Remarks by

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at

BBA (British Bankers' Association)

July 13, 2010
London, England

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Good morning. It's a pleasure to be here in London, the world's greatest financial center, a distinction that I hope it will be able to maintain. This is a market in which RBC has – and plans to continue to invest. We now have close to 3,000 employees in the UK and Channel Islands and our intention is to continue to expand, particularly, in our capital markets and wealth management businesses.

But rather than comment on this market, what I would like to do is highlight some features about the Canadian banking system and the reason for its resilience over the past three years. Without sounding smug, I do believe our model can be very instructive as other regions, including the UK, tackle their own reform.

In addition, I will provide some perspective on the financial crisis and resulting global regulation and what I see as some of our industry's shared challenges as we emerge from the worst financial crisis since the Great Depression. I am not sure how much my comments will correlate with the title "Stability, Competiveness and Service" but suffice to say that getting regulation right is critical to our industry being able to compete and succeed.

In June, I spent a week in Europe with many of my banking counterparts and, more recently, attended the G20 meetings in Toronto. Clearly, it's a very difficult global environment but I did leave those meetings feeling somewhat more confident about the collective willingness to address the challenges ahead. There is clearly a recognition that the uncertainty of financial regulation combined with global fiscal imbalances, pose great risk to economic stability and it was helpful to see some progress with respect to commitments from the G20 countries in these areas.

Having said that, particularly throughout Europe and the United States, slow economic growth, continued volatility and uncertainty over sovereign debt are major overhangs and social unrest will only be exacerbated where spending cuts and tax increases are the only option. While fiscal imbalances must be addressed it is, on top of this difficult situation, that regulatory reform will be imposed, and as it is currently proposed, the impact will be challenging for both banks and the economies they facilitate.

But before I share with you my views on regulation and what is needed to return the world's banking system to one of strength and stability, I'd like to talk about why Canadian banks have proven to be more resilient. In my view, some of the reasons for that strength is instructive to what should be incorporated into new global regulations.

Now the common wisdom is that Canada is so tightly entwined with the US economy that when it sneezes, we catch a cold. Yet throughout the global financial crisis, when the US and Europe succumbed to double pneumonia, Canada felt but a twinge and carried on. The IMF attributed the country's resiliency to three things: one, sound macroeconomic policy, two, proactive response by government and regulators to the crisis, and three, well capitalized, well managed banks. The one that they missed, perhaps the most important, was the structure of our housing and mortgage market which was a major contributor to the strength of our system. Canada has indeed been a fertile place for banks to lay down strong roots and given the regulatory and taxation challenges being contemplated or implemented in other regions, we would expect it to grow in terms of relative attractiveness.

Over the past decade, Canada's strong economy, its fiscal policies, its governments and its regulators have fostered the growth of a world class financial services industry. The banking business in Canada, as compared to G8 banking systems, is more competitive, more cost effective for its customers, and far more accessible due to a leading edge branch and technology-based distribution network. With Canada being a nation of early adopters of technology, it's no coincidence that electronic banking is more widely used among Canadians

than most markets. Competition among the six large banks ensures that Canadians have significant choice and amongst the lowest banking fees in the world. Canada's banking system is sometimes referred to as an oligopoly yet we have more large banks that compete aggressively than virtually any country in Europe including the UK.

It was not, as is sometimes reported in the media, the conservative, boring nature of Canada's banks that lead to greater stability, but rather a combination of good fiscal and regulatory policy by government and sound strategies and, risk management implemented by most of the major banks. Finally, and importantly there was a little bit of luck.

While many, factors contributed to the global financial crisis, the root cause was a massive failure of public policy and regulation in the U.S. residential real estate market. In its simplest terms, a perfect storm was created by the convergence of the American ideological pursuit of home ownership as a right rather than a possibility. Public policy facilitated this ideology through government sponsored enterprises like Fannie Mae and Freddie Mac, interest deductibility on mortgage payments, legislation that encouraged high risk lending and mortgage products whose features went well beyond reasonable risk parameters.

Wall Street was not, as is often painted by politicians and media, the root cause of the crisis -- but it was complicit. The financial industry jumped on the bandwagon and mortgage securitization grew into a major business – much of it outside of the regular banking system. Banks, investment banks and GSEs enthusiastically pooled large bundles of mortgages, and sold them off in tranches to banks and investors around the world. Home financing became so available that the only criteria for a mortgage in the U.S. seemed to be a pulse. House prices continued to rise, and millions of Americans enthusiastically signed up with lenders (many aided by unscrupulous brokers) to take their fair share of the booming house market.

Inevitably, as is the case with all asset bubbles, the perfect storm had arrived. When consumers began defaulting on mortgages, the housing bubble collapsed. Securities tied to U.S. real estate plummeted, financial institutions around the world were damaged, investor confidence disappeared, and governments and central banks were required to step in to support specific institutions and the financial system.

Mortgages secured by U.S. residential real estate found their way onto the balance sheets of many global financial institutions and investors through complex securitization structures. This dislocation between origination and holder of the debt was fundamental to the problem. In contrast within Canada, the majority of mortgages outstanding are held on the balance sheets of originating banks and as a result they are properly structured.

Canada does not have a sub prime market of any significance and high ratio mortgages are required to be insured. Our term mortgage products are typically five years with 25-year amortization periods and there are few teasers or hybrids, and prepayment penalties discourage refinancing booms. And unlike the US, mortgage payments are not tax deductible, which effectively encourages consumers to maximize their monthly mortgage payments rather than build equity in their homes. The result of these structural differences was that the worst performing asset class in the U.S. was a source of strength our banking system. In my view, this was the biggest differentiator in terms of relative performance between the banking sector in Canada and the United States.

Now here is the catch which highlights the policy failure in the United States. Home ownership levels in Canada are actually higher than they are in the United States. While the US residential mortgage market was the primary cause, we all know that its helpmate in sparking a global financial crisis was excessive leverage in the financial system. The destructive power of leverage was compounded in the banking industry by capital rules that risk-adjust assets and the assets that caused such stress in many banks were "highly rated assets" and therefore, required very little capital. Who would have forecasted that “AAA” assets would underperform “BBB” assets, and if you are levered at 50 to one, it doesn't take much of a decline in your asset values to wipe out your equity and that is exactly what happened to many financial institutions. It’s also why the Financial Stability Board recommended a leverage ratio to supplement risk-based measures of regulatory capital.

Among the G7 nations, only Canadian and US bank regulators impose leverage caps. Canada has a leverage cap of 20:1 and since the major investment dealers are all owned by banks and thus subject to leverage constraints, fewer problems emerged. The situation was different in the US, where many of the largest financial institutions were independent and unconstrained investment banks. Europe has never constrained leverage for banks or investment banks – in my judgment, a mistake.

In our industry, it is easier to grow assets and, therefore, revenues but much more difficult to grow franchises and risk adjusted returns on assets. And history has showed us that even the highest rated asset classes can suffer, with European sovereign debt the latest example. The market place and compensation structures encourage asset and revenue growth rather than earnings and returns and management and boards failed to keep this growth in check. Balance sheets ballooned and ROA declined; in hindsight a recipe for failure which dragged down the most aggressive banks. Leverage limits not only act as a governor on excessive growth, they force banks to more judicially allocate capital and justify expansion.

As to capital requirements, Canada was also more stringent than other jurisdictions and significantly tougher than those called for by Basel II. Our minimum Tier 1 capital was 7% of risk weighted assets. The U.S. was 6%, and the UK and other G7 countries were 4%. Going into the crisis most of Canadian banks had tier one ratios in excess of 9% significantly higher than the requirement of Canadian regulators. This combination of less leverage and higher capital levels was a major source of strength as our system managed through the market turmoil and should, in my view, be the primary focus of regulatory discussion.

An additional differentiator in Canada, particularly relevant to the UK today was the strong fiscal position that our country enjoyed going into the crisis. Coming out of the recession of the 1980’s Canada’s fiscal structure was such that it was referred to by the Wall Street Journal as “an honourary member of the third world”. As a result, fiscal discipline became the order of the day, with the full support of the electorate I might add, and this led to fifteen years of successive budgetary surpluses and the lowest debt to GDP levels in the G8. A strong national balance sheet provided much greater flexibility to manage the fallout. We were fortunate that our fiscal re-balancing process occurred during a period of strong global growth, a luxury that will not likely be afforded governments today, but regardless of the economy, governments must get out in front of this potential tidal wave.

It strikes me as I make country comparison that every country's culture is stereotyped to some extent, and I know that many equate Canadians with modesty and humbleness. You may be reassessing this stereotype at this point in my speech. The truth is that events like the financial crisis test the mettle of every organization. For a time we were knee deep in the mess, and worried not just about our balance sheet but the domino effect of the disaster around us both domestically and internationally. In the end, our market related losses were approximately C$4 billion, large on an absolute basis but less than 15% of our capital base. If the truth be told, I would never have thought I could survive $4 billion of market related losses but on a relative basis it was manageable and thanks to diversification, we were able to earn our way through the losses and reported strong results notwithstanding the market related losses.

Canada was certainly not without our problems as some financial institutions suffered tremendous losses, our securitization markets collapsed, many conduits had to be restructured and our credit markets dried up. But the fundamentals of the country and underlying strength of the banking system allowed us to respond aggressively to restore confidence. Those institutions that had significant losses were able to maintain ongoing operations without government intervention and earn their way back to restored confidence.

Events like a global financial crisis are the true test of not just your people but also your organization's risk structure. One element of RBC's risk structure is diversification, geographically and by business line. Our five business platforms, Canadian Banking, International Banking, Insurance, Wealth Management and Capital Markets, have different risk profiles at any given point in the cycle.

We also strategically cap our wholesale operation to 20% to 30% of our normalized business to keep our diversified business model in optimal balance and reduce our dependence on wholesale funding.

In my judgment, business mix will become a much greater differentiator among financial institutions in the future and individual banks will be required to make tough decisions. But these decisions should not be made by governments or by regulators but rather by management and boards. We should not want regulation to discourage diversification, as is the case with some current proposals, as diversification can both reduce risk and drive innovation. If regulation pushes banks all in the same direction it will, in my view, increase systemic risk.

The crisis underscored how important it is to ensure that risk adjusted capital is properly allocated and to effectively stress test for risks. This is a much better way to reduce growth of certain high risk businesses than by outright restriction. We don't just need more regulation, we need smart regulation and I am concerned that some proposals will encourage institutions to make bad decisions.

No matter how excellent one's relationship is with regulators, one seldom wishes for more attention. However, it is clear that regulators will rightly be paying more attention to all banks as our industry has failed to manage between shareholder returns, safety and soundness and serving the public interest. But in the face of this, my hope is that smart regulation coupled with sensible supervision, is balanced and builds on lessons we've learned while keeping our industry strong, vital and stable.

1. I hope we achieve uniform implementation across all jurisdictions. The speed at which the recent financial crisis spread to all corners of the globe shows how porous and interlinked national economies and markets are, and, in an integrated world, we need uniform regulation that creates a level playing field across economies and markets.

2. I hope that there are reasonable implementation timelines, sufficient to test systems and ensure that clients are not negatively impacted but with clarity and transparency that removes the current uncertainty from the market. We don't need the decade it took to do Basel II, which as you know was never implemented in the US, but we must ensure we agree on a set of rules that does not strangle credit and capital formation.

3. I hope that relative costs and benefits are carefully weighed to avoid three potential problems: new and unnecessary costs to taxpayers, institutionalized government involvement in private sector risk management, and a shackled financial structure that is less responsive to client needs and market changes.

4. And I hope that any the new regulation builds on what we already know works well (such as the Canadian model) to secure a strong and stable financial system.

It is important that regulators focus on the real issues that will reduce systemic risk and move beyond extraneous political issues, such as the now discarded, international bank tax. On this one, Canada – rightly -balked and, it's interesting, three quarters of Canadians have stated their opposition to this tax. It is difficult to sell in a country where its banks functioned relatively well throughout the crisis.

There is no reason that individual countries should not impose special taxes to help deal with those deficits, as was done in the UK, but it is a taxation issue and has little to do with regulation. You would be interested to know that in tackling our deficits in the 1990's Canada imposed it's own "bank tax" in the form of a tax on the capital of financial institutions, a tax which is just now in the final stages of being phased out. It was a Canadian only tax and yet it did not impair our ability to compete. But a global tax to "insure the system" would not accomplish its goals and to quote our central bank governor, Mark Carney (now Chairman of the Committee on the Global Financial System), "risks increased moral hazard".

Citizens of other countries where the financial system was crippled or injured are much more aggressive in their support for radical surgery, such as certain provisions embedded in the U.S. financial reform bill. In many cases, this is more than a measured conversation about how to improve the future functioning of the financial system; there is a deep seated, retributive anger, some of the roots of which I've discussed. What troubles me about proposals like the bank tax, or proposals like, what is often referred to as the Volker rule, is not the cost but the belief that in them lays the solution for a stable financial structure. Such proposals are not solutions for the future, they are levies on the past.

For instance, restrictions in proprietary trading in banks would not have saved Lehman, Bear Sterns, AIC, Fannie Mae or Freddy Mac and, in fact, trading was one of the most profitable activities of banks throughout the crisis and helped offset major losses in retail banking operations. Proper risk capital allocation against trading businesses is a much better solution in that it would automatically restrict higher risk activities but, at the same time, would allow banks to make their own decisions around business strategy and capital allocation. The most important component of global regulation are the negotiations around what is often referred to as "Basel III" and echoing the fears of any 19th century person contemplating a hospital stay, I am concerned that the proposed cures are worse than the disease.

As you know, Basel III's proposed rules are supposed to be a starting point for discussion. Ironically, these proposed rules, for all their good intentions, will negatively impact even the healthiest bank's balance sheets in terms of capital, leverage ratios and liquidity and compromise economic growth. The proposals are so complex and onerous that we run the risk of an agreement that lacks transparency and integrity, or one that results in non-uniform implementation.

I expect you have all reviewed Basel III and know that it has redefined capital and risk assets, the effect of which is to turn swans into ugly ducklings. Canadian banks, as an example, would be lifted from their position as well capitalized, liquid financial institutions and recast as undercapitalized. Banks that passed the "real life" stress test may fail the theoretical one – a pretty good indication of flawed methodology.

Basel III's new definition of capital optically slashes the capital ratios of banks. The only real world change, other than investor alarm at this sudden slide in ratios, is that the redefinition of allowable capital may demonstrate that the funding supply is too small to address the capital shortfall.

Basel III leverage rules use a very restrictive definition of capital and an overly expansive definition of risk assets. The net result of doing so optically increases the leverage and would encourage banks to get rid of low risk assets (such as insured mortgages) and replace them with higher risk assets – hardly a way to reduce risk. Rational investment decisions made based on existing capital rules are, in some cases, now inconsistent with the proposed rules. And specific capital deductions in a host of areas will push banks to restructure in a way that could increase their risk profile.

On the whole, my view is that if well-capitalized Canadian banks can be painted as risky, overleveraged and undercapitalized by Basel III, think how banks truly beleaguered by the financial crisis will end up.

Some estimate the banking system would be required to raise over a trillion dollars of equity. All of this raises the question of whether there will be enough global capital to make up for these regulatory requirements, and what the impact will be on competition, credit availability and pricing for consumers.

Many analysts estimate that costs for the full range of regulatory reforms being considered would increase prices for consumers and the IIF estimates that it would reduce GDP by 3% in Japan, Europe and the US alone and reduce jobs by almost 10 million.

Now people can disagree with those numbers, as many central bankers were quick to do, but show me an economic model where the amount of capital in banking increases dramatically and regulatory costs escalate significantly where at least a portion is not born by borrowers and the broader economy.

The bottom line is there is no free lunch. The industry must generate a reasonable return in order to attract capital and maintain its credit standing and, therefore, any increased cost of capital will be reflected in the cost of credit and services.

In my view, Industry and regulators should accept that the rules as drafted must be re-calibrated. At a minimum, national regulators should have some discretion regarding implementation to recognize different regulatory and legal frameworks. Going into this crisis, the banking system had too little equity, too much leverage and not enough liquidity. We can address these issues with balanced and straight forward reforms that don't choke the system. Focus on reasonable changes to these three areas, focus on strong local supervision and hold management and boards accountable to a higher level of performance.

One of today's challenges is that different constituents have different interests. As bankers, we are concerned about growth and returns – regulators about safety and soundness – central bankers with the competing interests of systemic risk and economic growth – and politicians have to deal with significant public discourse. Having said that, there has never been a time where there is a greater need for these constituents to work together while unfortunately the opposite is occurring. There is more focus on attribution of blame for the past than ensuring success in the future. We need balance and the regulatory discussion needs representation of bank shareholders and customers.

We must find the right balance that ensures market stability with reduced systemic risk while at the same time encourages investment, innovation and capital formation. There is a lack of transparency and integrity in the numbers and this uncertainty does not serve the system well. If, for instance, we simply used the Basel II definition of capital and imposed significantly higher Tier 1 and common equity ratios (say 8% and 6% respectively) and applied a reasonably defined leverage ratio and ensured common standards around areas like trading risk capital allocation --- the system would move forward and systemic risk would be significantly reduced. If we have strong local regulations and hold management and boards accountable for risk standards, at least for now, a great deal of uncertainty would be removed with much reduced systemic risk.

If we get back to basics, we can, in my view, confirm the approach by the time of the November G20 summit in Korea. The approach would create certainty for institutions, and would avoid allocating scare resource to proposals that risk our global economic recovery. The choice is between action and delay – my vote is to act now and to act quickly but responsibly.

Now despite the financial crisis and my particularly negative view on regulatory risk, there have been and still are opportunities for banks with the strength and stability to seize them. We saw the opportunity to spend money to build our brand in the US and UK over the past three years. The financial crisis presented good marketing opportunities for RBC to differentiate itself on its strength and stability, and we took them, to great advantage as we invested heavily in our business.

The crisis also created the opportunity for us to extend credit and get paid a reasonable return. Prior to the crisis, there was no alignment between risk and reward and credit became a loss leader to get you at the table for advisory work. For the system to work properly, banks must get paid for extending credit and the associated risks.

As the storm subsides, strong banks will, in my view, get stronger, and weak banks will be pressured to restructure. This suggests an era of opportunity for potential acquisitions but not until we have a clear line of sight on the true value of assets and clarity on regulation. As long as uncertainty and volatility remain, finding the right time to buy at the right price is like trying to catch a falling knife -- but ultimately our industry will restructure.

There is no question in my mind that all of us in the banking system will have to adjust to a new normal in our industry. It is too simple to suggest a return to the basics of banking as we operate in one of the most dynamic and innovative global industries. The new normal will require a greater focus on the customer, value added products, and innovation that enhances product fulfillment and reduces the cost of delivery. In my view, the relationship between our industry and government and perhaps more importantly – society in general – will permanently shift and those who manage that paradigm will be winners. Banks have a social responsibility - and the sooner the industry steps up and fulfills its expectations, the better off we will be.

Banks will have to restructure their business mix to ensure that capital is being deployed in the most efficient and effective manner because neither the marketplace, nor regulators, will tolerate marginal returns on excess capital. The result will be restructuring of balance sheets and assets and those that can adapt will benefit and those that are complacent and hope for a return to the "good old days" will atrophy. Our intention is to adapt and take advantage of this shift to refocus and ensure our model and business mix maximizes our opportunities.

The public's distrust of our system climbed when individuals saw the value of their retirement savings and/or homes plummet, and this distrust soared further when it became clear that many different participants – financial institutions, regulators, politicians, and investors – played a role in causing this dislocation.

As our markets restructure, as our companies rebuild and as confidence and trust are restored, there is understandably a great cry from customers, regulators and stakeholders for more accountability, more responsibility and more transparency. Today we have the opportunity and obligation to show that we understand our role to underpin the world economy.

As I enter my second decade as CEO of The Royal Bank of Canada, I've noticed that my focus is shifting more and more to engaging our people – much more than I did in my early years as leader. Our most important assets ride the elevators and enter our branches everyday: they make our reputation strong or weak, they make it easy or hard to attract top talent and attract and retain good clients. They are the ones that must seize the opportunities ahead and drive innovation. How committed, engaged and client-focused they are is ultimately a function of our culture. Values and values-based cultures have come to forefront with the financial crisis. Customers are looking at their banks anew. They are taking a greater interest in who we are and what we stand for. This curiosity is about more than balance sheets and capital ratios. They want to know about our strength as it relates to respect, trust and integrity, not just capital. They want to know if we really do put clients first. The new normal says we must, or else reputational risk, not to mention regulation, will weaken and destroy franchises. During these challenging economic times, it is essential that we move the regulatory discussion in a way that reduces uncertainty and enables our industry to fulfill its important role in economic growth and capital formation.

Regulatory uncertainty and improperly calibrated rules are our industry's great risk and we all have a collective obligation to our constituents to get it right.

Once again, I would like to thank BBA for inviting me to speak this morning.

Thank you.