices that lead to poor outcomes for consumers."

Let me just ask all three of you a series of questions. Be very brief, if you could, because I only have a certain amount of time for you to respond.

Has your bank been approached to provide information to the FCAC in the course of this review? If so, is this review specific to the practices of the head offices of the banks or to the branches of the banks?

Second, are there mechanisms in place at the head office to monitor the practices of what happens in your branches, particularly in relation to sales targets and incentive programs? If so, can you please describe these mechanisms? If you don't have these mechanisms, can you explain why not?

The Chair: Who wants to start?

Mr. McPhedran?

Mr. James McPhedran: Sure, I'll start.

I can tell you that the FCAC is in our office right now, as is OSFI, working on the review that we all know about. The first aspect of the review is a data-gathering exercise, which has been under way for a couple of weeks.

We owe a full pack of data to the FCAC by the end of June. I can tell you it is incredibly robust. Some of our people are saying it's the likes of which they haven't seen before, in terms of the depth and breadth of the information that they've asked for. It does include both branch and head office processes. From what I can see, it's a very comprehensive request. We have teams of people who are working night and day right now, pulling that information together.

Mr. Greg Fergus: I appreciate that.

In response to the second half of that question, does your bank have mechanisms in place to monitor what's going on in the branches, not only at head office but in the branches?

Mr. James McPhedran: Of course.

Mr. Greg Fergus: Can you give us an example?

Mr. James McPhedran: Yes. We have a very significant process that monitors sales practices. That begins in the branch, as you talked about, in terms of next-day reviews and ensuring that the right thing is going on. Then, at head office, we look at a variety of mechanisms using analytics that look at trends, out-of-pattern behaviours, and different types of sales, as another check and balance. Third, we have feedback loops. We have a variety of feedback mechanisms for employees and customers, for ongoing customer satisfaction research or issues that customers may have.

All of these are coalesced to bring together the information that we require to ensure our sales practices are sound.

• (1600)

The Chair: Mr. Pilkington.

Mr. Andrew Pilkington: Yes. In terms of the FCAC, I think they're treating all the banks exactly the same way, so there's consistency. Rather than repeat my competitor's words, I'll tell you that the exact same process is going on at TD.

In terms of head office and branch banking, in all channels we are reviewing all of them. We have systems, and processes, and support in place to make sure that we don't have sales practice issues. Similarly, we would have data analytics. We gather data around outliers if we see anything that looks out of the norm in terms of data patterns, whether for individuals or geographies. We have a procedure whereby we investigate that. Clearly, if there we see any wrongdoing, we then take action accordingly.

The Chair: Mr. Wambolt.

Mr. Scott Wambolt: Sure, yes. FCAC and OSFI have issued comprehensive requests for information and our teams are very actively putting responses together for them.

In terms of the second question, yes, we have a number of different lines of defence, so to speak, in monitoring sales practices, including, and this cannot be understated, making sure that we hire the right people who completely understand our code of conduct and our core values and seek to embody them in everything they do.

We also hold the business responsible for ensuring that they understand what's driving their sales results. We have intelligent monitoring in place that can point out any outliers, and then the business is responsible for investigating and understanding what's driving those outliers. That's reinforced by our finance and risk teams and compliance teams that override, and their mandate is to question the business on those sorts of outliers.

Backing that up is our audit team, which routinely goes through the business at a very detailed level, ensuring that all policies and procedures are adhered to.

Mr. Greg Fergus: I appreciate those very clear answers.

Some of the witnesses mentioned that their concern is not necessarily on the things that you would consider outliers, but that the sales incentive practices that have come to our attention through the media are so widespread that they are part of the regular system. How do you try to identify those actions in terms of the goals and incentives that you have for your sales practices? They might be part of the regular practices of the bank that lead people to try to fit clients into products they don't necessarily need. How do you try to capture that?

The Chair: Who wants to start?

Mr. Wambolt.

Mr. Scott Wambolt: Sure. Our code of conduct is clear, but I think it starts even before the code of conduct in the tone from the top at CIBC, and that's about putting the client first in everything we do, making the right call on behalf of the client every day.

Growing our enterprise over the long term is another key component of our mandate.

Some of the sales practices that you referred to in the media are absolutely unacceptable to CIBC. If any employee feels this is being pressured on them or they observe this behaviour, they have a number of means to make management aware of this, including going to their manager. If that's not an appropriate path or they feel they would like to do something else, they can go to their one-up manager or involve their HR representative who's usually very close or on site.

Then we have a number of other escalation paths that can be completely confidential. If they feel they would like to refer something confidentially we have our confidential ethics hotline, our corporate security mailbox, and our ombudsman's office.

Mr. James McPhedran: I think a large part of your question is about how goals are set. I think it's important for the committee to know that our goals are set in a balanced approach. For us that means that our front-line tellers don't have sales targets, that our advisers are targeted with customer experience as the foremost element of their scorecard. There's balance with the ongoing approach they have with customers, the number of customers they're meeting. The number of financial plans that they're doing sales are an element.

The other is that each of our scorecards has both a what and a how metric; what was done and how. That's where things like compliance and adherence to the code come in.

When we're talking about goals or targets, this notion of balance is very important to us.

● (1605)

The Chair: Mr. Pilkington.

Mr. Andrew Pilkington: When we look at our front line and how we compensate them, the vast majority of their compensation is their base salary. A relatively small part of their compensation is variable and within that variable component sales targets are one component, but an even more important component is customer satisfaction.

We poll tens of thousands of our customers every month as they have interactions, whether it's in branches or over the phone or even digitally, and we'll ask them if they were satisfied with the advice they received, if they felt they got good service. That's the biggest component of how we reward the variable components, which is relatively small. We aim for that equilibrium, that balanced approach, that was referred to by my competitor.

Our goals are not product specific so we don't say to people in the branches or on the phone that they have to sell x number of a certain product, be it a mortgage, a credit card, or whatever. They're aggregated, and we're looking to get a real balance of what customers need—customer-centric goals—and not what products we necessarily want to sell within the bank. It's very customer focused, and it's up to the individuals in the branch to spot the needs and sell those products that fit those customers' needs.

The Chair: Thank you.

Mr. Deltell.

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

Gentlemen, welcome to the House of Commons. We deeply appreciate the quality of the people we have in front of us today.

I will, in the same spirit as that of Mr. Fergus, ask one question of all three of you.

Gentlemen, you spoke about advising people in your business and about having no sales targets. Everything is going well. You say, "We are here, first and foremost, for the people and the customer." That's not exactly what we have seen on TV and not exactly what we heard two days ago here in this parliamentary committee.

I was wondering what kind of watchdog you have in your business. When I talk about a watchdog, it's someone who can listen in on a phone call when one of your employees calls to speak to a customer. Do you have that kind of watchdog who can just listen in, without the knowledge of your employee?

The Chair: Mr. Pilkington.

Mr. Andrew Pilkington: Yes, we do.

We record every call that comes into the phone channel. If there is ever an issue and a customer complains about something, then we can go back and actually listen to that call in its entirety. Every single call is recorded and held indefinitely.

We have regular monitoring. There are teams of people whose sole responsibility is to actually select calls at random and listen to those calls. Where they see that an employee has not necessarily done the right thing in terms of the advice offered or that they need some refresher training, then we'll go away and do that, and coach the employee. There is regular, ongoing monitoring by the actual line of business. Then, of course, we have partners in compliance, for example, who will come in. Audits, as well, will happen in order to ensure that everybody is doing the right thing.

The Chair: Mr. McPhedran.

Mr. James McPhedran: Similarly, in our contacts and our channels, we record every call. We also have a mechanism whereby we do speech analytics. If there are things we want to look at specifically, we can pull those calls out and have a look there.

In our branch channel, it's done mostly through coaching from their supervisor. As well, the volume of surveys we do—we'll do over a million this year—is such that each branch gets feedback, mostly on a weekly basis, as to the interactions their staff are having with their customers. It's very robust. This is something we look at for compliance reasons. More importantly, it's vital for us to do the things we need to be doing for customers.

● (1610)

The Chair: CIBC.

Mr. Scott Wambolt: Similar to the other gentleman, we have recording devices in place in our contact centres. We record all of the calls, and we audit them. It's usually more for coaching or training as opposed to a watchdog-type approach. We keep them on file in case there's ever a dispute or a client calls in and claims something. We can go back and validate it through the recordings.

In our banking centres, the dominant theme is to do what's right for the client. We measure that at a banking centre level, in terms of client satisfaction. We also have coaches who are deployed across the country. They are able to help various members of our team in the banking centres, should we spot something that may not be quite right. They can intervene and train, retrain, coach, and help guide that staff member to the appropriate behaviour.

The Chair: Mr. Deltell.

Mr. Gérard Deltell: I want to go a bit further. It's quite interesting to know that every call is recorded.

Can the consumer ask to get access to that? Is that possible? If someone thinks he has not been treated well by your employee, can he call up your bank and say, "Well, just listen to the recording, and then you will see that he was not good"? Can a consumer do that?

Mr. Andrew Pilkington: If customers make a complaint about a specific interaction, obviously we'll listen to the call and investigate it. If we feel the employee did not do right by the customer, we'll clearly rectify it with the customer. If the customer is insistent there was an issue, but we feel the employee has done everything right and has followed the proper procedures and training, then occasionally we'll have the customer join a call and actually listen to the actual call itself. That's normally when the matter ends.

Mr. Gérard Deltell: So, the one who is listening to the call is one of your employees? Is that correct?

Mr. Andrew Pilkington: The one who is monitoring the call?

Mr. Gérard Deltell: Yes. That third party is your employee?

Mr. Andrew Pilkington: The third party would be an employee.

We would have people in the line of business, the phone channel business, whose jobs are to listen to those calls day in and day out, and to coach and train the people who are working on the front line. However, we also have other, as we call them, lines of defence—compliance, order, etc.—that would actually come in and do testing and monitoring as well.

Mr. Gérard Deltell: Okay, but do I understand correctly that there is a so-called watchdog? I just want to understand what you are talking about. The one who is listening, the one who coaches, is one of your employees.

Would you welcome someone outside of your bank system to be the watchdog?

Mr. James McPhedran: I'll speak on behalf of Scotiabank. The majority of our concerns are rectified through our internal channels, whether that be what we call our office of the president or our internal ombudsman. The number of concerns that are rectified there is in the 95% plus range.

Ultimately, if it gets referred to an external ombudsperson—that happens on occasion—we're supportive of that.

The Chair: Do you want to add anything, Mr. Wambolt, or has it all been said?

Mr. Scott Wambolt: It's pretty much all been said other than we think the ultimate watchdogs are our clients. If they become dissatisfied with CIBC, there are any number of competitors they can go to. We poll our clients on a very regular basis. We report back, banking centre by banking centre, what their clients are saying, and that includes verbatim comments from our clients.

The Chair: One should never make assumptions, but I assume that all these calls have the runner that tells an individual that the line is being monitored, etc., correct?

Mr. Andrew Pilkington: Absolutely. That's correct.

The Chair: Okay. Thank you.

Mr. Dusseault.

[*Translation*]

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

My thanks to the witnesses for being here. I feel this is an important time for our study on bank behaviour.

Up to this point, I have not really been reassured by your comments because you have to an extent denied that there is a problem with the culture. You repeated what the Canadian Bankers Association has said, that having sales targets contributes to the culture that places the client first. However, those who have worked in the banks have actually told us the opposite, that sales targets have resulted in clients not being a priority.

I first want to talk to the TD Bank representative because that bank was mentioned on a number of occasions in the testimonies that I have received from former employees. Some of them talked about a culture that made them feel obliged to sell products if they wanted to reach their targets. So they put their own interest or the bank's interest before the clients' interest. To reach those targets, employees were therefore sometimes obliged to do things that may or may not have been legal.

Are your employees required to go as far as falsifying documents and providing products without the clients' consent in order to achieve the targets you set for them? Do you recognize that this is a problem in your bank? Are you aware that the problem exists in your bank?

• (1615)

[*English*]

The Chair: Who wants to start?

Mr. Pilkington.

Mr. Andrew Pilkington: We, obviously, do not encourage employees to falsify documents. It is not a frequent occurrence. When it does happen and there's an example of forgery taking place, we move quickly to an investigation, and we would terminate that employee forthwith. We would never encourage any underhanded dealings and fraud like that. It's fraud. It's against our code of conduct. We're very clear about that.

When employees come into the bank, they actually all read the code of conduct, and they attest that they will follow it. That's an annual event, as well, so they have to reread the code of conduct and attest to it.

In fact, let me just read one or two sentences from our code of conduct from the piece that actually covers sales misconduct. It says:

...whenever employees are servicing customers or providing advice or recommendations, we must deal fairly with our customers. As such, we must not allow our desire to increase our performance results to come before our focus on our customers.

So, we're very clear in the code. We back that up, as I mentioned earlier, with a lot of different systems and processes to ensure that if we see any behaviour that is undesirable, that is not in keeping with customers' interests, then we act very quickly.

[Translation]

Mr. Pierre-Luc Dusseault: You ask your employees to sell more and more. Do you think that is in the clients' interests? Isn't it rather in the interests of your profits and the bank's shareholders?

[English]

Mr. Andrew Pilkington: Our sales targets are really the foundation for advice-based conversations. We're looking for our employees to help Canadians save time, save money, and make money. That's what our employees tell us they want, so we believe that having sales targets encourages our employees to have those advice-based conversations.

[Translation]

Mr. Pierre-Luc Dusseault: My question goes to Mr. McPhedran from Scotiabank.

Witnesses have told us that, when employees do not attain the sales targets set by your company, other employees are informed about it by email or their names are written on a whiteboard. Can you confirm that the practice of naming underperforming employees happens in your bank?

[English]

Mr. James McPhedran: Our goal is clear for everybody in our organization, and that's to treat our people with fairness and respect. We're in the customer business, and an engaged employee base leads to an engaged customer base. The data shows that over 90% of our people say that their manager treats them with respect.

What we've heard here is an opportunity for us to redouble our efforts to make sure people are aware of the internal channels for reporting those types of behaviours if they occur. We have feedback channels, both confidential and not, for those to be escalated. In the last couple of months, we've had 1,000 of our managers, our entire branch management base, together for a couple of days. Among the key aspects we discussed were managing, leading, and what's

appropriate. That's our way forward. Treating people with fairness and respect is absolutely core to how we operate.

• (1620)

The Chair: If the others who haven't answered have something to add, please go ahead. I want to give all the banks equal opportunity.

Mr. Wambolt, did you have anything to add other than what your colleagues said?

Mr. Scott Wambolt: The practices we've been made aware of through the media, particularly fraud and forgery, are absolutely unacceptable to CIBC. Without a doubt, such practices contravene our code of conduct, the ethical and professional standards we require our staff to live by, and anybody engaging in such activities would be terminated. Our code of conduct is clear in this regard, as are the sales best practices we share across our network with our field representatives.

The Chair: We have time for one more.

Go ahead.

[Translation]

Mr. Pierre-Luc Dusseault: I would like to ask the two other witnesses about the code of conduct.

In the last session, we were told that the bank did not consider it a priority to make that code of conduct known to its employees, that they received ongoing training, specifically about confidentiality, meaning the protection of personal information, and about the misappropriation of funds.

That's fine, but do you also provide regular training on this code of conduct, if you have one? Is it public, so that consumers can become aware of the employees' code of conduct in the bank they are doing business with?

[English]

The Chair: Mr. Wambolt.

Mr. Scott Wambolt: Every one of our employees has to take code of conduct training at least once a year and attest to doing so. There are often screen savers on our work stations that remind our staff of key elements of our code of conduct.

Mr. James McPhedran: I want to be clear on this. Adherence to our code of conduct is non-negotiable. This is understood in our organization. Our employees similarly take courses with respect to the code every year. We have six tenets in our code of conduct.

One of these demands that our employees conduct themselves honestly and with integrity. This means that as Scotiabankers we do not compromise our ethics for the sake of meeting our sales, profit, or other targets or goals. It is very clear.

The Chair: Okay.

Did you want to sum up on this point, Mr. Pilkington?

Mr. Andrew Pilkington: No, I think the member said he wanted an answer from the other two.

The Chair: All right.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair, and thank you gentlemen for being here with us today.

A lot of the questions are very much focused on the macro level of your code of conduct, what's in the bank's culture. Let's go for a second to the micro level, which is a customer walking into a bank.

I'd like to hear from all three of you. If a customer walks into the bank, and let's say he has modest savings of about \$10,000 to \$15,000—that's actually a substantial amount. Would a teller at each of your institutions, when looking at his balance, be asking the customer the question, "Have you thought of investing your money?" It's a yes-or-no question.

The Chair: Go ahead, Mr. McPhedran.

Mr. James McPhedran: Our tellers have no sales targets. The situation of that customer might lead them to encourage them to meet with our financial advisers. That's as far as it would go.

Mr. Raj Grewal: So that would be a yes?

Mr. James McPhedran: That would be a referral if they think it's in the best interests of their customer.

Mr. Raj Grewal: The only thing they would know about the best interests of the customer would be the balance itself. In this instance, the customer walks in, has a balance in his account, and the teller, according to your sales training, will recommend that customer meet with an adviser even though the customer has not asked to meet for investment or any investment advice at that point.

Mr. James McPhedran: We're in the business of engaging our customers. We're in the business of customer satisfaction. Our customer satisfaction levels right now are at all-time highs. If there's a specific—

Mr. Raj Grewal: Not to cut you off, sir, but the customer comes into the bank for a particular purpose. He completes that purpose. Is the teller trained, based on the amount of money in that customer's account, to offer him an opportunity to invest his money? It's a simple yes-or-no question.

Mr. Pilkington.

• (1625)

Mr. Andrew Pilkington: It really depends on the circumstances. I visit branches all over—

Mr. Raj Grewal: That was a hypothetical scenario. That's the circumstance.

Mr. Andrew Pilkington: Absolutely, but it does dep—

The Chair: Maybe give him a chance to answer the question.

Mr. Raj Grewal: No problem, Mr. Chair.

Mr. Andrew Pilkington: Thank you, Mr. Chair.

It does depend on the circumstances. If that customer is well known to the teller, if this is a small rural branch where all the clients and employees are very much on first-name terms, then that conversation probably wouldn't happen because they know the customer well.

If it was a newcomer to Canada who had come in and was in a busy metropolis, I would hope our people would look for

opportunities to advise the clients and at least have the conversation with them to see if there's a way they have some needs that aren't being met.

The Chair: Mr. Wambolt.

Mr. Scott Wambolt: Under the scenario you described, our tellers do not have sales targets. They're encouraged actively to get to know their clients and understand what's going on in their lives, and then to help position products and services that most appropriately meet those needs. In some cases, that would mean suggesting a client may want to make an appointment with a financial adviser. In some cases, it just means processing that client and seeing them on their way.

Mr. Raj Grewal: The issue I have is it's no secret that if you need a loan or investment advice, you can go to a bank. I don't think anybody across this country, whether that person is a newcomer, a Canadian who was born and raised here, an elderly person, or a student.... You know that if you're in need of investment advice, a student loan, or a car loan, you'll probably call your bank first.

That's why it's troubling that when customers come to a bank—they're just there to conduct their daily banking—that they're obviously bombarded with investment opportunities or opportunities they may not even know about.

The second question is this. Why do your banks and your institutions pre-approve clients who aren't asking for credit limit increases? That's a deceptive practice in itself. Why are you pre-approving people for a higher credit limit when they haven't even asked for it? What's the logic behind that at your banks? If it doesn't go to sales targets....

I'll give you an example. I walk into one of your branches, and I have a credit card with a legitimate limit. I don't need a higher limit, but I've been pre-approved. The person who brings it up to me is a teller who, in this case, I have just met for the first time. This person thinks he or she knows my financial history and profile well enough to offer me a pre-approval of a substantial increase in my credit line, my credit card, and a mortgage, by the first time I'm coming to deposit a cheque. That is very concerning.

Andrew, you mentioned that when you heard the news, you guys were shocked and awed. The funny thing is, on this side of the House, I was not shocked at all. I have friends who went through business school with me and who worked at a lot of your institutions. They all all know that if you perform, you do very well at the banks. Good for them, right? But if you don't perform, you're out really quickly.

I want to know why you guys think that pre-approvals of applications, when somebody is not coming to apply for credit, is a legitimate sales technique.

The Chair: Let's go down the line.

Mr. Pilkington.

Mr. Andrew Pilkington: I think customers have a lot of choice in Canada. It is a highly competitive market, and they can choose to borrow or invest with many different institutions, and many Canadians do. If customers want to consolidate some of their debts or their investments, I think having pre-approvals means fewer institutions to work with. That's one of the reasons why we would have pre-approvals.

The Chair: Mr. McPhedran.

Mr. James McPhedran: Yes, it's similar. Ultimately, we sit down with a customer and determine their needs. If there is a pre-approval on the file, the majority of customers would be pleased with that because they would see it as being good service.

The Chair: Mr. Wambolt.

Mr. Scott Wambolt: The overarching theme we convey to our staff is to do what's right for the client. So first of all, CSRs do not have sales targets. Our tellers do not have sales targets, and they don't make the decision on whether somebody has a credit limit increase.

In our case, it's generally based on consumer behaviour and consumer buying habits. If somebody is constantly running up at the limit of their credit card, our CSRs would be coached to ask them if they would be interested in discussing an increase in their credit line. If so, then we would process that.

Mr. Raj Grewal: One of the other things that was concerning to me in my general conversations.... The one benefit of politics is that you get to meet a lot of people. A lot of people talk to you. A lot of people in your industry talk to us, and they mention a few stories. I've heard on more than one occasion that an employee at one of the big six banks committed fraud in terms of using customers' lines of credit and putting the money back before anybody could recognize it, and then taking it from another customer and putting it back.

It was caught on a rounding error, funnily enough, probably by somebody like my grandma who knows exactly what her balance is to the penny. They noticed that a penny was missing, and that employee was caught. That is legitimately the definition of fraud in the Criminal Code of Canada.

All that happened to that employee was that he was in breach of one of your codes of conduct, and he was let go. It was never public information, and it was never reported to the authorities. Is that the standard practice when you uncover fraud in your banks?

• (1630)

The Chair: Who wants to start?

Mr. Andrew Pilkington: Let me tell you, not at all. It would depend on the circumstances, clearly, but we look very poorly at any type of fraud. Also, we would report the vast majority of fraud cases to the police, and an investigation would start.

Mr. James McPhedran: It's similar. A breach of our code, as I said, is absolutely non-negotiable in terms of how we would follow that up.

Mr. Scott Wambolt: Yes, it's similar. Fraud is absolutely something we would not stand for. If an employee were caught engaging in that behaviour, they would be terminated. If they were licensed under either MFDA or IIROC, we would inform the regulator. Also, in this instance you outlined, we would certainly

involve corporate security, who would make the decision to involve law enforcement.

Mr. Raj Grewal: My last question—

The Chair: I'm sorry. You are already beyond your last question. We have already gone over time.

We're turning to a five-minute round.

Mr. Albas.

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

Thank you to our witnesses for your testimony today.

I would like to continue on some of the discussions we've had thus far.

When Ms. Tedesco came in, I asked her specifically if she had all the powers she needed to run a full investigation. She said, "Yes", which is helpful to me. She also mentioned that each one of your CEOs had said that they would give whatever information was required so that she could do her job. I appreciate your being here so we can do ours, making sure that these agencies are doing the work they should.

I've heard that there are systems in check and that there are different levels of codes of conduct, etc., but given all those things, we still have reports—that are allegations but reports—on the news channel outlining that people have felt something is horribly wrong with their experience of your system. How can you square that, what you've told us here today about having scrupulous programs for rooting things out, with ongoing concerns where the only relief people feel is that they go to the media? I need to know why that exists.

Maybe we'll start from my left, and we'll move all the way down.

Mr. Andrew Pilkington: As I said at the beginning, when I heard the media allegations, I felt very troubled. I felt very troubled that those staff members felt the need to go to the media when we have multiple channels internally for them to go to that protect their anonymity and give them confidentiality.

As I said earlier, I went right across the country and asked people if this is the way they felt. Do they feel this pressure? Do they feel these goals? The vast majority of our employees feel that's just not the case.

We're not saying we're perfect. In fact, this is a good time for us to stop, pause, reflect, and see what else we can do to strengthen our controls so that we can absolutely mitigate the risk you're talking about.

Mr. Dan Albas: Where are you starting? You said you're going to assess and then make some decision points, hopefully sooner. What areas are you looking to improve?

Mr. Andrew Pilkington: I think the code of conduct. We've all described our various codes of conduct. Our code of conduct at TD is public. It's on the website. As I mentioned earlier, everybody reads it and tests to it every year. I think we can do more to bring it to life on a weekly and monthly basis with our front-line employees. Through coaching of the front line, whether in the phone channel or in the branches—that's an area I'm currently looking at, so we can make this a bit more front and centre for people on a daily basis.

Mr. James McPhedran: I would pick up on what we've done in light of the stories. We've redoubled our efforts on a variety of fronts. One of them deals with the internal feedback channels. We call them "pathways to resolution". We've been very vocal and communicative in that respect, so people know that the outlets that are available to them are confidential, if preferred, to tell us about these situations. We have launched global sales principles, which speak very clearly. They come from the code, but they speak more clearly to people in front-line advisory roles to, again, just make it very clear about the dos and don'ts.

I get weekly reporting now, from both our customer and our employee feedback channels on this particular topic. That is not something I had received before this.

This is an issue we take very seriously. To Andy's point, it's an opportunity for us to learn and to look at some of the areas where we may need to tune up, so that's exactly what we're doing.

•(1635)

Mr. Dan Albas: Were you getting the report monthly before or were you getting it yearly? Why the change now?

Mr. James McPhedran: I was getting monthly reporting before. If I got weekly reporting on the various things that go on in our business, there would be a lot of reports. This is one that I've given particular attention. It's on my accountability that this is set right, so I put the weekly reporting in place.

Mr. Scott Wambolt: We take the allegations and issues raised through the media very seriously. We investigate any issue that comes forward, irrespective of how it comes forward, including social media or anonymous websites or through any number of our internal means. We take it very seriously. We have a number of formal and informal ways in which we can gather information. Similar to Mr. Pilkington, we are constantly out in our banking network meeting with our employees, trying to gauge and understand issues that are real to them. Issues that have come to light in the media have never been mentioned, not to me anyways, on my tours through the banking centre network, nor do they ever flash on our internal intelligent monitoring systems.

Mr. Dan Albas: Can you list some of your formal and informal modes for getting this information? I'm particularly interested in the informal ones.

Mr. Scott Wambolt: I go to the banking centres frequently. I meet with employees and stand behind the counter with them to understand how the systems are working for them, to understand their mood, and to understand their attitudes. I often have time away from the front line with them in a meeting room or a coffee room, where I just ask them, "What's on your mind? What can we do for you?"

The Chair: Thank you all.

You're next, Ms. O'Connell.

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

Thank you all for being here.

I have some specific questions to your testimony, so it might not be all three on one question.

I'm going to start with Mr. Wambolt along the line that you just mentioned in terms of monitoring.

With all due respect, you're a senior vice-president, do you really think that when you're standing behind the tellers they're not going to act maybe a little bit differently when you're there than when you're not there? With that being the case, have you ever done any monitoring with mystery-type shoppers?

Mr. Scott Wambolt: Yes. Mystery shopping plays a big part in our program. We highlight banking centres that score at the top, from our banking centre mystery shops, on a weekly basis. It's an active program. All of the banking centres know it's happening. They don't know that it's happening to them, but they know that it's an active program. They are very excited when they score and are mentioned for excellent service.

Ms. Jennifer O'Connell: What happens when they're not performing? Companies that hire these mystery shoppers, so to speak, have to set the terms, the types of questions, and those types of things. Have you actually had mystery shoppers go into your branches based on these sales tactics?

Mr. Scott Wambolt: The mystery shopper program is based on activities that we know get us towards our goal of being a leader in the client experience as well as activities that we know will most likely lead to a favourable client experience and will help us grow our enterprise.

Ms. Jennifer O'Connell: Sorry.

My question is specific to the sales tactics. I don't have a lot of time so I need to know the specifics. Have you done mystery shopping with the specific objective to find out if tellers or other bank employees are suggesting products that are not in best interests of the customer?

•(1640)

Mr. Scott Wambolt: Absolutely. That's the point of the mystery shopper.

Ms. Jennifer O'Connell: Okay.

You mentioned something about the chain of an employee being able to make complaints, and their manager is one step. But we heard testimony that managers specifically were rewarded for their branch making sales targets with things like trips, vacations.

Does that still happen in branches? Are managers rewarded with trips?

Mr. Scott Wambolt: We have an extensive reward and recognition program that's fundamentally based on our balanced scorecard.

The dominant metric on the balanced scorecard, and the first and foremost metric on the balanced scorecard, is the client experience, doing what's right for the client. It's backed up by activities that we know most likely lead to a favourable client experience outcome as well as activities that can also help grow our enterprise.

Ms. Jennifer O'Connell: So the answer is yes. You still reward. Sales would be in there.

You talk about client experience, but we heard a lot of testimony that clients don't even realize what is being presented to them is actually a sales target or a sales tactic versus a truly good product that they need. Within that, if sales are a factor and a reward for a manager is to go on a trip, do you really think employees are going to go to that manager and say, I'm having trouble with my sales targets, therefore you might not win this awesome vacation?

Mr. Scott Wambolt: On the subject of trips, we have a number of different prizes and recognition events that our employees are eligible for right across the bank. Whether they be front-line staff or back office staff, they can be eligible for this program.

The program is based on adhering to our code of conduct, number one. It's forwarding our objective on the client experience as well as those activities that I spoke about, to forward a good client experience and as well grow the business.

In terms of an employee feeling that they may jeopardize their manager's attendance or participation in this program, our code of conduct is very clear. Our ethical and professional standards that we ask our team to live up to are very clear on this. If you feel you are being asked to do something inappropriate, tell somebody.

Ms. Jennifer O'Connell: Thank you.

Mr. Pilkington, you mentioned specifically in your testimony that TD employees don't offer specific products. I want to ask you specifically about the testimony we heard the other day. Members of the TD wealth management team, employees of TD wealth management, and apparently this is a public policy—I've asked for it to be sent to this committee so we'll know if it's public or not—two years ago were told they had to produce a minimum of \$2,000 a day in fees and commissions or their pay would be cut.

Is that true?

Mr. Andrew Pilkington: I don't have the exact details of that. What I do know is that wealth is a very much a growing business at TD.

We're hiring lots of people. Clearly we want to make sure the compensation is right. The people who we hire who come in and are capable of having those long-term client relationships, which are advantageous for the client because it generates wealth for the client

Ms. Jennifer O'Connell: Sorry.

Mr. Andrew Pilkington: —will do better.

Ms. Jennifer O'Connell: Sorry, but my question was on fees and commissions.

Fees and commissions don't drive wealth for clients.

Is it true that—at least two years ago—salaries were based on a target of fees and commissions, not on how well the portfolio is doing for your client but \$2,000 a day for fees and commissions?

Mr. Andrew Pilkington: That's not my area of expertise, or where I work. But I will absolutely go away and get you the answer to that.

Ms. Jennifer O'Connell: I'd appreciate that because it would—

The Chair: We'll leave you there, Jennifer.

We're over time on your time. We may get a crack later.

Mr. Pilkington, if you could forward us that information, the committee would appreciate it.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you. I really don't have a lot of questions, only a couple of comments for clarification. I believe my colleague might have another question or two.

First of all, when we started this study I suspected we would see exactly what has happened. We have testimony by employees or former employees saying one thing and we have testimony from the employer saying pretty much exactly the opposite. I suspect that when we have our other three witnesses, it won't change very much.

One of the things that concerns me is that this committee does not have the investigative powers, and we had the FCAC before us earlier. I'm glad to hear that is an extensive undertaking, because I suspect it's not in anybody's interest to have these rumours continuing to swirl around. I'm happy to see that.

The other thing that I think is difficult to interpret is at what level does upselling take place within the banks. I think that's where some of the confusion might come in. I'll give you a good example. We made a study earlier on so-called tax havens. Consistently throughout that discussion, the phrase “tax evasion” was interchanged with “tax avoidance”. They are two entirely different things. Tax evasion is illegal and tax avoidance is not illegal.

It seems to me that in the banking business, upselling product—and you can call it what you want and the employees can call it what they want—in essence is part of the bank's business. It is to assist in making the customer more wealthy or doing what is good for the customer. I think part of the problem is where some of this is taking place.

I just want to get clarity from each one of you. I think I heard it right. Upselling does not take place at the teller level. Can you confirm that?

• (1645)

Mr. Scott Wambolt: Our CSRs do not have sales targets. If a CSR is prompted with something based on what the client has disclosed, or the client's purchasing behaviour, or through analytics, they are encouraged to understand what's going on in that client's life and match a need that becomes clear through discussion with the client, and match it with a product and service.

Mr. Ron Liepert: Give me an example of what that would be.

Mr. Scott Wambolt: A client comes into one of the banking centres, is speaking with one of our CSRs, and is a parent, let's say. He says, "We've just had another child and I'm saving up for my child's education". The CSR might feel it appropriate to say, "Would you like to meet with somebody qualified to give you investment advice to make sure that you're saving appropriately for your child's education?"

The Chair: Mr. McPhedran.

Mr. James McPhedran: No sales goals on a teller's scorecard, no cross-sell whatsoever.

The Chair: Mr. Pilkington.

Mr. Andrew Pilkington: We don't ask our front lines to upsell, but we do ask them to seek advice opportunities. You asked for an example. I can give you an example where often a customer will come into our branch and say to a teller, "I find it really hard to save. I just can't seem to save."

There's a couple of products out there. One of them is called "Simply save" whereby a teller can quickly enrol the customer into a product whereby every time they use their debit card, they actually save a small amount of money that will go to a savings account. Or there's a pre-authorized approach where they may say, "Put \$10 or \$20 a week, whatever, into a savings account."

Those are some examples of the advice-based conversations that we look for people to have, for the customer's good.

Mr. Ron Liepert: Okay, I'll leave it there. I think Dan might have a question.

The Chair: Go ahead, Dan, you have over a minute.

Mr. Dan Albas: We've talked a little bit about the ombudsperson or ombudsman, depending on which bank you're working at. My understanding is that the FCAC can receive a report from the ombudsman if there's an issue, or systemically where there seem to be a lot of complaints from a single bank. Do you feel that the current arrangement right now is sufficient? Some people have suggested that perhaps having an independent person or someone who isn't necessarily hired directly by the bank—just to create that arm's-length—acting on those complaints, might increase governance. What are your thoughts?

Mr. Scott Wambolt: There is an independent industry ombuds office. I think—

Mr. Dan Albas: I'm speaking about the one who works within your bank as the first line.

Mr. Scott Wambolt: Right, and we are pleased with the performance of our ombuds office. I think we make all of our clients and employees aware that it's available for them. It's easily findable on our website. It seems to be working fine.

I think we live in a very well-regulated industry. I think that in some respects we're the envy of the globe in terms of how our financial system has performed recently, and I think that goes to the credit of our regulators.

• (1650)

The Chair: Go ahead, Mr. McPhedran.

Mr. James McPhedran: The process to handle complaints I believe is effective. There are mechanisms within the bank to

escalate if that's.... As I said before, the majority of cases are rectified in that manner, but there's also an opportunity to escalate beyond the bank if a client so chooses.

Mr. Andrew Pilkington: Yes, if we're looking to save time, I'll just say that we have the same sort of process as my competitor here. We have a number of levels, and if the customer is not satisfied, it will eventually go to an independent arbiter, who will give a decision. We'll abide by those decisions in good faith every time.

The Chair: Thanks to all of you.

Mr. Sorbara.

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

Welcome, everyone.

This past weekend when I was back home in the riding, I had to go to the bank to pick up a new credit card, because I had lost one. It was a TD card. I picked up this pamphlet called "Coercive Tied Selling" that was right at the front counter. I was kind of surprised that it was there, and I was actually happy that it was there. It relates to section 459.1 of the Bank Act and what people can't do in terms of tied selling. I was happy to see that it was there and available for all the customers when they go to the counter to make an appointment—not to the teller but to the counter. I applaud that. It was interesting to see.

I understand the way a bank works. I worked at one for many years. I understand that there are tens of thousands of Canadians who work in banks. Their livelihoods depend on them, and for the most part, they do a bang-up job. Your customer service satisfaction surveys show that, but obviously a number of employees have gone to what's called "Go Public" and have communicated that they feel they're being pressured to meet sales targets.

On top of that, the FCAC, on March 15, announced that they would begin a wholesale review of business practices by the banks. I'm glad to hear you're co-operating as they do so. As a committee, I think we will look forward to seeing that report when it's issued.

Has the culture changed in the institutions in a non-written manner so that maybe customers sometimes don't know that they're getting a credit-line increase? Maybe that's not being communicated for a non-teller type of person in order to meet certain targets and so forth. Has that culture changed?

Also, with that, are there sufficient checks and balances—because that's what it comes down to—so that people are being rewarded, yes, but not at the expense of customers taking on undue credit risks and increased secured or unsecured debt? We need to ensure that. We need to ensure a safe and sound banking system, which we have in Canada. We came out of the global crisis unscathed, if I can say that, and we need to maintain those high levels of satisfaction with service.

So there's the culture and whether the checks and balances are sufficient. Let's go across the panel, please.

Mr. Scott Wambolt: Our culture is very clear on the tone that we're trying to establish, and that is really to put the client first, to do what's right for the client in every instance. The message could not be clearer from our CEO on down through the organization that it's about doing what's right for the client first. That's reinforced in our balanced scorecard, which is the primary directional aid that our employees look to in order to understand how they are doing relative to the expectations of the organization.

There are a number of checks and balances in place in the system to make sure that if an employee or a customer feels that something inappropriate has happened, they can raise the issue through a number of different channels, including completely confidential channels.

Mr. James McPhedran: Similarly, I would say that in the last three years or so our aggressive shift to a more intense focus on customer focus has been clearly communicated through our network. Our people love it. They love this empowerment to look after customer needs. It's very clear, as is our code.

In terms of the checks and balances, our framework is sound. I think any sound framework has diversity to it, so it has checks and balances at the local level, the national level, and through customer feedback loops.

That said, we're hearing stories, so it's an opportunity for us to reconfirm and to see what we can do even better, and that's exactly what we're doing.

• (1655)

Mr. Andrew Pilkington: Thank you.

We're always developing our culture. The world around us is changing pretty quickly, but one common thread for decades now at TD has been the customer. The customer is at the centre of everything we do. An example would be the number of hours we're open. We're a very customer-centric organization.

Our CEO and the senior leadership team over the last year have developed a new framework for what we are calling shared commitments and have shared it with the entire bank. It has five key foundations. The number one foundation is "think like a customer", so that's very much a part of the fabric of what we do at TD.

From a checks and balances perspective, you've heard a lot about the checks and balances we have across all three banks. We think we have very robust processes here, but we're not being complacent, and we're not saying we're perfect. I think there's an opportunity now to look, as I mentioned earlier, to tighten up, and to make the appropriate tweaks and adjustments so that we make it even stronger.

Mr. Francesco Sorbara: Can I—?

The Chair: We're quite over your time, Francesco.

We'll go to Mr. Dusseault for a couple of quick questions.

[*Translation*]

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

I would like to go back to the issue of sales targets which, in my opinion, are more in the shareholders' interests than the clients'. In

your respective banks, have employees been fired because of their poor sales performance?

[*English*]

Mr. Andrew Pilkington: I'll answer that question first.

We would never put an employee on a disciplinary procedure just for failure to hit a sales target. We don't do that.

Mr. James McPhedran: Similarly, our targets are balanced, and the way we look at employee feedback is balanced as well.

Mr. Scott Wambolt: It's similar for us too. Any decision to terminate an employee would be taken very carefully, and we would consider it very thoroughly. Sales targets would not be the sole reason an employee is ever terminated.

[*Translation*]

Mr. Pierre-Luc Dusseault: I hear what you are saying, but although it may not be the main reason, testimony shows that employees have been pushed out or that other reasons for terminating their employment have been given.

My next question, which is also about sales targets, goes to each of you. If you were an advisor at the bank and you could offer a client two options, one that would be very profitable to you personally, that would allow you to earn money, a trip or something, and the other that would bring you nothing, but that would be better for the client, which would you choose?

[*English*]

Mr. Andrew Pilkington: That's a very easy question to answer: it's the one that's better for our client, every time.

Mr. James McPhedran: Ditto. Our client satisfaction levels are at the highest they've ever been, and that's for doing that very thing.

Mr. Scott Wambolt: Yes, I have a similar answer. We are dedicated to doing what's right for the client. Our senior leadership, including our CEO, said that it's all about doing what's right for the client. If that means you don't hit your targets, that would not be our preferred outcome, but if it happens, we're okay with that. Do what's right for the client first.

The Chair: Thank you all.

We will go five minutes in the second round, because we were 10 minutes late starting.

I understand Ms. O'Connell and Mr. Grewal are going to split a question.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Mr. McPhedran, you almost got away from me, but I have one question for you, and then Mr. Grewal's going to ask a question.

You mentioned in your testimony that your employees would develop a financial strategy. However, we know and we've heard testimony to the effect that there's a big difference sometimes in terms and in languages. For example, an advisor spelled with an "o" and an adviser spelled with an "e" have very different requirements. When employees at Scotiabank are developing a financial strategy, you've said that the client's satisfaction is number one, but when we know that practices are happening with advisors with an "o" and advisers with an "e", how do you ensure that it's actually in the best interests of the client and not, even if it's not a sales target, in the interests of whatever product Scotiabank wants to sell at the time?

• (1700)

Mr. James McPhedran: I have a couple things on that.

We take regulation very seriously. All of our people are licensed appropriately for what they sell.

Our customer experience model is based first and foremost on discovering the needs of a customer. There is a four-step process through that model, but first and foremost are the needs of the customer.

Our people have no product-specific targets, so it's not in their interest to pursue a product sale of any kind.

Ms. Jennifer O'Connell: Thank you.

The Chair: Mr. Grewal.

Mr. Raj Grewal: Thank you, Mr. Chair.

I just want to go back. All three of you mentioned that it's the client first, and not profits. The problem is that you are in the business of making money. Again, we're not making the banks a target here. We're very much just trying to protect Canadians.

There's a cross-section in which the clients' interests, at some point, do not meet the banks' interests, because the banks are trying to make as much money as they possibly can. That's their right, but it sometimes comes at the expense of giving sound, adequate advice to a client.

My question is this. In terms of the upselling that may or may not occur at a teller, are your tellers regulated? Do they have an education? Are there courses that they take, like the Canadian securities course, before they make any comment on investment decisions, even if it's a referral?

I'm asking all three of you.

Mr. James McPhedran: You began the question with a profit objective. The surest way to achieve business success is through the success of your customers, and that's exactly how our people are focused.

In terms of tellers, tellers have no product-specific goals. Hence, anything that they do in terms of a referral, as you discussed, is just that. It's a referral to have a discussion, but no sale goes through a teller.

Mr. Scott Wambolt: Similarly, our tellers do not offer financial advice with regard to investing. Any of our advisors with an "o" in our retail network who are offering financial advice are licensed under MFDA or IIROC to do so, but our CSRs do not offer financial

advice in terms of how a client should or should not invest their money.

Mr. Andrew Pilkington: Our CSRs wouldn't offer investment advice.

To your question about when they refer, they are trained extensively when they join the bank on when it is the appropriate time and opportunity to make a referral and when it's not. They go through extensive training before they actually go out onto the front line.

Mr. Raj Grewal: Yes, but in your case, Andrew, there actually are sales targets for CSRs.

Suppose an individual comes into the bank, as in my example before, and a CSR says to himself, "Oh, wow, this guy is pretty wealthy. I should refer him to an investment adviser, a mortgage representative, or a credit application, and so forth, because that's going to help me achieve my sales target." That would take place at TD, right?

Mr. Andrew Pilkington: There will be times when the tellers will actually refer customers to investment advisers or wealth advisers when they see that the advice opportunity is there, and often it's actually driven by the customer. The customers themselves will say, "I think I need help".

Mr. Raj Grewal: The issue I have with that is this, and it's plain and simple. Certain people who come into your bank don't want investment advice and are not comfortable with their own financial literacy. They will actually think that the banks have very smart people. They may get the advice from somebody that they should meet a certain individual who will help them and give them investment advice, and because they trust the bank so much, they're lured into these investments that may not be in their best interest in the first place.

The issue is why a teller is making a referral, even if they're not giving investment advice and even if the referral is made off a corporate or a client profile. In 2017, if somebody wants to make an investment, I'm sure they can figure out how to make that investment.

There should almost be a Chinese wall at a bank to say that if a client asks for investment advice, the teller would refer them directly when asked, but it shouldn't be the other way, as in, "Oh, I see that you have x number of dollars in your bank account. Maybe you should speak to a financial adviser."

I think that's why you guys had the issues with the sales practices in the first place. It's because in order for the CSRs at the ground level in your banks to make their bonuses, in order to be promoted, in order to become branch managers and eventually to appear before this committee as executive or senior vice-presidents, they have to sell an immense amount at the CSR level. That's the issue we're having here—

• (1705)

The Chair: I have to cut you there.

Do any of the three want to respond to that comment?

Mr. Andrew Pilkington: I will respond. There were a lot of comments there.

One of them was that everybody in 2017 should feel comfortable around making investments. We know; we've surveyed 13,000 Canadians, and the survey shows that 79% of Canadians don't feel confident in their financial future, so they're actually looking for help.

What we train our tellers and all of our employees to do when they see the opportunity for advice is to actually help customers and refer them to an expert. The customer doesn't have to go with that referral. The customer doesn't have to take the expert's advice, but we feel it's part of our duty to our customers to actually help them with their finances, to help them save time, save money, and make money.

The Chair: Is there anyone else?

Mr. James McPhedran: Advice is actually a good thing. Some of our most engaged customers have received our advice, and it's helped them, and it has benefited their lives, so advice is a good thing that we provide.

The Chair: I do have one question that really relates to the hearing itself. To a certain extent, we're holding this hearing into bank practices because of the media story. I think all of us have gotten quite a number of calls, so there is some dissatisfaction out there. One of the difficulties for us is that sometimes it can be an "I said, you said" kind of thing. We understand that.

I think we have 20-some submissions that have come in, which are in translation and we haven't actually seen yet. There is a concern, and I guess from my point of view—and I think probably from yours as well—oversight is important to give confidence to the public that bank practices are appropriate, whether we're talking about provincial and federal labour standards or practices surrounding pressured selling and investments, etc.

Are you folks saying that the oversight is adequate at the moment? Is it too much? Is it too little? Where do you stand on that? At the end of the day, we're going to have to express an opinion or a recommendation either for more oversight or that things are all right, or that maybe there should be a stronger ombudsman. I'm sure you would agree that if the Canadian public is confident that oversight is appropriate, it's good for you and for us too.

Do you have any thoughts on that?

Mr. James McPhedran: I'll begin.

It's important for you to know that we believe in strong regulation, and regardless of who the regulator is that we're working with, that's something we take very seriously. We think the best thing we can do is to have our house in order in a way that abides by that regulation, such that as the oversight occurs, it's reconfirming as opposed to anything else.

I would say that the FCAC and OSFI are doing a very thorough review right now, and we welcome that review. The findings will come, and I think we'll be able to act on those findings.

The Chair: With that, thank you very much for your testimony. We'll suspend for a couple of minutes while the next witnesses come forward.

The meeting is suspended.

- _____ (Pause) _____
-
- (1710)

The Chair: We'll reconvene, and I'll call the meeting to order. We'll have to ask the media or the cameras to depart, please.

We are doing a study on consumer protection and oversight in relation to the schedule I banks. We have with us in the second session three of the schedule I banks: BMO Financial Group, National Bank of Canada, and the Royal Bank of Canada.

We will start with you, Mr. Dudtschak from the Royal Bank. The floor is yours.

- (1715)

Mr. Kirk Dudtschak (Executive Vice-President, Personal and Commercial Banking, Royal Bank of Canada): Thank you, Mr. Chair.

Good afternoon, everyone. My name is Kirk Dudtschak. I'm the executive vice-president of regional banking for RBC. I am responsible for almost 25,000 front-line retail and commercial banking employees who live and work in more than 1,200 communities across this country.

Many Canadians know RBC as their local bank as well as a strong business leader, and a company that has existed for almost as long as Canada itself. We are recognized for the quality of our advice and solutions, for being a respected employer, a champion of diversity and innovation, and for our commitment to this country's youth and future prosperity.

Most recently, we were honoured by the fact that our employees and clients have enabled us to be acknowledged for the third time as global retail bank of the year by Retail Banker International. While we're proud of these accomplishments, we do not take them for granted, nor the role we play in this country and in the lives of our employees and our clients.

It's why we constantly listen to them, and use their experiences and feedback to ensure we continue to deliver the advice and service Canadians expect and deserve from us. Therefore, we welcome this hearing to share what we believe and how we operate, and most importantly, to learn if there's an opportunity to do more.

We operate with the fundamental belief that how we achieve results is as important as what we achieve. We could not sustain leading employee satisfaction where 95% of our employees say they're proud to work for RBC and support our values, and generate leading client loyalty results if we didn't work hard every day to make sure that belief is a reality.

We were disheartened to hear reports characterizing our working environment in a way that is not consistent with our culture or our values, with how we do business, or the experience we want to create for our employees, and the experience we want to create for our clients. We deliver advice, solutions, and services to more than 12 million Canadian clients every day, and we need to deliver it with the highest accuracy in a way that not only continually meets but exceeds our clients' expectations.

Of the 2.4 million accounts that we opened within regional banking in 2016, fewer than 0.05% of clients escalated a concern about the way their account was opened. Regardless, we take every client interaction and concern seriously. Clients can raise their concerns with the manager, or online or through our independent client care teams, our regular client surveys, and by contacting the RBC ombudsman. If clients still are not satisfied, they are able to turn to an external ombudsman as well.

We place the same attention and focus on our employees. We listen to them through their managers and their leaders, through our human resources channels and advisers and our confidential employee ombudsman, and through our annual employee opinion survey where we hear from more than 90% of our employees every year.

We invest in embedding our culture and our values, including our values of client first and our values of integrity. They are embedded in our annual code of conduct certification, a requirement for every employee, and in our performance and ongoing awareness programs so we foster the right behaviours and the right activities, one that places clients' interests at the centre of all we do.

We also create a respectful work environment where employees are encouraged to speak up, to seek guidance and clarity, and be assured that they will be supported in doing the right things. As I said, we listen to and learn from our employees and our clients, and we investigate and take action where we need to in order to preserve the trust our employees and clients place in us. Preserving that trust is foundational to how we do business as a company, and we believe it's foundational to how we succeed.

Thank you for your attention, and I would be pleased to answer questions from the committee.

The Vice-Chair (Mr. Ron Liepert): Thank you, sir.

Ms. Blanchet, from the National Bank of Canada.

Ms. Lucie Blanchet (Senior Vice-President, Distribution, Solutions and Processes Retail Banking, National Bank of Canada): Mr. Chair, honourable members of the committee, thank you for having me today.

[Translation]

My name is Lucie Blanchet. I am Senior Vice-President, Strategy, Distribution, Solutions and Processes Retail Banking at the National Bank of Canada.

First, I'd like to say that we have carefully followed the events of the past few months in this country and elsewhere, the events that led up to today's testimony. We are sensitive to the thoughts that have been expressed. Our business model is based on trust established over time with our clients, and it must be renewed continuously.

Very briefly, in the next few minutes I would like to introduce you to the activities of the National Bank and the context it works in, the importance we give to the balance among stakeholders for the success of the Bank, and finally the primordial importance we place on ethics and integrity in our operations.

The National Bank was founded in 1859 in Quebec, and it offers integrated banking services to more than 2.3 million individual

clients, and some 130,000 corporate clients. It manages assets of \$239 billion. The National Bank has 445 branches and more than 100 stock brokerages.

Geographically, we conduct our activities mainly in Quebec, New Brunswick and Ontario. We also have a presence in certain other metropolitan centres in Canada, such as Winnipeg, Calgary and Vancouver.

The bank provides leadership in several areas, such as agriculture, technology, energy, real estate, health and government financing.

The bank is an important employer and provides work to more than 21,000 employees. Last year it was nominated for the 12th time as an employer of choice.

The bank is an active player in all of the communities where it is present. Last year it contributed over \$25 million to various Canadian organizations. The National Bank's activities are conducted mainly in Canada, where 95% of its revenues are held.

Our enterprise evolves in a business context undergoing profound transformation. Our clients want to interact with us in a personalized way using the method of their choice at a time that suits them. Our ambition is to offer a distinctive experience based on accessibility, simplicity and the proactivity of our solutions. In order to do so, we have to continue to adapt and perfect the necessary agility to meet their expectations.

Our organizational culture is based on three pillars: balance amongst stakeholders, respect for our corporate values, and sound risk management. Reaching a balance among stakeholders is an omnipresent goal in our organization. This is directly reflected in our performance management framework. These stakeholders are our clients, our employees, our shareholders, our community and our regulatory tools. The balance among each of these parts allows us to assure the sustainability of our organization in the short, medium and long terms. This message is rigorously communicated to all levels of the enterprise.

We attach a great deal of importance to respecting our values: a client-centered approach, rigour, accountability and collaboration, in order to create a stimulating work environment for our employees. Risk management is also at the heart of our operations and it is an inherent part of our corporate culture.

Finally, ethics and integrity are crucial to our capacity to ensure the success of the bank and its long-term survival. As a frame of reference for our employees, they are the basis for the trust placed in our institution. All of our employees, from the moment they are hired, adhere to our code of ethics. This code specifies what is expected from each of our employees, our managers, and our administrators in the performance of their duties.

The bank has several mechanisms in place to allow clients and employees to report any ethical breach or undue pressure. Among the mechanisms in place for our employees are the managers of our different services, human resources, the compliance sector, the employee ombudsman, as well as an annual survey on our work environment.

• (1720)

For their part, our clients can count on the employees in all of our points of service, social networks, the client ombudsman, and several client satisfaction surveys to express any dissatisfaction or discomfort. These practices allow us to maintain a stimulating work environment and ensure a dialogue based on trust with our employees and clients. We are always open to suggestions on ways we might improve.

To conclude, we are sensitive to the circumstances that have led to today's discussion. The organizational culture of the National Bank is based on the balance among our shareholders, our values and the sound management of risk. That is the culture that will continue to frame the governance of our enterprise, our human resource practices, all of our operations, and the daily activities of our employees.

Mr. Chair, I would be pleased to answer questions.

• (1725)

[English]

The Vice-Chair (Mr. Ron Liepert): Thank you so much.

Next is Mr. Auerbach with BMO.

Mr. Andrew Auerbach (Executive Vice-President and Head of Distribution, Canadian Personal and Commercial Banking, BMO Financial Group): Good afternoon, Mr. Chairman. My name is Andrew Auerbach. I'm responsible for distribution in our personal and commercial business in Canada, so that would be the 940 branches in Canada as well as our commercial bank, and the 12,000 employees on our teams. I'm pleased to join my counterparts at today's hearing and to provide BMO's perspective and experience on the issue of sales practices. What we've all heard in recent news reports is disappointing. We do take this matter very seriously. The issues expressed are not consistent with our approach of delivering a great customer experience. We strongly believe that our practices are oriented towards helping our customers.

BMO's vision is to be the bank that defines great customer experience. We pursue this vision by focusing on building and strengthening our long-term relationship with each of our customers. Fundamental to these relationships is listening closely to our customers, making sure that we understand their needs, and that we see things from their perspective so that we can help them manage their financial needs now and in the future. Frankly, we can't do that if we are selling products and services that our customers don't need. That's not the right thing for our customers, and it's not the right thing for our employees. Instead we believe that we're in the business of helping our customers choose products and services. The question of whether a product or a service is right is measured not by a sales goal but by our promise that we're here to help.

At BMO we know that the only way to deliver on customer promise is by ensuring that our employees are fully engaged and motivated. We are people first and bankers second. We strive to put others first through listening and understanding one another's perspectives. We ensure that our employees have the knowledge, the skills, and the support required to deliver a great customer experience. It is also important, though, to have a robust set of measures and governance in place to make sure that what we believe

is happening in our customer interactions is, in fact, happening. To that end, we have created a culture that is anchored on our customer experience vision and that reinforces that we must always do the right thing. Our employee goals and how we evaluate performance are balanced between the "what" and the "how": what we are trying to achieve and how we achieve our goals by ensuring that our approach is always focused on our customer and their unique needs. This approach to goal setting is also reflected in a number of criteria including customer experience, risk management, demonstrating our values, and, of course, performance.

We have systems and monitoring in place to ensure that our sales are driven by customer need and usage. We have a defined process for customers to raise and escalate concerns including the involvement of independent bodies. Each concern is investigated and actioned. We also have audits and reviews of our policies and our processes to ensure that we have the proper integrity of our practices in place. The rigour with which we safeguard our policies and our processes reinforces our confidence in the integrity of BMO's practices. As well, we have fostered a culture in which we are all protected from retaliation. Everyone at BMO can voice concerns without fear. Most importantly, we continuously invest in our employees to ensure that they have the knowledge and the skills to help them help our customers.

Mr. Chairman, BMO welcomes the opportunity to be part of this discussion, and I look forward to answering your questions.

Thank you.

The Chair: Thank you, Mr. Auerbach.

Starting with Mr. Ouellette, we will have a seven-minute round.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, all of you, for coming here today. I really appreciate the opportunity to ask a few questions.

Mr. Dudtschak, I would like to just focus on the RBC for the next seven minutes, so the others can relax.

You mentioned that 0.05% of cases were escalated. I was wondering how many of those cases, when you do reporting, are reported to regulators?

• (1730)

Mr. Kirk Dudtschak: Those are cases within RBC. The 0.05%, which is roughly 650 cases on the 2.4 million, are ones that we report internally. There are other reporting mechanisms when a client escalates a concern beyond, let's say, an adviser or a manager, or they escalate a concern past our independent client care group to the ombudsman, and then off to the independent ombudsman. I will share with you those statistics.

Our ombudsman last year—so these are cases that got beyond our client care team—had 817 cases last year that were new and 735 were closed. Those cases are consistent with what we would have had in recent years.

From that to the external and independent ombudsman, there were 69 cases in 2015 and 77 in 2016.

Mr. Robert-Falcon Ouellette: Is it appropriate to not report every case to a regulator? We could get a better feel for what's going on in the marketplace and if there's metadata going on, we could follow it more closely instead of just what is reported. It's not to hold the banks—

Mr. Kirk Dudtschak: No, for sure. Our records are available to all of our regulators, the FCAC and OSFI. Where there are serious issues or breaches, we do report them onward to the MFDA or IIROC, if it's a regulated employee. We are currently in the midst of a review with FCAC and OSFI, and we're open to working with them and making improvements.

Mr. Robert-Falcon Ouellette: I was just wondering if you could talk about evaluations of employees. We heard from other banks previously that sales are not the only component. Could describe very quickly the other components that go into the evaluation of an employee?

Mr. Kirk Dudtschak: Yes, there's the ultimate job description of the employee that clearly articulates their mandate, their code of responsibilities, and their job descriptions. It also includes a listing of skills and proficiencies they need to have and to demonstrate so that they can provide service and advice to clients on their area of responsibility. Those are the things that generally, for a branch employee or a call centre employee, would drive their base salary and their merit improvements.

When it comes time for the annual bonus amount, which is in the range, for an average branch employee, of 8% to 10% of their total compensation, their total reward, there are really three components that we look to there. There are things that I would describe as client experience activities and behaviours, which ultimately create a better client experience: the number of clients you connect with, the tools you use to deliver advice objectively to that client, and verbatim feedback we might get on that adviser from clients. Then we go to client loyalty and then to business outcomes.

Mr. Robert-Falcon Ouellette: Client loyalty and business outcomes.

I was wondering if, in the call centres, you do sales coaching weekly with your employees?

Mr. Kirk Dudtschak: Yes. There are two levels of coaching that occur. One is through the direct leader or manager, and then the other is through listening to calls and coaches who provide regular training. Those coaches are working day in and day out providing lessons and coaching to our call centre employees.

Mr. Robert-Falcon Ouellette: It's important to create a culture, so if you're doing sales coaching all the time, it does create a certain culture where all of a sudden you gear an employee, you condition them—behaviourism—towards sales being important, and you emphasize that over and over again.

What happens if there's an employee who has a complaint and doesn't feel comfortable with the sales practices that are asked of them? How would they go about, then, making a complaint to someone?

Mr. Kirk Dudtschak: I will respond and react to your first reference. The coaching is in relation to the client experience, the way we uncover customer needs, the way we address customer needs, and business outcomes are an outcome of that.

There are a variety of ways that employees can raise concerns. They can raise concerns with their manager. They can raise concern online. They can call our employee relations group and reach out to them for advice and counsel. They can speak to the manager's leader. Then there are whistle-blowing or different hotlines that our employees can reach out to in order to raise concerns if they're not comfortable with any part of our business, including our goals and objectives.

• (1735)

Mr. Robert-Falcon Ouellette: How many complaints do you then get through the hotline and those other mechanisms? Sometimes when people are employees of some system, it takes an awful lot of courage to complain about something or to find a culture of acceptance. They often want to keep their heads down, be the round peg in the round hole, and not disturb the water, because they'd like to keep their jobs. If they become a disturbance, they often end up with lower performance evaluation reports and they're out the door.

Do you have statistics on any of those things?

Mr. Kirk Dudtschak: I do not have with me today the exact numbers of calls into our employee relations centre. I would be happy to get those. We do keep track of the calls from employees and managers into our employee relations centre and investigate those calls fully.

I would also put forward that our best source of employee feedback is our managers and our regional leaders, who are also accountable for our code of practice, our conduct, the kind of client experience we're trying to create, and for building our employee skills and capabilities.

We listen actively not just to our employees, but also to our leaders, to understand where there are cracks or opportunities for improvement.

Mr. Robert-Falcon Ouellette: In some of your call centres, there are, for instance, a large number of employees. Do you actually have an HR person on staff in each place?

Mr. Kirk Dudtschak: Yes.

Mr. Robert-Falcon Ouellette: I've actually heard from people working for the RBC in these call centres that in fact there isn't someone in. There's only a phone line. They didn't have really anything, and they didn't even conduct annual reviews with some of the employees about their performance; it was just talk about sales, sales, sales.

You're saying one thing, and I'm hearing another thing from the employees. I wonder, because sometimes things don't always go up to the top. How can you describe that discrepancy in terms of what's going on?

Mr. Kirk Dudtschak: As I referenced earlier, there are coaches and leaders in all our advice centres or call centres who actively listen to our employees.

From a human resources perspective, there are a variety of channels where they can call. Our employees anywhere in the country, whether they're in a branch or a call centre, can call the employee relations centre for support.

Mr. Robert-Falcon Ouellette: I have a very short question.

The Chair: Yes, a short question.

Mr. Robert-Falcon Ouellette: Can you provide this committee with actual performance evaluation tools that you use to see how each of the banks evaluates employees? In the military we have a point system that we use for promotion, that is merit based in how we go about establishing it. I would love to see what the banks do.

You can submit it perhaps in confidence to the committee. I'm not sure how that would work, but I think it would be appropriate for us, to gain a better understanding of how you go about evaluating employees and to see the weighting in terms of promotions and how those come about, to see how people move forward in the organization.

Mr. Kirk Dudtschak: Okay.

The Chair: Is that possible for the banks to do, in a way that doesn't compromise their commercial interests?

Mr. Kirk Dudtschak: Whatever you require, we're happy to provide.

The Chair: Okay. If the banks could then provide that information to the clerk, it would be helpful.

Robert, you had an earlier question as well in which you asked for information. Do you want that too?

Mr. Robert-Falcon Ouellette: Yes, please.

Mr. Kirk Dudtschak: There's also the FCAC and OSFI review under way. It is comprehensive, as was referenced earlier. All these materials, as well as the ongoing monitoring practices and calibration practices for these programs, are being reviewed as part of that.

The Chair: Thank you both.

Mr. Deltell.

Mr. Gérard Deltell: Thank you, Mr. Chair.

Madame, Messieurs, welcome to your House of Commons.

Gentlemen, don't take it personally, but I will ask my question to Madame Blanchet.

[*Translation*]

We are going to have the pleasure of speaking French together.

Can you hear me clearly?

Mrs. Lucie Blanchet: Could you speak a little louder?

Mr. Gérard Deltell: Yes; once again I'm going to have to repeat what I said last week. You know, in the House, I am so modest and reserved that my voice does not carry. So I'm going to speak a little louder.

Mrs. Blanchet, as a director and key person at the National Bank, you are aware that there have been some very critical news reports about the Canadian banking world. You will also know that this parliamentary committee has over the past few weeks heard some very alarming testimony. People have said that today, a great deal of pressure is still being exerted on bank employees to sell financial products, even if this puts people in a dangerous financial situation.

First, I would like you to tell us why in your opinion banking services are not like other services. A shoe salesman, for instance,

has to sell as many shoes as possible, but people who work in your business should not be engaging in high-pressure sales.

• (1740)

Mrs. Lucie Blanchet: In fact, according to our client-oriented approach, we work first and foremost in the interest of our client. We explore his or her needs in order to propose the most pertinent solutions. Our clients ask us to be proactive and to anticipate their needs, to be relevant in all of our interactions with them, and that is why we focus our efforts on those interactions.

Mr. Gérard Deltell: You have internal audit services. We were told earlier that all banking institutions record conversations between employees and clients. Is that also the case at the National Bank?

Mrs. Lucie Blanchet: Yes, all of the conversations in our call centres are recorded. In certain situations the client can also have access to those recordings at his request.

Mr. Gérard Deltell: Good. So those recordings can be listened to. In fact, people do listen to them, but they are part of your enterprise and that is done in order to train your employees and to ensure that everything is done according to the rules. Is that correct?

Mrs. Lucie Blanchet: Yes. We do use the recordings of calls to train our employees and get them to improve the relevance of the conversations. However, we have several internal sectors at the Bank that are independent, such as the internal audit sectors, that report directly to the president and the board of directors. We also use those mechanisms to ensure that we have what we call “a third line of defence”, and a good understanding of situations that might arise.

Mr. Gérard Deltell: And are these people on the third line of defence, as you said, employees of the National Bank? Are they employees of the National Bank, paid by the National Bank?

Mrs. Lucie Blanchet: Yes, the people on the third line of defence are employees of the National Bank. It is important to note that these sectors are independent. As I said, internal audit reports directly to the board of directors. We also have a client ombudsman and an employee ombudsman. We have both. They also are independent.

Mr. Gérard Deltell: Do you think that if this third line were truly independent—that is if the employees' salaries were not paid by the bank, the employer—this would allow them to have more autonomy, and greater moral authority?

Mrs. Lucie Blanchet: As I mentioned in my opening statement, the sound management of risk is an inherent part of our corporate culture, and it is deeply rooted in our organization. We take this very seriously and we work in close cooperation with all of our internal independent sectors to constantly improve our practices.

Mr. Gérard Deltell: I see. More specifically, would you prefer that these third line employees not be employees of the National Bank?

Mrs. Lucie Blanchet: I would say no.

Mr. Gérard Deltell: Why?

Mrs. Lucie Blanchet: First, because they are very closely aligned with our practices. Our third line of defence employees are very aware of what goes on in our organization. They have access to all of the material we can make available, and we are very transparent about this. And so I would say no, I don't see the need for that.

Mr. Gérard Deltell: How would you assess the risk of errors? When I say "risk of errors", I am not referring to someone who makes a mistake writing down a number, but to someone who is using high-pressure sales tactics. The people who spoke to CBC/Radio-Canada were not from Mars, after all. The people who came to speak to us here and sometimes delivered very moving testimony were not from elsewhere. The people who call us at our riding offices are not disconnected from reality either. Canadians are the ones who are being subjected to these high-pressure sales tactics. You are in this environment on a daily basis, but on the other side of the fence; what percentage of clients would you say have been victims of high-pressure sales?

Mrs. Lucie Blanchet: I do not have that information in hand right now. What I can confirm is that operational quality and risk management are an inherent part of the management framework surrounding the performance of our employees. That is on an equal footing with reaching financial objectives. In that sense, there is no undue pressure. Exercising undue pressure on our employees is also completely against our ethics code.

• (1745)

[English]

The Chair: You've time for one short one.

[Translation]

Mr. Gérard Deltell: Fine.

Do I understand that the issue of high-pressure sales was never raised on a regular basis, or with some insistence, let's say, over the past year, with the exception of reports broadcast on CBC, and what is being said today?

Mrs. Lucie Blanchet: That's correct. To my knowledge, there were no allegations against the National Bank as such. We took the situation very seriously nevertheless, because this undermines the credibility of our industry, which is important to us. So my answer is no.

We also did some work within our enterprise. Of course we cannot remain indifferent to this situation. Our work confirms that there is no systemic problem regarding sales practices at the National Bank.

Mr. Gérard Deltell: Mrs. Blanchet, thank you very much for your testimony.

[English]

The Chair: Thank you to both.

Mr. Dusseault, you have seven minutes.

[Translation]

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

I will also make a brief remark: the National Bank was not mentioned in the CBC reports.

That said, I'd like to go back to what I was saying earlier to our other guests representing the three other large banks. The testimony

we heard outlined a highly problematic internal culture. On the one hand, bank representatives tell us that their culture puts the client first, but on the other hand, employees tell us that the culture puts profits, rewards and reaching sales objectives first.

I am trying to reconcile the two points of view, to understand what the real culture is when you work in a bank. I'm not talking about what people tell us and how they want things to appear.

I wonder if you could confirm that your respective banks have sales objectives, a reward system, and sales objectives for employees. Can you tell us whether this is or is not the case in your enterprise?

[English]

Mr. Kirk Dudtschak: We set objectives, as I said earlier, across client experience, activities, and behaviours; client loyalty; and sales or business outcomes. It's a combination of those three elements that we believe are more controllable by the employee but ultimately are the recipe to create a client experience that keeps our customers' interest at the centre. As others have referenced, every one of us is held to a code of conduct that places our customers at the centre of all that we do.

We also believe that providing the advice and solutions to clients that they need to achieve their goals today and over their lifetime, and helping them, are key ingredients to building long-term relationships with our customers. We can't do that without highly engaged and highly enabled employees. As has been talked about before, and as I referenced in my opening, we spend a lot of time listening, monitoring, and making ongoing adjustments to our programs to preserve that balance of building long-term relationships with our customers and enabling our employees to be successful.

The Chair: Madame Blanchet.

[Translation]

Mrs. Lucie Blanchet: It is important to put the financial objectives in context and to talk about our performance management framework. It is completely aligned with our corporate priorities.

One of the fundamental elements of our corporate culture is to ensure a balance among stakeholders. We know that giving preferential treatment to one stakeholder to the detriment of another may generate short-term benefits, but it will jeopardize the sustainability of the organization in the medium and long term. There are five dimensions to our performance management framework. I can explain them to the committee, if you like.

Mr. Pierre-Luc Dusseault: In fact, I think we should stick to...

Mrs. Lucie Blanchet: I will be brief, but it's important to put the financial objectives in perspective.

The first component of the performance management framework is client satisfaction.

The second is operational quality and risk management.

Corporate values constitute the third element.

The fourth is employee engagement.

Financial objectives are the fifth element.

The financial objectives are not given more weight than the other elements. In fact, our corporate values are considered the most important thing in our enterprise.

• (1750)

[English]

The Chair: Mr. Auerbach.

Mr. Andrew Auerbach: Monsieur Dusseault, we do have goals, and the goals are very much balanced. To go back to my vision about being the bank to define great customer experience, a strong focus for us is tied to the actual satisfaction of our customers. We're trying to earn their loyalty over a long period of time. To that end, as we think about goals, we make sure that the goals are balanced between the CE, risk measures, performance, and of course the “how”—namely, making sure they're being consistent with our values and our articulation of what we call “being BMO”, which is about how we achieve this great customer experience.

My final comment about this is that we do find in our business that people want to know what's expected of them. They value our culture. They like what they do in our bank. They want to know what is expected—i.e., “How am I successful in this role?”—and it's the balance of the measures I've described.

[Translation]

Mr. Pierre-Luc Dusseault: So according to your replies, you are unaware of the fact that sales objectives being imposed in financial institutions could create a problem. In order to reach those objectives, some employees are forced to do things that are more or less acceptable. According to what some witnesses told us, this becomes a systemic problem, to the extent that these objectives encourage employees, in a way, to disobey certain rules.

Mrs. Blanchet, do you recognize the problem posed by bank culture when it is too focused on sales objectives, and the rewards related to the sale of certain financial products?

Mrs. Lucie Blanchet: In fact, it is crucial to ensure that financial objectives are not overrated or given more importance than the other dimensions.

Another fundamental aspect is the fact that the performance management framework is rooted in a corporate ecosystem; it doesn't function in a vacuum. The performance management framework is accompanied by solid corporate governance, as well as independent monitoring sectors as we mentioned. Our human resources practices are also robust, and they are applied consistently in the organization. The framework is accompanied by a corporate culture which in the long term supports the sustainability of the organization. You have to consider that ecosystem as a whole, as well as the place occupied within it by financial objectives.

Mr. Pierre-Luc Dusseault: Speaking of ecosystems, Mr. Auerbach, some public reports revealed that some of your employees were sometimes subjected to shaming and bullying.

Can you confirm the existence in your institution of a practice according to which the names of employees who do not reach their objectives are posted on a list that designates them as employees whose performance is poor, or that their name is posted on a white

board in the branch so that the other employees know which employees have the poorest performance in the group?

Do you think this system makes the client the priority? Are we talking again about putting objectives and profits first?

[English]

The Chair: Next is Mr. Auerbach, and that will end your round, Mr. Dusseault.

Mr. Auerbach.

Mr. Andrew Auerbach: Mr. Dusseault, I'd reinforce the vision and the approach we take in our company, and I know that is validated by a very strong engagement of our teams, who do believe that we are strongly focused on doing what's right for our customers. The behaviours you're describing would not be consistent with our values or our approach, which is about making sure that, first of all, we are showing empathy with our teams. It's one of our core values. I mentioned earlier that we have a very clear articulation about responsibility, integrity, diversity, and empathy. Empathy is a really core component of it.

The leadership behaviours you're describing are not reinforcing what we believe so passionately, which is that we have to get it right for our teams first, because if we have engaged teams, they in turn will deliver a great experience to our customers. These things are inextricably linked. In terms of this idea that we must have teams who are engaged and are happy to work there, what you're describing would not be consistent with that.

The Chair: Thanks to all of you.

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Thank you all for being here.

I want to ask a question that's similar to Mr. Dusseault's line of questioning.

You're all senior VPs or executive VPs. How do you ensure, from the top down, that the behaviour at the branch level is appropriate and fitting with these values? Mr. Dusseault used the example of shaming on a whiteboard. We also heard testimony—and you three have been consistent with the three earlier representatives from the bank—saying that sales are not the only factor in performance reviews.

However, it's a factor, and what happens? We've heard testimony from employees who say that branch managers don't explicitly say your sales are bad. If they don't meet their sales targets, the branch manager or supervisor would call them into the office to talk about getting their sales up. Then, if they still didn't get their sales up, they'd have a note in their file saying they were a troublemaker or they don't work well with others. That would then go to one of those other categories of performance.

How do you ensure that the branch managers or supervisors are recording the disciplinary action appropriately, especially considering that a branch manager's or supervisor's bonuses and trips, as I said in the previous panel, are contingent on the overall branch meeting some of their targets?

How do you make sure, if these are truly the policies from the top, that they are actually trickling down, at every level, so that there's not some manipulation of people who aren't hitting their sales targets?

• (1755)

Mr. Kirk Dudtschak: There are a couple of examples that I could give you.

One of those is that all employee corrective action cases are reviewed and managed by our employee relations centre. The manager will call in and review the case, and those individuals at employee relations will coach that manager on handling it, or they will help objectively assess that case to ensure we're being fair and balanced with that employee. We also, as I said earlier, do an annual employee survey. We consistently do round tables where regional vice-presidents, regional presidents, even myself, will be in market to listen, to try to understand where there are issues and opportunities.

Specific to the employee survey, we review not only the scores on that survey right down to the manager level, but we also review the verbatim comments, looking for the nature of concerns that employees might have. Again, we can use that information to either coach a manager or ensure that improvement plans are put in place at that branch level to identify issues, or to allow us to learn and enhance our programs overall.

Ms. Jennifer O'Connell: Sorry, I'm going to stop you there.

Are those surveys confidential?

Mr. Kirk Dudtschak: Yes.

Ms. Jennifer O'Connell: It's confidential.

Mr. Kirk Dudtschak: Fully confidential.

Ms. Jennifer O'Connell: I'm going to move on, but if anyone else wants to jump in on this next question, you can. It's also relatively broad.

My colleague, Mr. Deltell, somewhat compared the sales target of a shoe store. This is not the first time that there's been testimony and conversations around the appropriateness of commissions or sales targets. I have a real problem with that, when there are endless numbers of shoe stores. I know there's not a lot of regulation, so there is a big difference when you have a private company or private enterprise that wants to solely focus on sales and profits. When we're talking about banking, there is a lot. For example, it's not just anybody who can open up a financial institution. Not just anybody gets the backing of the federal government and Canadian tax dollars essentially, to ensure that it's stable and regulated in a way that protects everybody.

Do you share the same view that it should be profits first and that sales targets are a good way to ensure your employees are meeting the objectives of the bank, or do you see that there is a service you owe to Canadians, given that you have protections provided by Canadians as well?

Mr. Andrew Auerbach: It's very important to have the context as to what we're trying to do in branches. What we are trying to do in our branches—and I believe we're doing this well—is deepen the relationships by guiding our customers.

I want to be very clear that we would never suggest selling products that are not appropriate for the customer. That's just not consistent with who we are as a company, and it's not how you build long-term relationships with customers. I'll just describe a little what we're talking about in a branch. It's asking questions of the customers to better understand and to then be in a position to guide them with solutions that are appropriate for them.

As you know, banking can be very complicated. I know that this committee has talked about financial fluency, an area we're very strongly committed to at BMO. These are very complicated matters. Oftentimes, when we have these conversations with our customers, our customers actually didn't know there were other solutions available for them.

To take it one step further, we've talked extensively about how we measure customer satisfaction and how we want to make sure we're getting it right for our customers. They tell us very clearly in this research that, in fact, when we do offer solutions, when we guide our customers and talk about things they didn't know about, they're actually more satisfied, from a measurement perspective. This is because we've taken that interest to deepen the relationship, not to sell products inappropriately, but to better understand their specific needs.

• (1800)

Ms. Jennifer O'Connell: Does anyone want to jump in?

Mr. Kirk Dudtschak: I'll just underscore a comment I made in my opening comments.

We have a duty to this country and to our customers. We understand that. We have a privileged position in their lives. With that comes ensuring that we do well by our clients, both in terms of helping them live their lives better today, but also in terms of helping them achieve their long-term goals. With that comes a responsibility to ensure that the advice and solutions we provide are appropriate for that customer. That's at the core of who we are.

Our vision is “to be among the world's most trusted...institutions.” Our purpose statement is that we help clients do better and ultimately thrive, and help communities develop and ultimately prosper. Those are the things that guide our actions. Our goal is to build long-term client relationships.

Clients with a chequing account have been with RBC, on average, 19 and a half years. It's those types of long-term relationships we're trying to build. Also, watch for the behaviour and issues you're calling out and that employees and clients call out when they raise concerns with us to ensure we're not only doing well by our employees, but also by our clients for the long term and for this country.

The Chair: You're out of time.

Ms. Blanchet, did you want to add something?

Ms. Lucie Blanchet: Well, it's the same here.

[Translation]

The first thing our clients want, and this is clear from all of our client satisfaction surveys, is that we be relevant, that we anticipate their needs, and that we exceed their expectations. All of that is that the centre of our client-focused approach.

[English]

The Chair: Thank you all.

We'll move to five-minute rounds now.

Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair.

Thank you to our witnesses for coming here and explaining a little of their experiences and thoughts on this important matter.

We've had three other bank employees come in today to explain the practices. Again, we heard that there are systems and codes of conduct that need to be followed. This is something every bank takes very seriously because banking is a trust industry. It's highly competitive. There are more options available. If people don't like the colour of your new logo, I'm sure there are lots of people who would love to take their business.

That being said, I still have heard two different sets of responses. First, there are these serious allegations that employees themselves are making to different news programs. Second, there are the internal systems you speak about. I'm trying to square the two of them together. The last panel that came forward said that they take these allegations quite seriously and have revisited their approaches at their respective banks.

How do you square the allegations that have been made quite publicly by certain employees of certain banks with your presentations, with your practices that you've portrayed here today? We'll start with that.

The Chair: First is Mr. Auerbach.

Mr. Andrew Auerbach: Thank you, Mr. Chair.

I want to be clear that we are not in any way trying to be dismissive of what we've heard. These are very large businesses. In fact, we do over 200 million interactions every single year, and while I want us to get it right every single time, we don't. What I've tried to describe is more the approach we take when concerns are raised.

Mr. Albas, you described two scenarios. One scenario was around what you've heard from employees. In this perspective, it is deeply embedded in our culture that we are constantly encouraging our teams to feel free to speak up and be candid, and we have many mechanisms in order to do so. Some of these are confidential and anonymous, if employees are not comfortable talking to their manager, or to their manager's manager, or perhaps to me.

We do have a lot of rigour around these approaches. However, from time to time, there is inappropriate behaviour. My assurance to the committee is that when these situations are identified, they are thoroughly investigated and reviewed case by case, and appropriate action is taken every time, particularly in terms of the spirit of what we are trying to do as a company.

With respect to customers, if I may just go to that side of it, we also have many mechanisms to raise concerns, both in the branch and at higher levels of escalation, which might include me or executive resolution teams, local leadership in the market, and, of course, our ombudsman for situations that we don't feel can be adequately resolved. Finally—and these are quite minimal in the nature of the overall number—there is a very clear path to escalate, as you know, to the ombudsman for financial institutions.

• (1805)

Mr. Dan Albas: Ms. Blanchet, go ahead.

[Translation]

Mrs. Lucie Blanchet: Our employees have several means at their disposal to express any dissatisfaction, complaint, or any breach of ethics they might witness. Of course, first there are the first level managers. At our bank, the managers are very active in the field.

In addition, we have an independent, decentralized human resources call centre. Employees may also call our labour relations sector directly. We have a corporate security sector, and a compliance sector. As a last resort, we also have an employee ombudsman.

One of the practices that makes our corporate culture different is the fact that we are very close to our employees. Since we are a smaller organization, our management meets with 3,000 to 4,000 employees a year, and has for several years. Management takes part in 300 to 400 activities directly with employees.

And so we have several mechanisms allowing us to ensure a good work climate. Employees feel very comfortable using them, mainly because when they do so we act to implement the improvements they suggest.

Mr. Dan Albas: Thank you.

[English]

Mr. Dudtschak, go ahead.

Mr. Kirk Dudtschak: Thank you.

I'll build on the previous comments. We do take this process very seriously, and we take all feedback we get from clients and employees seriously.

Through the work we have done, whether it's investigations around potential fraud, falsification of signatures, or references to selling clients products they don't need, our review has demonstrated that there is no systemic issue. They do happen periodically, and we have mechanisms in place to listen and watch for those, but it's not systemic.

I would say, though, that we use this not just to deal with individual situations, but to strengthen our programs. Over the 20 years I have been involved in performance management, our performance program has changed a lot, and it is continuing to shift more and more to a greater focus on activities, behaviours, and client loyalty to ensure that the balance we are talking about here is in place.

Our programs have also changed so that the calibration we put into the programs doesn't create the unnecessary sense that the performance objectives the employee or the team has are unrealistic. Where we find out that they are, we make adjustments to ensure that they are fair and that the basis of setting those objectives is objective.

The Chair: A short one—

Mr. Dan Albas: Very briefly, what steps have you taken since the case of Wells Fargo came out and the FCAC decided to investigate, so that these issues are dealt with directly?

Mr. Kirk Dudtschak: In our case, as I said, we've always had measurement, monitoring, and calibration mechanisms in place. We have strengthened those. The review cycles that we are now doing are quarterly or monthly. We are documenting all the cases. We are documenting the investigations we do. We are running regular data analysis around the products and services our advisers are providing to customers, or the tools they're using to provide advice, again to ensure that the objectives we set are fair, but also that the client experience is what we intend it to be.

We have significantly stepped up our efforts. As I alluded to earlier, over the course of the last few years we've begun to shift our programs to ones that place a greater focus on the client experience overall.

• (1810)

The Chair: Ms. Blanchet or Mr. Auerbach, do you have anything to add to that?

Ms. Lucie Blanchet: We did take actions.

[*Translation*]

We first of all carried out a self-evaluation of our own internal practices. In that context, we were very open with upper management and the board. Our management also asked for an independent internal audit of our sales practices. Of course there's always room for improvement. We don't claim that our organization is perfect. We found certain potential improvements and we are already implementing them.

[*English*]

The Chair: Mr. Auerbach.

Mr. Andrew Auerbach: Certainly building on what you've heard, we have put out a number of leadership messages to reinforce what we talked about this evening. We have also worked extensively with our U.S. business, BMO Harris, and pulled the best practices and lessons that have come out of the U.S. In addition, we've strengthened our employee support tools, reinforcing the availability of the ways that people can in fact speak up. We've enhanced the monitoring of our potential sales issues, this idea of monitoring behaviours. We've increased the frequency of those reviews.

Finally, we're working very closely, as you know, with OSFI and FCAC on a quite extensive review that is quite broad across all the areas we've talked about.

The Chair: Thank you all.

Mr. Grewal.

Mr. Raj Grewal: Thank you, Mr. Chair.

Thank you all for being here today.

My questions go back through to the micro level again, in the branch, because we're here to talk about aggressive sales tactics in response to employees of banks coming forward and making allegations that they felt pressured to sell investment products or to upsell customers, even though they didn't believe those customers needed that advice or they weren't in a position to give that advice.

It goes back to a quick question at the teller level. Are your tellers paid by sales targets, or does part of their compensation involve sales targets?

Mr. Kirk Dudtschak: In our case, in terms of what I know is another question you'll ask around titles, our tellers are called client advisers. For the bonus portion of their pay, which is a relatively small percentage, as I referenced earlier, there are a variety of objectives in place, activity and behaviour objectives, client loyalty objectives, as well as outcomes.

An outcome could be as simple as you going into a branch and asking about foreign exchange because you're going on a trip, and they ask whether you've purchased travel insurance and then provide you with that solution to ensure that you and your family are protected on your trip.

The Chair: You must operate on a different bonus system than they do around this town, because they give everybody a bonus, whether they succeed or not—not everybody, but senior managers.

Voices: Oh, oh!

The Chair: Sorry. Ms. Blanchet, go ahead.

[*Translation*]

Mrs. Lucie Blanchet: Our client service representatives do not have sales objectives.

[*English*]

Mr. Andrew Auerbach: In the case of BMO, to reinforce the balanced approach to the objectives, certainly we have objectives around customer experience measurements, around risk, around the behaviours, and around performance.

Just to build on this idea from a CSR perspective, to answer your question specifically, what we try to do is provide tools to our CSRs to help them have great conversations with the customer. To give you a sense of the gambit, oftentimes, or about half of the time, these are actually more service oriented. These are milestone recognitions, perhaps celebrating a significant anniversary of dealing with our company. It really is grounded in deepening the customer experience with our customers who, as you know, very often are mostly dealing with our CSRs.

Mr. Raj Grewal: The issue I have with this, which I brought up in the first round of testimony too, is that if you put a guy such as me in as a teller in my neck of the woods, my sales target would be through the roof just because of my ability to interact with people from my community, my ability to speak in their native tongue, and my ability to convince them of what they do not need.

In my experience, when I go to branches, especially in new communities where they have a high population of immigrants or small business owners who might be very successful in the business they know in terms of construction, landscaping, or trucking, but aren't very savvy when it comes to what to do with their money, that's where we're having a big issue, at a branch level, in terms of the CSR, or the teller, or the client adviser.

I go back to you, Kirk, to RBC. When you say “client adviser”, is that the regulated adviser or the unregulated advisor, the difference between the “o” and the “e”?

• (1815)

Mr. Kirk Dudtschak: That is the “or” advisor, and that is the title we use consistently across RBC, regardless of whether it's wealth management. In most cases, wealth management or the bank, we really don't differentiate between the two spellings because every employee in every role is held accountable to not only our code of conduct, but a set of skills and behaviours that relate to their job type.

Mr. Raj Grewal: The problem there is this: If you say that a guy who is a mutual fund advisor, who has a CSC and has the education —

Mr. Kirk Dudtschak: Right.

Mr. Raj Grewal: —maybe has an MBA, at a minimum a BBA or a commerce degree, plus the security regulations—as opposed to somebody at the front line, who is still called an “advisor”, now you can see clear as day how those two “advisors” are not at the same level.

Mr. Kirk Dudtschak: It's in the context of their role as a “client advisor”, the things that they're going to be providing advice around. They may be providing advice around how to do your day-to-day banking on your mobile phone, or online, and teaching you and enabling you to do that.

In fact, we had an 85-year-old client at our annual meeting reference that exact point. He valued the fact that they were teaching him how to do banking in today's world. It could be the travel insurance example. Or it could be an example of something that they don't have the skills for, to provide the deep advice. They're then encouraged to introduce that client to an advisor who can do a better job of uncovering the needs and the goals of the client and recommending different options to achieve those goals. We would never ask our client advisor to recommend something they were not qualified to do.

Mr. Raj Grewal: But you could see how a customer would mistake the two—

The Chair: Last question.

Mr. Raj Grewal: —and say, “Oh, you're an advisor.” With that, working at a bank carries a certain level of cachet, as opposed to somebody who has the educational and institutional knowledge of actually providing investment advice.

I know all of the people on the bank side, and I don't want to pick on the banks, because as a politician I'm very much called a company man from time to time and I drink the Kool-Aid just as everybody else does, but I want to say this. From a customer perspective, a very objective perspective, if you're walking into a

bank and somebody at the tell is giving you investment advice...and the only point here is that they look at your financial profile on their screen and say, “You should speak to X, have you ever thought of doing y?”

I humbly suggest it is not within their expertise to suggest that to a customer, because they don't know that customer's financial profile to that extent, and they shouldn't be making that type of recommendation. That's one man's opinion.

I'll defer to the Chair and I think my time is up.

The Chair: Yes, your time is up, but we'll defer to the witnesses if they have anything to add.

Mr. Kirk Dudtschak: Nothing to add. We would never put our employees in a situation where they were providing advice around something they weren't trained to do, or qualified to do, or comfortable doing.

The Chair: Heads are nodding, so everyone agrees at that end.

Mr. Liepert.

Mr. Ron Liepert: I'm glad Mr. Grewal ended up at the very end saying it was his own singular opinion, because if we listen to Mr. Grewal here, you're all crooks.

Mr. Raj Grewal: I didn't—

Mr. Ron Liepert: Do any of you believe you have a service or a product that nobody wants? I think I heard Mr. Grewal say something along the lines that you're trying to sell a product that nobody wants. Do any of you believe you're selling a product that nobody wants?

Mr. Raj Grewal: I don't think I said that.

Mr. Ron Liepert: Presumably, you're selling a product or upselling a product that somebody may want. Anyway, I get very tired of Liberals trying to save the world. But we'll go on.

I'd like to ask each one of you whether—

Some hon. members: [*Inaudible—Editor*]

Mr. Ron Liepert: Well, you're even worse.

Voices: Oh, oh!

I'd like to ask each one of you—and maybe you can't answer this question—on an annual basis, how many employees would you dismiss for doing something that would cross the line? Maybe it's fraudulent, maybe it's totally inappropriate, maybe it's consistently trying to sell something that nobody wants. Would it be fewer than five? Would it be five to 10? Would it be 10 to 50? Give me an idea on average, annually, how many employees you have discovered crossing the line.

• (1820)

The Chair: You may not have the numbers. You can send them to us if you don't. Who wants to start?

Mr. Dudtschak.

Mr. Kirk Dudtschak: In 2016, the cases that were investigated by our employee relations team for what we put as a potential category of mis-selling were fewer than 75 cases on a base of 25,000 front-line employees, and significantly fewer than 20 were terminated.

Mr. Ron Liepert: Good, thank you.

Mr. Kirk Dudtschak: When I say mis-selling, I include fraud or falsification of customer records, which as we talked about earlier is outright wrong. It includes providing services to clients that the clients don't need or cases in which there might be a product bias that caused the advisor to go the wrong way and provide inappropriate advice.

The Chair: I want to come back to Mr. Dudtschak on how you determine when an employee sells a client a product they don't need.

Mr. Kirk Dudtschak: We have a variety of ways we monitor for this. One is that when we calibrate the programs or crunch the data, we look for skews in performance. We look for individuals who might be providing too much of one thing to the customers they're meeting, which would suggest that there might be a bias on the part of that advisor.

What we also look for is whether the client actually uses the product or services they were provided. Our programs reward individuals for the education—not just the providing of the advice and the solution, but the education—of the client, and we measure whether the client actively uses it after. Those are a couple of examples of ways.

The other thing I want to put out, though—this is the first time we've shared those numbers—is that the reality is that we also watch and monitor for manager behaviour and concurrently watch and monitor to make sure the overall program itself has integrity, because if the numbers got any higher, you would want to ensure that the program in and of itself wasn't creating the wrong culture or the wrong bias.

The Chair: Thank you.

Mr. Kirk Dudtschak: Then we'd make changes.

The Chair: Thank you.

Ms. Blanchet, did you want to answer Mr. Liepert's question?

[*Translation*]

Mrs. Lucie Blanchet: Of course.

In fact, I'll be very frank with you: I don't have the figures you are asking for. This information will however be provided in the course of the examination by the Financial Consumer Agency of Canada, the FCAC, and the Office of the Superintendent of Financial Institutions, the OSFI.

[*English*]

The Chair: That's not a problem. We can get those later.

Mr. Auerbach.

Mr. Andrew Auerbach: Thank you, Mr. Chair. I will just reinforce the strong risk culture. We have a detailed process for monitoring around behaviours tracking. Then we have an investigative and security services group that would do a deeper, detailed review.

The number is an extremely small one relative to the overall size of the population. Within the extent of the investigations that would occur, a very small subset would actually trigger some disciplinary measures.

Mr. Ron Liepert: I think this only applies to the two gentlemen. It wouldn't necessarily all be CSRs; it could be managers of CSRs, could it?

Mr. Kirk Dudtschak: This is our entire work force of managers and front-line employees, right through to the commercial banker or mortgage specialist, a financial planner, or a branch employee.

Mr. Andrew Auerbach: The same would apply for us as well. It would be for all roles in our branch system.

Mr. Ron Liepert: Thank you.

The Chair: Mr. Fergus, you have the last question for this hearing.

[*Translation*]

Mr. Greg Fergus: Thank you very much for being here with us today.

I thank all of you very much for your testimony. My questions are addressed to all of you, and are going to be a bit different from the ones I put to the other group of witnesses.

The trust Canadians place in the Canadian banking system was shaken by articles and reports that came out in the month of March.

In a brief submitted to the committee, an Ottawa lawyer, Harold Geller, said this: “The fact that, historically, regulatory organizations have counted on financial institutions to monitor themselves has undermined the confidence of Canadians in the financial system [...]”

In light of the reports of the past few months, and of those that continue to be broadcasted, as well as the testimony we have heard at this committee, what should be the role of the FCAC, or your role as a financial institution? What other type of commitment could you make to restore Canadians' confidence in the Canadian banking system?

● (1825)

[*English*]

The Chair: Who wants to start?

Mr. Auerbach.

Mr. Andrew Auerbach: Thank you for the question. Trust is the cornerstone of what we do in banking, as you know, and it's why we enjoy a very special relationship with our customers. It is entirely based on trust.

To respond to the question, we are going through a very comprehensive review with FCAC and OSFI. Within our BMO company, we take very seriously the idea of having different risk management capabilities. Of course we have measures that we've discussed within the teams that I'm responsible for. We also have a separate risk management team to make sure that we have appropriate governance. Finally, we have appropriate audit capability within the bank. However, the review that we're doing will be broad and comprehensive, and I suspect that we'll have recommendations that come from that.

The Chair: Madam Blanchet.

Ms. Lucie Blanchet: I would have quite a similar response.

[*Translation*]

I think there are several parties involved. The legislator, the banks and the regulatory organizations all have a role to play in improving the financial knowledge of Canadians. That is certainly a factor we can all work on together.

[*English*]

The Chair: Mr. Dudtschak.

Mr. Kirk Dudtschak: We have a variety of internal programs in place, as we've already talked about, to ensure the integrity of the advice we provide. We also have a variety of ways in which we are working hard to increase literacy among our customer base, as was previously said.

You specifically asked about regulators. We are working very closely with OSFI and the FCAC on their request. We believe—and we do fully comply with the regulatory requirements—that they are accountable to you, the Canadian government, not to us.

Mr. Greg Fergus: To all three, I guess my question is this. If these complaints have arisen with the existing systems that are in place, don't you think this might call for additional measures? I'm assuming you would prefer to have measures that you could develop on your own rather than to be regulated to that effect. If that's the case, I'm certain that some blue-skying must have gone on in each of your institutions. What type of additional measures do you think you could take to make sure or

[*Translation*]

to see to it that transactions are monitored in branches? It seems that that monitoring is insufficient at this time.

[*English*]

Mr. Kirk Dudtschak: As was referenced earlier, we stepped up the level of monitoring and controls that we have had in place over the last several years, in particular over the last year or two. We are learning through this process as well. We do believe in listening to our clients and listening to our employees and putting the practices in place that allow us to deliver the kind of advice and experience that our customers want and need, with the types of tools and

programs that will allow our employees to not only be engaged but also be enabled to make a difference in our clients' lives. We do continue to step up our programs and our monitoring to listen, to learn, and to change. We are changing our performance programs. We are building new tools directly for our customers, digital tools that our employees will use to make the advice even more consistent and more transparent for our customers.

So there clearly are actions that we're taking, and we will work very closely with the FCAC and OSFI on this review. We'll work with them to implement the outcomes as well.

• (1830)

The Chair: We will have to end it there.

I thank you for your presentations and for coming to...

Yes, Mr. Fergus

Mr. Greg Fergus: Mr. Chair, I had some informal discussions with some of our colleagues around the way on the possibility of bringing forward a motion. Could I introduce that motion here? It would take just a second.

The Chair: If there's unanimous to continue, we can; we are at 6:30.

Mr. Greg Fergus: It will take just one second.

Mr. Dan Albas: Mr. Chair, we do have a....

Is it a motion for future committee business?

Mr. Greg Fergus: It's following on this. What it's asking for is that whenever the FCAC comes back with their report, we invite them to come back to the committee so that we can find out how they followed up on our eventual recommendations. We'd also ask the banks to come back so that we can see how they're—

Mr. Dan Albas: There is a meeting for committee business on Wednesday. Can this not just be part of that discussion?

The Chair: It can be, so we'll deal with this at committee business on Wednesday.

Thank you again to the witnesses for coming and making the trek.

The meeting is adjourned.

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