

**National Registration Database:  
A Study of Economic Benefits  
to the Financial Services Industry**

**- SUMMARY REPORT -**

**November 2001**

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## **I. Summary of Key Findings**

- **\$85 million of economic benefits industry-wide**

Based on the survey responses of 131 registrant firms, the total economic benefits of the National Registration Database to the Canadian financial services industry will be \$85 million over a five year period.

- **Most benefits attributable to cost savings and efficiency gains**

Cost savings and/or efficiency gains are at the root of the individual NRD features expected by survey respondents to deliver the greatest economic benefits. That is, firms anticipate that these features will either reduce their cash expenditures related to the registration process, lower their labour costs, or free up their employees' time for other activities.

- **Large firms anticipate greater share of total benefits**

Large firms (more than 500 registrants) expect to realize more than 50% of the \$85 million of total benefits.

- **Small firms anticipate greater benefits per registrant**

Small firms (one to 50 registrants) predicted significantly higher benefits when expressed on a "per registrant" basis. Their share of the \$85 million amounts to \$2,200 of benefits per registrant, compared to \$264 for each registrant at large firms.

## II. Introduction

### **What is the National Registration Database?**

The National Registration Database (NRD) is a web-based system which will permit dealers and advisers to file registration forms electronically. It has been designed, in consultation with industry representatives, to harmonize and improve the registration process across most of the jurisdictions of Canada.

Generally, annual registration with one or more provincial securities regulators is required by an individual or company whose business is trading, underwriting or advising with respect to securities. The registration process is designed to protect the investing public by striving to ensure that only qualified and reputable individuals and firms are licensed.

Currently, all registrations are completed on paper-based forms, and the approval process can take up to 4-6 weeks. Prospective registrants may experience significant lost revenue opportunities during this period. It is believed that the NRD, by screening out common deficiencies prior to delivery to the regulator and eliminating the movement of paper, will reduce the time of the approval process in most cases to a matter of days. Furthermore, registrants will need only submit one application to register in multiple jurisdictions, rather than filing separate forms with each province or territory.

The NRD is an initiative of the Canadian Securities Administrators (CSA), which is comprised of the securities regulators of each province and territory. Every CSA member is participating in this project except Quebec. The NRD is expected to be fully operational, and its use will be mandatory, by the Fall of 2002. At this stage in the NRD's development, the CSA sought input from a wider group of participants in order to ensure that the benefits would outweigh the costs, burdens would be shared fairly across different segments of the industry and that the main elements of functionality were consistent with the needs of registrants.

### **Objectives of this Study: Measuring the Benefits**

As described above, the registration process as a whole will become much more efficient once it is moved to a web-based system. The result will be significant and tangible benefits, both to private sector firms and to securities regulators. **The primary objective of this study is to quantify the economic benefits of the NRD to Canada's financial services industry.**

In addition to measuring the overall benefits, this study has been designed to:

- quantify the benefits of the various individual features of NRD;
- compare the relative importance of NRD features for firms of different sizes; and
- allow respondents to provide comments during the development process.

The study was conducted by the Office of the Chief Economist of the Ontario Securities Commission.

## **III. Methodology**

### **Sample Size**

A survey of registrant firms was determined to be the best instrument to meet the study's objectives. It is Canada's dealers and advisers who will be the end-users of the NRD; they are better suited than regulators or system designers to the task of estimating the economic benefits they will derive from it.

Over 700 firms were contacted using registration information from several provinces. A total of 131 firms responded, representing over 47,000 registrants, or nearly half the registrant population of Canada (excluding Quebec). A sample this comprehensive should have an error rate of less than 1%.

### **Calculation of Benefits**

The NRD represents a comprehensive redesign of the registration process, not merely the conversion of a paper form to a web form. The redesign incorporates numerous features, including some which automate existing processes, and others which provide new functionality that never existed previously. (Please see Exhibit 5 for a listing of the features tested in the survey.) In this study, the total "economic benefits" of the NRD have been calculated by totalling respondents' estimates of the benefits of each individual feature.

To determine economic benefits, respondents were asked to estimate the impact on the entire firm's performance of a particular NRD feature, in comparison to the present registration process. If a feature could be expected to save an individual one hour for each of the firm's 100 registrants, then the benefit of that feature would equal the cost of 100 hours of that individual's time. If another feature eliminates the need to physically send 100 packages to regulators, then the benefit is equal to the saved courier costs plus the cost of staff's time required to package the materials and call the couriers. Other incremental benefits might result not from eliminating existing tasks and expenditures, but from adding new capabilities and functionality to the registration process. For example, a firm might attribute a positive value to the availability of new information about its operations resulting from one of the NRD's reporting capabilities.

The responses were aggregated to enable a meaningful discussion of the benefits of each feature, and of the NRD as a whole. More specifically, each firm's estimate of a feature's economic benefits was restated as a "benefit per feature per registered individual," to eliminate any bias due to firm size. This figure was then averaged across all respondent firms, and multiplied by 102,000, i.e. the total number of registrants in Canada (excluding Quebec). The result is an estimate of the industry-wide total annual benefit for each feature. Using an 8% discount rate over five years (the estimated cost recovery period for the NRD), the present value of each feature's total economic benefit was calculated. It is this latter number that is referenced throughout the Results section of this report.

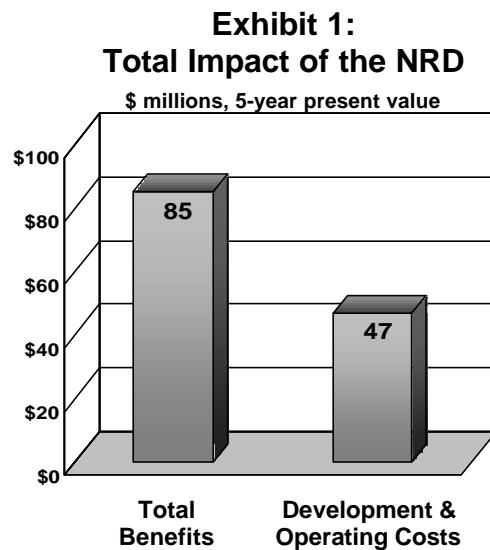
Several elements of the survey design ensure that the estimate of benefits is a conservative one. In the interest of brevity, not every NRD feature could be included on the questionnaire; had they been tested, certainly some of the omitted features would have yielded a positive value. Furthermore, when respondents were unable to estimate a figure, the benefits of that feature were assumed to be zero. Most significantly, because total benefits were calculated as a sum of the individual features, respondents were not directly asked about the overall impact of the NRD. For example, a faster registration process will greatly reduce unproductive time for new registrants, and that fact alone should result in dramatic savings to the industry. Such savings, however, are not factored into the survey results.

## IV. Results

### **\$85 Million of Economic Benefits Industry-Wide**

Based on the firms' responses to the survey, the total economic benefits of the NRD for the Canadian financial services industry will be \$85 million over a five year period. As described above, this figure represents the sum total of the benefits of each of the NRD features.

Exhibit 1 compares these total benefits to the projected cost of developing and operating the NRD over the same five year period. One of the motivations for commissioning this study was to ensure that the costs of the NRD, which will be recovered over time through user fees, are justified. The CSA is encouraged to learn that, at this early stage, the benefits of this project are expected to far outweigh its costs.



### **Most Benefits Attributable to Cost Savings and Efficiency Gains**

Cost savings and/or efficiency gains are at the root of the individual NRD features expected by survey respondents to deliver the greatest economic benefits. That is, firms anticipate that these features will either reduce their cash expenditures related to the registration process, lower their labour costs, or free up their employees' time for other activities. Other features whose main value proposition is added functionality (e.g. search functions, report generation capabilities) or convenience (e.g. web-based forms, live phone support) are ranked lower. (Please see Exhibit 5 for the complete list of features tested.)

The five most highly valued NRD features are shown in Exhibit 2, and discussed in greater detail below. Combined, the "Top 5" features account for nearly \$43 million of benefits over five years, or approximately half of the total.

**Exhibit 2: Top 5 Most Highly Valued NRD Features**

| <b>NRD Feature</b>   | <b>Economic Benefits</b><br><i>(\$ millions, 5-year present value)</i> |
|--|--|
| Register in multiple jurisdictions with single submission                          | <b>11.6</b>  |
| Permanent registration   | <b>9.1</b>   |
| Print registration applications to support business requirements                   | <b>8.7</b>   |
| Supporting documents retained at firm instead of physically submitted to regulator | <b>8.1</b>   |
| Electronic Funds Transfer (EFT) used for payment of fees                           | <b>5.4</b>   |

**1. “Register in multiple jurisdictions with single submission”**

Currently, registrants who wish to be licensed in more than one province or territory must file separate registration forms in each jurisdiction. The NRD is designed to enable a single submission to satisfy all jurisdictions in Canada (except Quebec). This clearly will be a more efficient process for the firms affected.

**2. “Permanent registration”**

Under most jurisdictions’ current systems, all registrants must complete various renewal forms every year, regardless of whether or not their information has changed. The NRD will dispose of this requirement, effectively allowing for permanent registration of most registrants, hence reducing the volume of paperwork for firms.

**3. “Print registration applications to support business requirements”**

The NRD will allow users to print registration applications to support either legal or internal business process requirements. The value of this feature is partly a matter of convenience, but the primary benefit is efficiency, since the alternative would be a cumbersome process of printing screen captures, or re-entering the registration information into a new format.

**4. “Supporting documents retained at firm instead of physically submitted to regulator”**

Under existing requirements, a number of supporting documents which are not part of the registration forms themselves must be physically submitted to regulators. With the NRD, in most cases, firms need only retain these documents on-site, resulting in savings of time and shipping costs.

**5. “Electronic Funds Transfer (EFT) used for payment of fees”**

Currently, registration fees are paid by cheque. The NRD will standardize EFT as the sole method of payment of fees. Those respondents who indicated a positive value for this feature likely foresee efficiency gains, as the manual processing of repetitive, small payments will be eliminated.

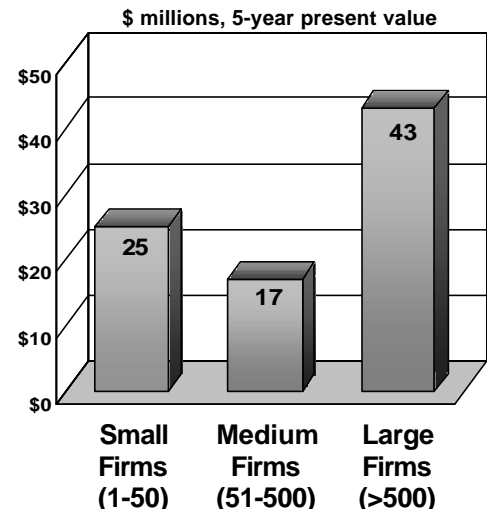
## Large Firms Anticipate Greater Share of Total Benefits

Large firms, defined in this study as those with more than 500 registrants, expect to realize more than 50% of the \$85 million of total benefits. Specifically, large firms predict \$43 million of benefits, medium firms (defined as those with 51 to 500 registrants) \$17 million, and small firms (50 or fewer registrants) \$25 million.

This result is consistent with expectations. As discussed above, many of the features of the NRD are expected to save firms time and labour for each individual registration. The sheer volume of registrations filed by some of the larger companies accounts for their substantial share of total benefits.

“Large firms” comprise a small fraction of all firms, but a majority of total registrants. For example, of the more than 1,000 firms registered in Ontario, roughly 2% employ more than 500 registrants in the province, and these firms collectively represent over 60% of Ontario’s 60,000 registrants. Conversely, over 90% of the firms have 50 registrants or less, but these comprise less than 15% of all registrants.

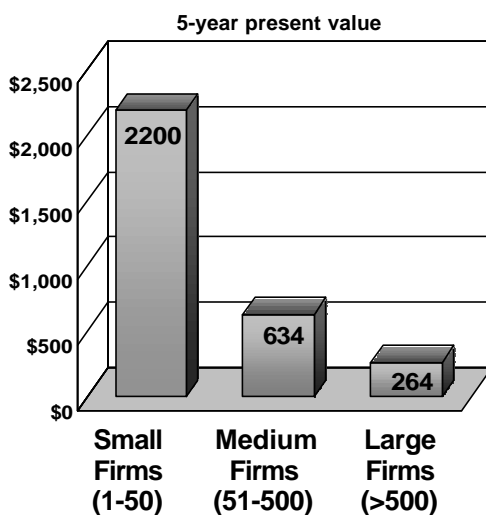
**Exhibit 3:  
Total Benefits by Firm Size**



## Small Firms Anticipate Greater Benefits Per Registrant

While large firms foresee greater total benefits, the smaller firms predicted significantly higher benefits when expressed on a “per registrant” basis.

**Exhibit 4:  
Benefits Per Registrant**



For example, according to the results shown in Exhibit 4, a typical small firm with 10 registrants might expect to realize \$22,000 of benefits over five years as a result of the NRD. A national firm with 1,000 registrants might realize \$264,000 of benefits – a larger total, though significantly lower on a “per registrant” basis.

The disparity can be explained by economies of scale. Large firms are spreading any company-wide benefits over a vastly greater number of registrants, compared with the small or medium-sized firms. Furthermore, larger firms tend to delegate compliance-related tasks to dedicated teams of employees, who become efficient in their performance. Smaller firms, which may lack the resources to employ specialized staff,

often assign registration duties to revenue-generating personnel or even the owner; such firms stand to gain the most from any improvements that make the regulatory process more efficient.

## Other Highly Valued Features

Exhibit 2 lists the Top 5 NRD features as ranked by all firms. When the results are further segmented by each category of firms – small, medium and large – there is considerable overlap. Firms of all sizes seem to agree on which features are most valuable, as each group's individual Top 5 included at least three of the overall Top 5. (Please see Exhibit 5 for details.)

The following features were ranked among the Top 5 of one of the categories of firms, and are therefore highly valued, but not sufficiently so to rank in the overall Top 5.

### **“Individual applicant able to enter own data; Authorized Firm Representative administers firm data”** *(ranked #3 by Large firms)*

Individual registrants will be given access to the NRD system to enter their own information for their initial registration, while only a designated AFR is able to enter data that relates to the firm. Currently, many errors and inefficiencies result from the common practice among larger firms of delegating to someone else the completion of an individual's forms.

### **“Individual transfer applications can be submitted electronically”** *(ranked #4 by Medium firms)*

Transfer applications, generally required by regulators when an individual switches firms, are currently paper-based. By enabling electronic submission, the NRD will reduce the delay during which such individuals are barred from trading or advising.

### **“Able to save and edit work-in-progress indefinitely prior to submitting”** *(ranked #4 by Small firms)*

Applicants using the NRD will be able to save sections of the application for an indefinite period, and return later to edit it before making the final submission to the regulator.

### **“Live phone support”** *(ranked #5 by Medium firms)*

An operational manual will be available on the NRD web-site, while live telephone support will be provided to users requiring technical assistance. Those requiring regulatory support, including explanations of the registration forms themselves, will continue to communicate directly with regulators, as is the current practice.

**Exhibit 5: Complete Results by NRD Feature, Segmented by Firm Size**

| NRD Feature   | Economic Benefit<br>( <i>\$ millions, 5-year present value</i> ) |              |                 |              |
|---|--|--------------|-----------------|--------------|
|   | All Firms  | Small (<=50) | Medium (51-500) | Large (>500) |
| Register in multiple jurisdictions with single submission   | 11.6 *   | 5.1 *        | 1.7 *           | 4.8*         |
| Permanent registration  | 9.1 *  | 4.0 *        | 1.8 *           | 3.3          |
| Print registration applications to support business requirements                                  | 8.7 *  | 1.2 *        | 1.0             | 6.5 *        |
| Supporting documents retained at firm instead of physically submitted to regulator                | 8.1 *  | 2.1 *        | 2.3 *           | 3.7 *        |
| Electronic Funds Transfer (EFT) used for payment of fees  | 5.4 *  | 0.7          | 1.0             | 3.7 *        |
| Individual applicant able to enter own data; Authorized Firm Representative administers firm data | 5.1  | 0.7          | 0.2             | 4.2 *        |
| Individual transfer applications can be submitted electronically                                  | 4.6  | 0.8          | 1.3 *           | 2.4          |
| Able to save and edit work-in-progress indefinitely prior to submitting                           | 4.2  | 1.6 *        | 0.4             | 2.2          |
| Generate standardized reports at individual level   | 3.6  | 0.7          | 0.9             | 2.0          |
| Generate standardized reports at branch level   | 3.3  | 0.4          | 0.5             | 2.5          |
| Web-based applications for individual registrants   | 3.2  | 1.1          | 1.0             | 1.2          |
| Data saved every page, only after completeness check  | 3.0  | 0.8          | 0.7             | 1.6          |
| Entire firm's registrations transferable to a new firm  | 3.0  | 0.7          | 0.4             | 1.9          |
| Live phone support  | 2.8  | 1.0          | 1.2 *           | 0.5          |
| Personal data partially pre-loaded on system  | 2.1  | 1.0          | 0.2             | 0.9          |
| E-mail help desk support  | 1.8  | 0.9          | 0.6             | 0.2          |
| Search function, using unique NRD numbers as identifiers  | 1.6  | 0.9          | 0.1             | 0.6          |
| Generate standardized reports at jurisdictional level   | 1.5  | 0.4          | 0.3             | 0.7          |
| Group registrations transferable to a new branch of same firm                                     | 1.3  | 0.5          | 0.6             | 0.3          |
| Transfers can only be initiated by NRD system administrator                                       | 1.3  | 0.3          | 0.7             | 0.2          |
| <b>Total</b>  | <b>85.2</b>  | <b>24.9</b>  | <b>16.9</b>     | <b>43.4</b>  |

\* = one of the Top 5 features in its category

### **For More Information**

A more detailed presentation of the results of this study can be found at the Ontario Securities Commission web-site, [www.osc.gov.on.ca/en/Market/registrants.html](http://www.osc.gov.on.ca/en/Market/registrants.html).