

## **David Dodge: Promoting economic integrity**

Remarks by Mr David Dodge, Governor of the Bank of Canada, to the RCMP management retreat, Ottawa, 25 October 2005.

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Thank you, and good evening. When Commissioner Zaccardelli asked me to speak at this retreat, I was glad to accept. In fact, I'm honoured to be part of this inception of the RCMP's new strategic priority - Economic Integrity.

It's not surprising that the Bank of Canada is interested in promoting economic integrity. After all, the Bank of Canada Act mandates us, as far as possible within the scope of monetary policy action, to "promote the economic and financial welfare of Canada."

We are committed to promoting the economic well-being of this country and its citizens. We do this through our monetary policy, through our role as the federal government's banker, and through the issuance of Canada's paper currency. And we constantly work to promote confidence in a sound, safe financial system.

A few years ago, your Commissioner coined the phrase "Safe Homes, Safe Communities". Your new strategic priority adds a third element to this phrase - "A Safe Economy". More than ever before, the law-enforcement community has a critical role to play in strengthening and preserving the security and economic interests of Canada. Now more than ever, the Bank of Canada, the RCMP, and other police agencies across Canada are working together to achieve this goal.

### **Good policing is economic policing**

A focus on promoting a safe economy is not new for the RCMP and other police agencies. It is part of everyday policing - providing a safe place for citizens to live and work.

But what do we mean by safety in our economy? For those of us involved in the nation's finances, it means preventing activities that undermine Canadians' confidence in their economy. It means fighting against the counterfeiting of currency and goods, credit card fraud, identity theft, money laundering, and so on. And it means preventing the erosion of confidence in our financial markets.

Public companies need capital to invest and create jobs. Governments need capital to build infrastructure. Investors provide capital on the expectation that it will be put to good use and yield good returns. In turn, investors rely on these returns to finance their own needs, their homes, their retirement, and the education of their children. All of this activity will not take place unless the players are confident that they will be treated fairly, and that they operate on a level playing field.

We know that all investments are subject to some risk of loss - that is the nature of markets. Properly-functioning financial markets price investments according to their degree of risk and their economic merit. But these markets can only function properly, and price appropriately, if the information on which they function is correct. If there is misinformation and deception - or the suspicion of fraud - markets cannot work efficiently.

Let me explain further. When there is fraud, the market is operating on incorrect information. Clearly, that can result in private losses for individual investors who acted on the wrong information. But it can also cause a general loss in confidence - a loss which affects the economy as a whole. In the absence of trust that information is correct, the market cannot function, and society as a whole is the poorer for it. That's why we have accounting standards, securities regulations, and laws prohibiting economic crime. There are significant social benefits of a properly functioning market. And there are severe social costs of a market that functions poorly.

Economic crime erodes the faith of Canadian and foreign investors in the integrity of our financial systems, our currency, our governments, our businesses, and our products. These crimes undermine the financial health and reputation of our country. They are far from victimless. Ultimately, we are all

victims of these crimes, as they erode confidence in the financial system. And it takes a long time and a lot of effort and investment to re-establish public confidence once it is lost.

That's why we have to view economic crime as every bit as serious as certain crimes of violence. It is true that fraud is less physically dangerous than an armed robbery. But its social damage is every bit as severe. Both types of crime undermine the trust that people have in their society. That's why a computer hacker who steals from a company is just as much a criminal as a bank robber who steals from a bank branch. And an illegal inside trader that has hijacked a million dollars from the pockets of investors is no less a criminal than the thief who commits an armed robbery. In all of these cases, the specific loss of property is exacerbated by a more widespread loss of confidence.

Let's look at an example that's closer to home for the Bank of Canada - paper currency, our one tangible product. When an individual gets stuck with a fake bill, the amount he or she loses may be very small. But again, it is the aggregate impact that matters. Cash transactions still account for a large percentage of our economy, and the use of cash continues to grow every year. If people lose faith in their currency, the economic and social costs are immense. The impact of the Windsor \$100 counterfeits a few years back is a lasting reminder of those costs. Maintaining the public's trust in Canada's paper money is a job that the Bank takes very seriously.

Many police agencies are already working, either implicitly or explicitly, to protect economic integrity. You've been fighting the economic components of conventional crime - such as the laundering of the proceeds from drug sales - as well as economic crime itself - such as fraud, counterfeiting, and computer hacking. By improving your ability to fight these specific economic crimes, you improve your ability to fight all crime.

In matters of personal and public safety, police organizations have known for a long time that enforcement cannot be effective without active cooperation from citizens and communities. Enforcement alone is not sufficient to improve safety in our homes and in our streets. Prevention, education, and community initiatives all have their role to play. Police officers also rely on the help of a broad range of complementary experts: psychologists, lawyers, community workers, public health officers, and so on.

That spirit of cooperation is just as vital when it comes to protecting economic integrity. No one policing agency can fight alone against terrorist financing, money laundering, counterfeiting, or financial market fraud. This has become especially true in recent years, because of the growing sophistication of financial instruments and trading technologies. It's now much easier to hide one's own identity, or to steal someone else's, using Internet and other anonymous networks. And it's easier to confuse people with ever more complex financial schemes.

The good news is that we've already seen how effective the police can be when they mount a sustained and coordinated effort to reduce these types of crime. Integrated Proceeds of Crime Teams have made it increasingly difficult for criminals to profit from their illegal activities. The launch of the Integrated Market Enforcement Teams in 2002 has helped boost public confidence in our capital markets. These are still early days, but the work of these teams is being noticed.

The Bank is solidly behind this integrated approach to enforcing laws against economic crime. Special teams have the skills and resources needed to conduct complex investigations leading to the successful prosecution of these so-called "professional criminals." This year, you developed the National Counterfeit Enforcement Strategy. As a result of this initiative, it appears that we may soon have specialized Integrated Counterfeit Enforcement Teams (ICETs) in place, to fight the serious threat posed by currency counterfeiting. Be assured that my colleagues and I applaud and strongly support these vital efforts.

However, I know how difficult it is to generate support and funding for these new initiatives. I understand how frustrating it must be to investigate these complicated crimes without adequate and skilled resources or support. And I understand the frustration of police who spend time and resources investigating these offences, only to see the criminals walk away with little punishment because the social costs of their crimes aren't always fully recognized. That's why the Bank is working with the law enforcement community on training materials and legal tools to help prosecutors present their cases more effectively.

Further progress will require a coordinated effort and a multidisciplinary approach. Vocal championship by leaders from the public and private sectors is needed if Canadians and their governments are to appreciate and support investment in specialized enforcement teams and more effective prosecutions and sentencing. As Governor of Canada's central bank, it is my responsibility

and my intention to do all that I can to increase awareness of the importance of protecting economic integrity. That is why the Bank has been, and continues to be, committed to partnering with law-enforcement authorities and other participants in the legal system.

### **Challenges in protecting economic integrity**

You and the Bank of Canada share a compelling objective: Making Canada a safe place to earn a living, to do business, and to invest. So, what challenges do we face in this regard?

Canada has a strong financial system, low and stable inflation, and a healthy economy. Our regulatory and governance structures are sound, and they are evolving to meet the challenges of new technology. So are Canada's bank notes - they now contain some of the best security features in the world

But there is evidence that Canada is at risk of becoming a safe haven for opportunistic criminals who deal in white collar crime. This may be because we have lacked an adequately resourced enforcement regime and strong sentencing precedents. It may also be because there is a perception that our markets may not be as safe as they should be, and a perception that our enforcement is not as tough as it ought to be. So we're battling on two fronts: we need to thwart these opportunistic criminals, and we must be seen to be doing so.

Another challenge is also a traditional strength of Canada's economy, and that is its openness. This openness has helped us to become one of the world's great trading nations, and a model of multiculturalism. Canada is seen as an attractive place for people to live, to invest, to do business, and to trade with. But, as I've said, this open economy makes us a target for international economic criminals. That's why we need more effective public and private sector governance and sound regulatory and enforcement practices to nurture strong businesses and sound financial systems.

A third challenge is the need to ensure that our laws are current and that the judiciary is well-informed. The mere detection of crime - not to speak of its prosecution - is now a very sophisticated activity. It requires accountants, actuaries, commercial lawyers, financial specialists, and computer experts. Most importantly, it needs skilled investigators who are able to collect, analyze, and assemble complex evidence. And it requires informed prosecutors who are able to effectively marshal this evidence in the courtroom.

To meet these three challenges, we need to continue to work efficiently together - across specialties and institutions. No single institution can gather and manage all the experts who have to cooperate in this new environment.

Police know their role in fighting economic crime. But manufacturers, issuers of high-value instruments (such as currency, securities, and passports), and financial institutions also have key roles to play. We must make our products and services as secure as possible. And we must do this while remaining profitable or, in the case of public sector institutions, cost effective. Now more than ever, this entails considerable expenditure to create and deploy highly sophisticated, reliable, and easy-to-use products and services. Our new *Canadian Journey* series of bank notes is a good example of the effort that we are making in this regard.

As organizations make these investments, they must put even greater emphasis on security, quality, and service. They must be audited and supervised to the highest standards. Regulators, overseers, users, boards of directors, the legal community, and the general public all have a stake in the outcome.

Tracking down the bad guys and collecting the evidence is the responsibility of the RCMP and other law enforcement agencies. Bringing a strong case to court for the Crown rests with the prosecutors. By working together, we can hope for sentencing that reflects the importance of the crime. But achieving that goal requires active collaboration. That is easy to say, but devilishly tough to achieve. Knowledge sharing is difficult even within a homogeneous organization. Sharing information and expertise across separate and independent organizations is even harder. But it is critical if we are to succeed.

The RCMP's creation of the strategic priority of Economic Integrity is a tremendous step towards achieving that goal, for two reasons. First, this initiative is the vehicle by which your internal resources can be mobilized. The IMETs are an excellent example of this and I'm confident that the ICETs will be, too. Second, this initiative will become the conduit for sharing knowledge, information, and resources

with other partners, including the Bank of Canada. Through a well-organized partnership, we can succeed in our goal of enhancing and preserving the economic integrity of our country. On behalf of the Bank of Canada - and I'm sure that I speak for securities commissions and other market regulators on this - let me say that we appreciate your efforts, and that you have our full and enthusiastic support.

## **Conclusion**

Everybody in this room is committed to making Canadians secure, in their homes, in their communities, and in their business and working lives. As we do so, it is imperative that we continually remind ourselves that crime extends beyond the physical. Economic crime is harder to investigate and to prosecute. But it is every bit as damaging to the well-being of Canadians, and it is just as important to fight it with all of our effort.

That's why I applaud your decision to make economic integrity a strategic priority. And I renew the Bank of Canada's commitment to work together with the RCMP and all enforcement agencies to help make the Canadian economy a safer place for investors, for businesses, and for all of our fellow citizens.