



House of Commons
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 005 • 2nd SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, November 27, 2007

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Chair

Mr. James Rajotte

Also available on the Parliament of Canada Web Site at the following address:

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•(0905)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Members, I'll ask you to please take your seats. We are here at the fifth meeting of the Standing Committee on Industry, Science and Technology. The orders today are pursuant to Standing Order 108(2), a review of Canada's service sector.

We have three organizations with us today. The first organization is the Insurance Bureau of Canada, with the president and chief executive officer, Mark Yakabuski. We have two representatives from the Canadian Bankers Association: Nancy Hughes Anthony, president and chief executive officer, and the vice-president for policy, Mr. Terry Campbell. We also have a third organization, the Canadian Life and Health Insurance Association Incorporated, with the president, Mr. Frank Swedlove. I believe, Mr. Swedlove, you'll be with us until 10:30 this morning, as you have to catch a flight. We have the vice-president, taxation and research, James Witol, and senior vice-president of Quebec affairs, Mr. Yves Millette.

Welcome to all of you. We will start with the Insurance Bureau of Canada. We will start with presentations of up to ten minutes by each organization, and then we will go into questions from members. We'll start with Mr. Yakabuski.

Mr. Mark Yakabuski (President and Chief Executive Officer, Insurance Bureau of Canada): Thank you very much, Mr. Chairman.

[Translation]

Thank you for the invitation to appear before this committee. First of all, I want to congratulate you for undertaking this review of Canada's service sector.

[English]

The service industries in Canada are a huge employer. The total service sector employment in Canada now ranks at about 78.6% of total employment. But oddly enough, the services sector in general in Canada contributes only 69.7% of Canada's GDP. What does that mean? It means Canada's service sector is not as productive as other parts of the economy. Mr. Chairman, I think the challenge of this committee, and indeed of this Parliament, is to take all necessary measures to ensure that productivity in the services sector in general, and particularly the financial services sector, can be improved.

[Translation]

I imagine that very few of you know that there are 215 property and casualty insurers in Canada.

[English]

There are 215 licensed property and casualty insurers in Canada. I'm very proud to represent this sector. We have a premium volume of almost \$36 billion currently. The industry is healthy, with a return on equity last year of about 17%, but it's always the future you have to be looking out for.

We are a very large employer in Canada, employing almost 108,000 people. That employment is spread across the country in both large businesses and small. We invest about \$80 billion in government and high-grade corporate bonds across the country, and we are a huge contributor to the public fiscal health.

The property and casualty insurance industry alone contributed \$6.5 billion in 2006 to the federal and provincial governments across Canada. So it's a healthy industry, and it's also an industry that you want to keep healthy if you want to have those tax revenues maintained at that level.

Having said that, I think there are a few things I'd want to bring to your attention, Mr. Chairman. There are, if I can put it this way, two really critical challenges moving forward in the years ahead.

One is that Canada's regulatory system for its financial institutions, particularly its property and casualty insurers, has to keep pace with that of other major insurance markets. We are not doing so currently. Canada is ranked 11 out of 80 countries in terms of the highest effective tax rate on capital, according to the C.D. Howe Institute.

The United States, which was long a laggard in good regulation of financial institutions, has over the last decade, one might argue, catapulted above Canada in terms of having a more efficient regulatory system. We have more regulation of insurance prices and insurance products in Canada than any other major OECD country. I think it's something that governments and regulators across the country have to pay some attention to.

I also want to bring your attention, Mr. Chairman, and that of this committee to a very serious issue. We have seen more discussion of it in the media over the last couple of days, but I can tell you it won't be the last of the discussion. That is the critical need in this country to invest in very basic infrastructure, in particular our water and sewage systems. There is, probably with the exception of the new subdivisions in Calgary, no city in this country that does not have a decaying water and sewage system. These systems were designed to take rain loads that were planned back in the 1930s and 1940s. I can tell you that today, whatever your view happens to be on the causes of climate change, the fact of the matter is that climate change is with us. The damages associated with climate change will grow more severe as the years pass.

There is no such thing, in my opinion and in the opinion of our industry, as a sound climate change policy that does not have a robust plan for adapting to climate change. The greatest challenge we face is to adapt to climate change. The reality, Mr. Chairman, is that if we were to decommission every coal-fired plant tomorrow, if we were to delay indefinitely the development of the tar sands in Alberta, if we were to reduce the vehicle population of this planet by 50%, there would still be enough CO₂ in the atmosphere, according to the Intergovernmental Panel on Climate Change of the United Nations, to move the forces of climate change for the next 50 years at least.

What does that mean? We are all going to be facing a lot more frequent severe weather, while we have water and sewage infrastructure systems that were built for a very different time. There is therefore an immediate necessity for governments to cooperate and to engage in public-private partnerships that are innovative and that allow cities and municipalities across this country to rebuild what will become one of our most critical infrastructures—our water and sewage systems—in the years to come.

I say that because without those kinds of investments, the strain on Canada's property and casualty insurance system will be severe.

• (0910)

[Translation]

I prefer to work with you to improve the infrastructure systems in Canada. I believe we must try to achieve cooperation between the private sector and the public sector, and I encourage this committee to recommend that in its report.

Thank you.

[English]

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

We'll now go to Ms. Hughes Anthony, please.

Mrs. Nancy Hughes Anthony (President and Chief Executive Officer, Canadian Bankers Association): Thank you very much, Mr. Chair, and thank you for the opportunity to make a presentation before this committee. My colleague Terry Campbell and I represent 54 banks that are members of the Canadian Bankers Association across the country. We certainly applaud the committee for undertaking this study of a very important sector, the service sector.

[Translation]

I should also emphasize that the banking sector is a Canadian industry that provides Canadians with a very broad range of services nationally. We are also a major industry whose exports are growing, representing Canada's expertise and know-how around the world.

[English]

Mr. Chair, you have a deck presentation—I hope you have—*dans la langue de votre choix*. I won't go into every page of that, Mr. Chair. I will simply highlight a couple of things, give you a bit of an overview of the industry, contributions to the economy, our international involvement in particular, and look at the challenges ahead.

As you can see on slide 4.... Sometimes you read in the press that there are only four or five banks in this country. Well, that couldn't be less true. We have a very diverse, wide-ranging banking industry. I mentioned that the CBA represents 54 banks, but in fact there are actually 73, if you count everybody's subsidiaries and bank branches. Obviously, there is a wide variety of competition; it is not a static market, and as you can see on page 5, there are lots of new entrants into the banking system. We now have the Canadian Tire Bank, President's Choice Financial, virtual banks, and a wide range of banks that provide services to consumers.

I would also point out that the competition is fierce among banks, but there are also literally thousands of other financial service providers who compete for consumers' business, and I've laid out a few of those on slide 6.

[Translation]

I think it should also be emphasized that competition provides benefits for consumers. In terms of prices, for example, Canada's banking system compares very favourably with those of other countries, as you can see on page 7. This study was recently conducted by the Capgemini Group and shows that Canada offers very affordable banking services.

Another competition indicator is the margin between interest rates on deposits and loans. Obviously, in general, the more competitive a market is, the smaller the margin. However, as you can see on page 8, consumers are the ultimate beneficiaries of that.

[English]

So there's lots of competition and choice in the marketplace, and very wide access to financial services for individual Canadians. You can see in the slide on page 9 that we actually enjoy...99% of our adult population has an account at a financial institution, and that's a very good statistic internationally.

On page 10, it's a bit of a busy chart, but I think it's important to note that in terms of per capita access, Canada is number one in the world in terms of access to automated banking machines. Then we're seventh in the world in terms of access to branch networks.

With the combination of branches, ABMs, telephone banking and Internet banking, it proves a very highly accessible system.

A few words, Mr. Chair, about the contribution of the banks to the economy. As you can see on page 12, 250,000 employees are directly employed in banks across the country, and I like the fact that the chart is growing. It's a growing industry, which I think is very positive. You can also see that on the chart on page 13; it's a very significant contribution to GDP, and once again, a steadily growing involvement.

I have to talk about taxes—on page 15—everyone's favourite topic, I'm sure. The key point is that the banking industry pays more in corporate income tax than any other industry in the country. We totalled it up at \$6.4 billion last year, and I will come back to taxes in a moment.

A word on international involvement, and here I've highlighted it on page 17. It is interesting that many of Canada's banks, as you know, are now internationally active in various parts of the world. I was interested in the recently released document from the Competition Policy Review Panel in which they noted a statistic I didn't know, that finance and insurance contributed 44.1% of Canada's direct investment abroad last year. That's quite an impressive figure, so obviously the banks are very globally active.

I do want to highlight, Mr. Chair, on page 18, that although a growing percentage of the bank profits are coming from foreign activity—you can see it's about 41% in that chart on page 18 on the right—the bulk of the jobs, 81%, and the taxes we pay, 80%, are kept in Canada. I think that is a very interesting statistic.

● (0915)

[Translation]

It is fundamentally important to be competitive internationally. On page 19, you see a list of competitors that we are facing, which are of a very imposing size and are still growing. Canadian competitors are on the right-hand side, at the very end of the table, along with the rank they hold.

[English]

I think it's important to note as well, Mr. Chair, that there are other jurisdictions around the world that are not just letting things happen. Governments in jurisdictions in the U.K., New York City, and Australia are very active in terms of appealing to financial services companies to come to their particular jurisdiction, and Canada I think is not immune to these pressures.

Mr. Chair, I'll just wrap up in terms of challenges ahead. Obviously, I'd like to make comments that relate specifically to Canada's service sector and banking sector, but I'd like to highlight the fact that these comments pertain to businesses in all sectors, large and small.

There are four areas that I think are very worthy of consideration, and I would commend them to the interest of this committee.

You won't be surprised that number one is tax. We have told the government that it's done a good job—according to the last fiscal update—in reducing taxes, both corporate and personal. The job is not yet done. We still feel, in some provincial governments in particular, that there are capital taxes and there are corporate rates that are not competitive and should come down. Other countries are not standing still, as you know.

The second point is the regulatory system. I would certainly echo what Mr. Yakabuski said. The financial services regulatory system in Canada is, quite simply, too complex, too costly, and too inefficient. I think there are some initiatives under way to try to streamline regulation. We need to do more there, and certainly the common securities regulator would be a case in point.

The third point, Mr. Chair, is internal trade barriers. This is a file that I think this committee has been seized with for a long time. Clearly, we have to break down the kinds of barriers we see across provincial lines. We applaud B.C. and Alberta, who have decided to create the TILMA, the agreement we've seen just recently in the press, as well as Ontario and Quebec, for getting together. All these are good signs. We hope people in positions of power will be bold and brave in eliminating internal trade barriers.

The fourth is labour force demographics. Banks, as well as other institutions, are feeling the pinch right now and are certainly looking at a very discouraging skills shortage in the future. We want to make sure that the rules and regulations governing the labour market are as flexible and as enabling as possible.

[Translation]

In conclusion, Mr. Chairman, I congratulate you again for having undertaken this review.

● (0920)

[English]

From the point of view of the banking sector, I would say we have a strong, competitive industry that Canada can be proud of and that benefits consumers. But it is an increasingly competitive world out there; we can take nothing for granted. Many of our competitors are not standing still. So we do need to continue our efforts to make sure that we enhance our ability to compete.

Thank you very much, Mr. Chair.

The Chair: Thank you very much, Ms. Hughes Anthony.

We'll now go to Mr. Swedlove, please.

Mr. Frank Swedlove (President, Canadian Life and Health Insurance Association Inc.): Thank you, Mr. Chair.

Members of the committee, thank you for the opportunity to participate in the industry committee's study of the service sector, and congratulations for taking on this important topic.

[Translation]

The Canadian Life and Health Insurance Association, established in 1894, is a voluntary trade association that represents the collective interests of its member life and health insurers. The Association's membership accounts for 99 per cent of the life and health insurance in force in Canada and administers about two-thirds of Canada's pension plans.

We have distributed to you our annual publication on Canadian Life and Health Insurance for 2006. A 2007 edition will be printed in the next few weeks and forwarded to you for your information.

Canada's life and health insurance industry is in the business of providing personal financial security, helping to protect individuals, their families, and their businesses against the financial risks of premature death, illness, and retirement.

[English]

The industry provides a wide range of financial security products to about 26 million Canadians and their dependants in all walks of life and age groups. In addition, Canadian life and health insurance insurers operate in more than 20 other countries around the world and constitute one of Canada's most important export industries.

Products offered by the industry include individual and group life insurance; retirement and investment contracts, such as individual and group annuities, RRSPs, RRIFs, and pensions; disability insurance to provide replacement income for individuals who are unable to work due to illness or injury; health insurance benefits supplementary to public plans; critical illness insurance to provide financial assistance in the event of serious health problems; and long-term care insurance to help individuals prepare for a time when they can no longer function independently.

In 2006, the life and health insurance industry paid out over \$53 billion in benefits to Canadians; that's about \$1 billion every week. Over 90% of this amount went to living policyholders, with the remainder paid out as death benefits.

Canadians buy their life and health insurance in a highly competitive marketplace, with 106 life and health insurers from Canada, the United States, Britain, and other countries operating in this country. At the same time, Canadian-owned firms represent over 80% of the marketplace, demonstrating that this remains a predominantly Canadian owned and operated industry.

The life and health insurance industry is a major employer in Canada, with more than 120,000 people working in the business. Of that, close to 45,000 are in management and administrative work and 76,000 are in sales. On average, these are high value-added jobs for Canadians, with competitive salaries and benefits.

The life and health insurance industry is also a significant investor in Canada's economy, with over \$400 billion in assets held in the country on behalf of its policyholders at the end of 2006. Investments in Canadian corporations, through bonds and stocks, constituted 55% of the total. The financing of Canadian governments at all levels is another major investment, amounting to 18% of the total.

[Translation]

Canadian life and health insurers represent one of Canada's international success stories. Its major companies, headquartered in Canada, are widely acknowledged as leaders in the global marketplace. The three largest Canadian life and health insurance companies are in the top 10 in the world, measured by market capitalization. They have established a strong presence in various foreign markets — in the United States, Europe, and Asia — over the years. In 2006, for example, Canadian life and health insurers received 56% of their worldwide premiums from outside Canada and held 56% of their worldwide assets in foreign jurisdictions.

The financial strength of Canadian life insurers is one of the reasons they have been able to become major international players. Standard & Poor's, the rating agency, has in fact stated that the Canadian life and health insurance industry is among the most financially strong in the world.

●(0925)

[English]

Mr. Chair, I want to emphasize to the committee the importance of financial services to the Canadian economy and the significant potential for Canadian services internationally. The Canadian financial services sector offers high-quality employment and security. Canadian life and health insurance companies are global leaders in exporting services, and we encourage the Government of Canada to continue to seize opportunities to foster an environment that allows us to strengthen our role as world leaders in services.

Given the ever-changing world economy and the increasing pace at which recent changes have been occurring, the committee's study will be very helpful and timely in achieving this goal.

In closing, I'd like to leave the committee with a number of recommendations for your consideration. First, Canada needs to develop a services sector innovation strategy in order to increase the competitiveness of Canada's domestic services sector and the competitiveness of Canada's economy on the international stage. This includes the development of skilled human resources, opening of markets to trade and investment in services, reducing the regulatory burden, and removing internal trade barriers.

Second, I have noted Canada's success story for exporting our insurance expertise abroad. We can only be successful if foreign governments open their markets to our companies and allow them to operate under the same rules as their domestic companies. Therefore, it is essential that Canada participate actively in bilateral and multilateral trade deals that promote Canadian industry interests. More specifically, in the present Doha Round of negotiations of the WTO, Canada must push for the inclusion of a meaningful services agreement. Services interests should in no way be held hostage by other negotiations.

Third, and related to this, we need to ensure that the Canadian government is well resourced in order to represent our interests around the world. This would include providing staff in our missions abroad who are knowledgeable about the services sector.

Fourth, one of the core gaps in understanding the services sector in Canada is the lack of comprehensive data available from Statistics Canada. We would welcome the opportunity to work with the government towards improving this situation.

Finally, the importance of the services industry to Canada warrants a more thorough review, and we encourage the committee to undertake a services study with the same ambition with which it conducted its excellent manufacturing study.

Thank you again, Mr. Chair, for the opportunity to appear before the committee today. I would be pleased to provide any further input and respond to any questions you may have.

The Chair: Thank you very much, Mr. Swedlove. I thank all of you for those very substantive presentations.

We will now go questions from members. I just want to indicate to the witnesses that each member for the first round will have six minutes. For the second round they will have five minutes. Members are limited in their time, so please be brief in your responses. If a question is not directed to you but you wish to respond, please indicate to me and I will ensure you have an opportunity to address the question as well.

We'll start with Mr. McTeague for six minutes.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you, Chair.

Witnesses, it's a pleasure to have you here today. We, too, on this side, feel this is a very important study. We look forward to your further comments as we head towards, hopefully, some fairly palatable and constructive conclusions.

We have ridings across Canada where the service industry is in fact the most important industry as far as employment and growth are concerned. Your industries feature very prominently in that regard.

On any given day, someone who is an eternal optimist may open the paper and wonder what the effect of international tribulations and turbulence may be in terms of our own rosy picture at home, which has been good, at least I'd like to think, for the past 15 years now, gentlemen.

I'd like to ask this question. With Canada's exposure to sub-prime and the credit crunch down there, we are hearing from some in various institutions—insurance and banking, of course. So I guess this is to all witnesses who wish to respond to this. Is it fair to say that we in Canada have not been quite open or have not been able to fully comprehend the extent to which our institutions' exposures to investments made south of the border have come home to roost? What impacts do you believe this will have, in terms of the job picture, growth picture, in terms of the availability of credit for Canadians in the forthcoming six months or so?

● (0930)

The Chair: Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: Thank you very much. That's a very pertinent question.

For some Canadians it's a very complex issue. Some Canadians are unclear about the link between U.S. sub-prime mortgages and the situation up here, which basically is related to asset-backed commercial paper. Each one of the banks and institutions that have been affected by this has a different situation, a different book of business. When I look around the world, I think Canada has handled, and is handling, this situation very well. As you know, our banks have publicly affirmed their commitment to back the performance and the liquidity of their paper. We've had the Minister of Finance, the Governor of the Bank of Canada, and also the regulator say that the situation is stabilized and things are going to work themselves

out. Obviously market participants in the so-called Montreal proposal are at a very tricky point. I'm not going to comment on that. I hope Mr. Purdy Crawford is going to do his work, and we're going to let him.

There are some lessons learned with respect to issues around transparency, how institutions need to explain the products, and how investors need to ask for the explanation of the products. I was quite cheered when Deputy Governor Pierre Duguay of our Bank of Canada spoke recently about a review of the Canadian financial system that was undertaken by the IMF. He said that major Canadian banks have enough capital to withstand a severe shock and that in his mind this was a very positive thing.

I don't know if my colleague, Terry, has anything to say about the credit tightening. I don't think we've seen anything of that.

Mr. Terry Campbell (Vice-President, Policy, Canadian Bankers Association): I would add to what Nancy has said that the banks are very strong. They are very well capitalized, and they have taken into account the fluctuations in values. We're not seeing any evidence at all that it's having an impact on the availability of credit. We look at Statistics Canada data, we do our own discussions with banks, and there is no evidence that it's having a negative impact on the availability of credit.

The Chair: Mr. McTeague.

Hon. Dan McTeague: I want to thank you for those answers. I think they're very helpful in terms of the next few months.

As members of Parliament, some of us who have been here a little longer recall a time when it wasn't uncommon to have several complaints from various financial institutions and the insurance industry. I mentioned this to Mark before we came in. We don't get that anymore. So I think your industries are doing a far better job at providing the latitude in services that I think the public has come to appreciate.

On the same subject, Mr. Yakabuski, you raised some very interesting points with respect to the impact of weather and the bottom line. Many of the insurance industries head offices, or availabilities of commerce in the United States, I suspect, also put us in a precarious position. Would it be fair to say that if a disaster takes place in the United States, there are impacts for consumers in Canada, weather related or otherwise? I'm thinking of Hurricane Katrina and the effect it has had on the bottom line for Canadian consumers. I don't think we have to go back to 9/11. Canadians are certainly sensitive to this, but I'm not sure if that reflects itself in terms of price and quality of choice.

Mr. Mark Yakabuski: I'd like to say a couple of things.

First of all, in response to the earlier discussion, fortunately we have a system that is partly self-regulating. I think a lot of businesses will take heart that if they are experiencing a bit of tightness on one side, they will know that commercial property and commercial liability insurance premiums have been declining consistently for the past three to three and a half years across Canada on average. That gives businesses more disposable income at a time when they perhaps need it. I'm very delighted to be able to share that with you.

The second thing is that it's not possible for me to tell you exactly what the impact of another major disaster would be in some part of the world, other than to say that there would be an impact. Again, we have a very international insurance system that allows us to redistribute risk in a way that protects people against the butt of a real disaster. For example, take the ice storm of January 1998, which cost the property and casualty insurance industry \$2 billion in 2006 dollars. A large portion of those losses were assumed by international reinsurance. Those weren't coming from Canadian policyholders. The international reinsurance system assumed much of that cost, just as it did with the cost of Katrina. Ultimately that has to factor into the cost of the reinsurance that insurance companies purchase, but there are a lot of other factors that affect it. It's not a one-to-one relationship. That's why we always have to be working together.

• (0935)

[Translation]

It's a highly varied system that constantly redistributes risk in order to protect Canadians and other insurance policy holders.

[English]

The Chair: Thank you.

Thank you, Mr. McTeague.

We'll go to Madam Brunelle.

[Translation]

Ms. Paule Brunelle (Trois-Rivières, BQ): Good morning. Thank you all for being with us.

Mr. Swedlove, you work in the private pension fund field. People are feeling a great deal of concern. The number of baby boomers who will be retiring is increasing, and we're seeing a reversal of the age pyramid. We are also seeing an increase in the number of financial products. I'm apprehensive when the time comes to invest in my RRSPs, given the number of products offered. It's almost enough to make you crazy.

The stock markets are experiencing shocks, as a result of which people often no longer know where to turn. Do you feel well prepared to face all these challenges?

[English]

Mr. Frank Swedlove: Indeed, the issue of providing advice to Canadians generally has become a much more complex area, and the agency function I think has become much more complicated than it was before, but obviously, in our view, the industry is certainly up to that challenge. We are increasingly involved in the business of wealth management as opposed to the traditional life insurance business, so our business has very much changed over the years, and that is reflected in what our agents provide to our customers.

In terms of the proportion that is involved in the wealth management side, maybe I'll just turn to my colleague Mr. Witol. Is there a percentage of the industry that's involved in wealth management?

Mr. James Witol (Vice-President, Taxation and Research, Canadian Life and Health Insurance Association Inc.): The industry, as Frank mentioned, has about \$400 billion in assets in

Canada, and \$150 billion of those dollars are in segregated funds. These are either group or individual products designed for retirement. In addition, there would be a smaller amount of non-segregated fund savings business, and the fact is that our industry has moved away from its original life insurance focus to wealth management and health insurance over the years.

[Translation]

Ms. Paule Brunelle: In your recommendations, you talk about reducing the regulatory burden. Don't you believe that regulation is really necessary in order to protect consumers? In Quebec, we've had prominent cases of abuse that are still before the courts.

Could you explain your comments to me a little more?

Mr. Frank Swedlove: It is very important for us to adopt industry regulation. We work with regulatory authorities in all the provinces and at the federal level to ensure that this regulation is useful and that it will work for both the industry and the general public. As for our relationship with the Quebec government, I'm going to ask my colleague to give you some explanation.

• (0940)

Mr. Yves Millette (Senior Vice-President, Quebec Affairs, Canadian Life and Health Insurance Association Inc.): Regulation is indeed a very important matter. I don't believe we deny this objective. However, I feel that, across Canada, increasing emphasis is being placed on regulation that is based on principles rather than details. We Quebecers very well understand what that means, since we've been living with the Civil Code for a very long time. However, in financial matters, regulation is often a matter of details. It thus becomes difficult for businesses to deal with all these details, which, in many cases, makes regulation less effective.

There's talk of deregulating or abolishing very specific regulation in order to replace it with regulation based on principles like those often seen in Quebec with the Civil Code.

Ms. Paule Brunelle: Thank you.

Do I have any time left, Mr. Chairman?

The Chair: You have one minute left.

Mr. Mark Yakabuski: I'll answer your question, with your permission, madam.

Yesterday, it was my pleasure to have lunch with Jean St-Gelais, President of the Autorité des marchés financiers in Quebec. From what I've seen, Quebec probably has the best regulated system in Canada as regards the property and casualty insurance industry.

That said, there are still other regions that have far to go to achieve healthy regulation of prices, in particular. Virtually all provinces apply a system to regulate property and casualty insurance prices, particularly in the car insurance field. The ironic aspect of the matter is that car insurance price regulation was created in the United States in the 1920s, not to protect the consumers, but to keep prices at a high enough level to prevent certain companies from becoming insolvent. A measure may appear to be designed to protect consumers, when that is far from being the case.

Ms. Paule Brunelle: In car accident cases, people often decide, in view of the amount of their deductible, not to file a claim, to prevent their insurance premiums from rising the following year. Your industry comes in for considerable consumer criticism on this point.

Mr. Mark Yakabuski: Insurance is a way of redistributing risk, madam. That doesn't mean that consumers bear no risk. For an insurance system to be reliable, it has to be simple enough to protect people. That doesn't mean that people can be completely careless. There has to be some acceptance of responsibility.

[English]

The Chair: Thank you.

We'll go now to Mr. Stanton, please.

Mr. Bruce Stanton (Simcoe North, CPC): Thank you, Mr. Chair.

Good morning to our witnesses, and thank you very much. It's rather an esteemed panel we have before us here today. It's great to have you here on this service sector study.

The purpose of this study is to help us understand better the nature and complexities of the service sector, and particularly how that sector strengthens the Canadian economy with respect to jobs and job opportunities down the road. Your presentations today certainly addressed many of those issues.

There is a suggestion that the manufacturing sector—a very important sector for Canada—is the engine of our economy, and the service sector is secondary to it; that it only exists because there are other primary jobs in the country from which people get wealth and then have the ability to purchase from the service sector. This is a narrative we have come across, yet earlier witnesses have suggested there is much more integration in the Canadian economy. There's a supportive role.

I wonder if I can ask Ms. Hughes Anthony and then Mr. Swedlove to comment on the degree to which your sector is integrated with the economy in that way.

• (0945)

Mrs. Nancy Hughes Anthony: You make a very good point. I don't think this is a competition between sectors. We have a very integrated economy in Canada.

When I speak for the banking sector, they obviously want their customers and clients to be successful and prosperous. That would certainly include the manufacturing sector, the resource sector, or whatever. So I absolutely agree that we are so deeply intertwined in partnerships that we need to take a sort of holistic view of the economy and do what is best for all businesses to be competitive in what is obviously an extremely vicious and competitive world.

Mr. Bruce Stanton: Thank you.

Mr. Swedlove.

Mr. Frank Swedlove: Thank you.

In the past there has been this thinking that services are secondary to manufacturing. I think that's very much old thinking, something that is buried in the 1950s and 1960s, frankly.

The service industry is very much an industry in its own right. It's highly integrated. We provide services to all businesses, including the manufacturing businesses, but we're also major purchasers of manufactured goods. So it's obviously a very highly integrated economy.

The service industry and the financial services industry are the leading industries in a number of communities in the country; indeed, manufacturing often supports the major service industry in those areas. So one can't say that one is the driver of the economy and the other follows. That's a very old concept, and I don't think it reflects the reality of Canada in any way.

Mr. Mark Yakabuski: I wonder if I could just add to that. We often refer to the property and casualty insurance industry as the oxygen of the economy, because virtually no business in Canada could operate without having the ability to insure itself against risks that would be far too large for any business to undertake. You've got product liability insurance, property insurance, directors and officers liability insurance—all of these forms of insurance that every manufacturer must have, and without which they would not be able to conduct their businesses. So we like to call ourselves the oxygen of the economy, underwriting risk, innovation, and economic growth. It's very much a symbiotic relationship between our industry and the manufacturers and other businesses we support.

Mr. Bruce Stanton: If I can summarize, it's like an infrastructure, if you will, that allows those kinds of companies, other primary employers in the country, to exist.

One of the other things that has come to light here, and I think you even mentioned how surprised...and I think some of us are, although I can't speak for my colleagues, about the degree to which your respective sectors in insurance and financial services have a large role in foreign investment and in direct investment in other parts of the world.

I wonder, if there's time, Mr. Chair, if you could each make a brief comment on how that translates back to strengthening our economy in terms of job opportunities for Canadians. Do we see the benefit of your work in other countries here in Canada?

The Chair: There's about a minute left, so if we could briefly have one comment each....

Mrs. Nancy Hughes Anthony: Sure, I could comment very briefly.

I think that was in the presentation, Mr. Chair. Obviously, Canada's banks have been reaching out to foreign operations more and more. We find this has very much strengthened employment here at home—and it has also strengthened employment abroad—because the companies remain Canadian headquartered and they remain taxpayers in Canada as well as employers in Canada. I think the statistics in my charts speak for themselves in terms of the benefits they bring to Canada.

The Chair: Mr. Swedlove.

Mr. Frank Swedlove: As I noted, over 56% of the revenue of our industry comes from abroad, so it's vital to our industry, obviously. What that means for Canada clearly is head office jobs in Canada, the export of our expertise and knowledge, and the continued development in Canada of that expertise. Some of our members have been very active in promoting the concept of maintaining strong Canadian entities and are actively involved in the competitiveness of work that is suggested by the government.

● (0950)

The Chair: Thank you.

Mr. Yakabuski, briefly.

Mr. Mark Yakabuski: Our industry is less an exporter of jobs to other countries. The way we do provide jobs is that successful Canadian companies tend to follow their insurer. If they expand abroad, it's often their Canadian insurance partner that insures them in these other countries and makes sure they can grow there.

The Chair: Thank you.

Thank you, Mr. Stanton.

We'll go to Ms. Nash.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair.

Good morning to all the witnesses. Thank you for your presentations.

Something I would like to raise this morning is a United Way report that was just released yesterday in Toronto, looking at the issue of poverty in Toronto. I am a Toronto member of Parliament, and the level of poverty in Toronto is quite shocking. Toronto is rapidly becoming the poorest city in Canada. I represent a riding in the west end of Toronto, where we have many low-income people.

One of the issues the report signalled was the incidence of payday lenders, who have come into many poor communities, and the level of really exploitative interest rates that some of these payday lenders charge. Especially people who are working but are still poor, people, who in order to cover the gap until their paycheque comes in, will make a short-term loan at one of these payday lenders. Then they get trapped in these really high interest rate situations and begin to sink deeper and deeper into debt.

Ms. Hughes Anthony, I know your organization does not cover the payday lenders, but the banks are heavily regulated in terms of the interest rates they can charge. I wonder what your take is on the payday lenders, because it seems to me to be a regulatory gap that is leading to really serious problems with very vulnerable people.

Mrs. Nancy Hughes Anthony: I'm just going to ask my colleague, Terry Campbell, to respond to this.

Mr. Terry Campbell: That's a very good question, and it is something we have been watching over the last few years, I think for the same reasons and from the same motivations as you and the United Way.

You talk about a regulatory gap. The federal government, a few years ago, passed a statute that in effect enabled the individual provinces to regulate the payday lending industry.

Ms. Peggy Nash: Actually, that was just earlier this year.

Mr. Terry Campbell: It was earlier this year. Indeed.

Up to that point they had not been regulated. It allowed the provinces to do two things: set the fees—because as you point out, there are a lot of concerns there—but also to regulate market conduct in consumer protection issues. There are worries about rollovers and disclosures and practices.

Some provinces have begun to move on that—the Province of Manitoba and a few others. But I think it's fair to say that we have not seen the full progress across the country that I think would address some of the issues.

We know there is an association of payday lenders, and they have established a code of conduct that addresses many of those issues. But I think you're absolutely right; what we would need to see here is a combination of the industry addressing its practices through a code of conduct, but also regulatory activity.

You have commented on a United Way report about concerns of poverty. It's been a public policy challenge, I will say over the last few years, to really get a handle on why people use the payday lenders, who uses them, and their motivations for using them. I think it is fair to say that there's a range of motivations. I think what the United Way report focused on was a sector of the clientele. So your point is well taken.

Ms. Peggy Nash: Thank you.

Yes, it's something I would like to pursue with the federal government, because it's my understanding that the ability to regulate provincially is only given once there is a demonstrated limit on the amount of interest that is being charged. I'm not sure that's happened yet in, say, Ontario. It's something I'd like to follow up on because it seems to me the banks provide excellent services and products in addition to financial products. I think there's an opportunity through the banks to actually help people understand how finances work so that they can protect themselves against this kind of problem. It is an issue.

One concern that comes up and is maybe something that could be looked at is the issue of identification, that sometimes very low-income people don't have all the necessary identification to cash cheques when they go into a regular financial institution. I know, for example, that in Parkdale, which I represent, there's a nice, big TD Bank branch and a big Scotiabank branch—the banks have not abandoned that community, for sure—yet we have a plethora of payday loan companies. Why does someone go into one and not the other? I think it's probably an issue of identification that presents the barrier. That's maybe something we can try to work on together to see how we can improve it.

● (0955)

Mr. Terry Campbell: This is part of the conundrum I was talking about earlier. Often you will find a payday loan institution very close to a bank branch. It's exactly as you say; it's not because of abandonment. If you look at the practices of payday lenders, they require you to have a bank account, so it's not the absence of an account.

In the banking sector, identification required for opening accounts is all mandated by statute. It's set out very clearly in the regulations. It's for that balance between accessibility and also knowing your client. Nowadays, with all the concerns about who's opening accounts and for what purposes—terrorism and so on—we have that “know your client”; it is that very careful balance.

We haven't nailed exactly all the motivations, and it could be that this is one of them.

The Chair: Thank you, and thank you, Ms. Nash.

We'll go to Mr. Brison.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you very much for joining us today.

The first question I have is for Ms. Hughes Anthony. It's the first time I've heard a representative from the banks appearing before the committee who has not talked at some point about mergers. There's been a diminution of the size of Canadian banks relative to foreign banks and in terms of size and rankings over the last 10 years. When you refer to regulatory burdens under which you must operate here in Canada, is one of the regulatory burdens to which you're referring the implicit barrier to merging your operations?

Mrs. Nancy Hughes Anthony: I'm interested to have that question. I'm surprised it actually took that long.

The government has stated that it is not going to undertake or consider the question of bank mergers at this particular time. So as a practical matter, Canadian banks are doing what they can do. As I talked about, a lot of them may be going into international operations that are very advantageous to the banking community and to the consumer.

What would I say? Mergers are a legitimate business practice that other businesses are allowed to take advantage of, should they wish to. For reasons of perhaps politics more than policy, that is not made available, at the moment, to Canada's banks.

As I said, as a practical matter, life goes on and banks are finding other ways to do what they do. Does it make any sense in an international context? No, it doesn't.

Hon. Scott Brison: You all refer to regulatory issues, yet you don't get that granular in terms of the specific regulations. Many of them are provincial and involve federal-provincial negotiations and issues.

But as to some of the barriers you refer to, if you're calling for less regulation, would you be calling, for instance, for fewer barriers between one of the traditional pillars to enter into another one? Is that one of the areas you're calling for?

For instance, if you look at Western Financial Group, Scott Tannas' operation, it is a bank that emanated initially from the insurance industry and took advantage of a loosening of the traditional four pillars to enter into that industry.

Are you calling for a further loosening of those rules to now enable, for instance, insurance companies to enter into banking more broadly? Alternatively, of course, one would expect banks to enter more vigorously into the insurance sectors. Is that one of the regulatory changes you'd want to see?

• (1000)

Mrs. Nancy Hughes Anthony: I think my comments would pertain as well to the specific issues you raise.

Once again, on the insurance issue, in the last consideration of changes to the Bank Act, the government decided it was not going to entertain that particular situation. The banks understand that and don't necessarily spend a lot of time talking about it.

I was trying to make the point on the regulatory streamlining rather more about the kind of regulation that banks are subject to right now, be they federal or provincial, and the fact that we're not calling for less regulation but for smarter regulation. We're calling for streamlined regulation.

It is a wonder to me that any of our bills get paid in any bank with the kind of regulatory burden that banks have to overcome.

Hon. Scott Brison: And the insurance industry...?

Mr. Frank Swedlove: In terms of the existing opportunities, in 1992 the government allowed cross-pillar activity, and we've seen that occur. Manulife, for example, owns a bank. All the major banks have insurance subsidiaries and are very active participants in the insurance business—life, property, and casualty. So we have seen that integration occur.

There are still government policy restrictions with respect to large banks and large insurance companies getting together, and that's part of the broader merger issue that my colleague has noted.

The Chair: Mr. Yakabuski, briefly.

Mr. Mark Yakabuski: When I talked about the importance of having a regulatory system that keeps up to date with our competitors, I particularly referred to the need to make sure that any price regulation of any insurance market is as streamlined as possible. That's in the interests of consumers, so that the market can adjust more readily. I look forward to working with provincial governments as well, and it's a message I never stop repeating to them.

You don't have a copy of my slides yet, but look at that pink. That pink represents Canada's federal government capital requirements for property and casualty insurance companies. You can see that it's generally a lot bigger than anything else on this graph. In other words, Canada's capital requirements for property and casualty insurers generally tend to be considerably higher for domestic companies in particular than for the other big insurance markets of the world—the U.S., Japan, the United Kingdom, Germany, and so on. I think it's that scenario that we could work productively with the government on, and I would encourage this committee to take an interest in that.

The Chair: Thank you.

We'll go to Mr. Carrie, please.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I want to thank you for your presentations today.

You brought up a couple of things we've been hearing over and over, one of them being human resources and skilled labour. There seems to be a real shortage in Canada across all sectors, or it's perceived over the next few years that there are going to be real shortages that we have to address.

Could you explain to us today what your industry is doing to help with the human resources issues? What else can the government do to partner with you? What are your ideas on where the government can help in this human resources and skilled labour issue over the next few years?

The Chair: Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: Obviously I speak for the banking industry, but I know this is a demographic issue that affects all businesses. Certainly the banks are spending a lot on training. We just looked at the 2005 expenditure on training, and it was about \$318 million across the country in terms of trying to get resources trained up into the specific qualifications required for banks. I think you'll see banks individually—some of them have different programs—being very much involved with educational institutions, universities and colleges, trying to make sure there is a good link between the needs of the banking industry and the educational institutions.

I do still think, though, that we have a supply and demand problem. I know that the government, and I think members of every party, has been seized with the need for enlightened immigration policies and for doing what we can do to ensure the maximum amount of participation of the underemployed in our society. We're not alone in looking for the best and the brightest. I think a common effort is required between the business community and government to make sure we can fill the jobs we need to fill.

●(1005)

Mr. Mark Yakabuski: I would reiterate what Nancy has said. It's very important to have better established links between not just the universities but also the community colleges and the insurance sector, and to work harder at integrating new immigrants who are coming to Canada so that they feel insurance is a good career for them. Perhaps most of all the biggest challenge is to make insurance

sexy. If you've got any ideas in that regard, I'd be happy to hear from you.

Mr. Colin Carrie: No.

The Chair: Mr. Carrie, Mr. Swedlove would like to answer.

Mr. Frank Swedlove: I would support these comments and note that a number of our members are active in working with universities and colleges. I know of a program at George Brown specifically related to insurance administration. We're looking at other opportunities in community colleges across the country to support the development of training and education, so that we have the people we need in our industry.

The Chair: Mr. Carrie.

Mr. Colin Carrie: I was going to say that we're still trying to make manufacturing sexy. That's going to be a tough challenge too.

One of the things for government with our science and technology strategy was to increase research and development and the type of partnering you're talking about with academia and industry and government. Do you see how the science and technology and the government policies are affecting your industry now? What positive effects are you seeing with that? How much research and development are you doing as an industry right now? Where do you see that in the future?

The Chair: Mr. Witol.

Mr. James Witol: If I could add a point, currently the Government of Canada is reviewing its research and development tax credits, particularly in the IT area. The life insurance industry has found it very difficult over the years to access these tax credits. The conditions for getting them have been such that we're just not perceived as providing leading-edge activities here. We're hoping we will get greater access as a result of this review to R and D tax credits.

Mr. Colin Carrie: The other thing you brought up was internal trade barriers, and it seems that we hear about this over and over as well. How unique is Canada when it comes to these internal trade barriers compared to other countries? How much of a difficulty is it for your competitiveness internationally?

The Chair: Go ahead, Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: This is kind of a favourite file of mine. There are many aspects to it that just defy any kind of logic. I think it's always interesting to see new investors coming to Canada and realizing the hoops and hurdles they have to go through, even to move certain manpower across the country and get re-licensed and so forth. I think we need to be bold and brave.

The Agreement on Internal Trade has clearly not worked. It's dysfunctional. We now see some leadership from some of the provincial premiers. I'm very happy to see that. I think as opposed to chipping around the edges, they should just declare free trade among the provinces. As I mentioned with respect to a common securities regulator, Canada is the only country, along with Bosnia and Herzegovina, that has individual provincial or state securities regulators. So we're way behind.

•(1010)

The Chair: Thank you.

We'll go to Mr. Yakabuski.

Mr. Mark Yakabuski: In the same way, Canada is almost unique, along with Australia and the United States, oddly enough—countries that normally are considered good places to do business, frankly—in having an insurance system that.... Here in Canada we have basically 10 different auto insurance products. Every insurance company, for property and casualty insurance, has to be licensed in each province, separately, with all the costs and compliance costs that implies.

I certainly understand the need to make sure that companies are regulated. But the provinces need to get together and recognize their common expertise, and do this in a coordinated way, in the same way that we say the federal government and the provinces need to get together to look at a common way of dealing with solvency regulations.

The Chair: We're going way over time here with our questions and comments, so if we are going to have time for all members to ask questions, we're going to have to shorten the answers.

We'll go now to Monsieur Vincent, please.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Good morning, everyone.

My question is for the entire group. What is the impact of plant closures, job losses and problems in the manufacturing sector in each of your sectors? Does that have a definite impact on the banks or on insurance? We know that the first thing that people who have been laid off cut is insurance policies. I don't know how things are for mortgage loans. Has that had a direct impact on your sectors in the past two years?

Mrs. Nancy Hughes Anthony: The banks obviously work with their clientele. They absolutely want their clientele to be sound and competitive. We haven't seen any general impact on banks.

I don't know whether my colleague Mr. Campbell has any comments to make on that point.

[*English*]

Mr. Terry Campbell: I think Nancy is absolutely correct. Overall, Canada has a very strong economy, and job growth is very strong. Of course, you do see sectors in which there is pressure. But what we try to do, on a case-by-case basis, with individual clients and certainly with business clients, is see the best way we can work through it, see the best way we can address their financial needs. So my sense is that there's an impact in the sense that account managers and branches and so on will need to work with individual clients, but in terms of, say, a negative impact on our industry, we're not seeing that.

[*Translation*]

Mr. Mark Yakabuski: I would say roughly the same thing. Fortunately, the other sectors have been doing well for some years. That makes the losses more difficult to measure. However, they are still significant.

Mr. Frank Swedlove: It's the same for us.

Mr. Robert Vincent: Earlier you mentioned payday loans. Why is that industry flourishing in this country? Why don't people go to banks to borrow money? Can't you offer that service at more affordable rates than payday lenders? Why are you not involved in this niche?

Mr. Terry Campbell: Pardon me, but I have to speak in English.

Mr. Robert Vincent: That's not a problem.

[*English*]

Mr. Terry Campbell: This is a very good question. It is a question a lot of people have studied. The industry has studied it. We've looked at it. We've commissioned studies. There have been other parliamentary reviews.

I think one of the issues, first of all, is that banks do provide short-term credit, and this has always been a little bit of a mystery to us. The credit is there from banks. It is cheaper. It is more available. So the question then is, why do people use payday lenders?

There have been a lot of studies. I took your point earlier that there is a case of the poverty aspect, but the typical profile is a well-educated person with a job, with an average salary of \$35,000, \$45,000, \$50,000, and if you ask them why they use that, maybe it's because the payday loan store is open at 11 o'clock at night and they need short-term cash. There are issues...people do run short. I think a large part of the answer, quite frankly, is that there is a category of the population that has real challenges managing money. The outgo is consistently more than the income.

That's not an issue necessarily of poverty. It's a question of budget management. There are other issues of payday loans linked to either addictions or gambling.

What I'm saying is there is a whole array of motivations as to why people use such institutions, and I think it's very challenging to focus in on one particular set of causes. But at the end of the day, banks do provide short-term credit.

•(1015)

The Chair: Thirty seconds.

[*Translation*]

Mr. Robert Vincent: We hear it said that all the banks, credit unions and financial institutions lost a lot of money as a result of the U.S. crash in mortgages. Will the impact travel here to Canada, or will we face that wave without a problem?

Mrs. Nancy Hughes Anthony: Unfortunately, I think we're going to feel an effect. The major Canadian banks will be releasing their results this week and next week, and I don't want to comment on that question.

As I said in response to another question, I think that Canada has really stabilized the situation, or at least I hope so. As regards losses, it remains to be seen who will lose and how much. It isn't resolved yet. In Quebec, for example, a group of banks and companies is taking part in the Montreal Accord. I hope the results are positive, but we won't know before the end of the proceedings, in a few weeks.

[*English*]

The Chair: Merci, Monsieur Vincent.

We'll go Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair. Thank you, witnesses, for appearing before us this morning.

As was stated, we had what I believe was an excellent report for manufacturing, and it was suggested that we do the same thing for banking and the insurance industry. I think that's a marvellous idea.

It became evident, and I think it's becoming evident in your testimony as well, that the two are very much linked. I would suggest—everybody knows this, though we don't often talk about it—that the banking industry and the insurance industry are really investors, and your job is to take the hard-earned money of those who make their deposits and grow them.

You've done that by picking winners and losers, and I think that's a good thing. I think we'd expect you to do that as well. Now we've broadened our horizons, and the world is changing. It has been so interesting to hear that it's so important to have free trade agreements to maintain that stability, but I guess there's a question that begs to be answered. Many of the manufacturing jobs we're losing...is it inevitable? Are we moving toward something that although it may look somewhat frightening, there are some clear skies in the distance?

To add to that, what do you suggest? I need a few more solid suggestions. What can we do as a government to make sure that your job, as investors, is easier? What can we do to continue moving in that direction so that we'll have a strong economy?

Mr. Mark Yakabuski: I just want to make a small correction or addition to that. Property and casualty insurers are not investors. Our role in the financial markets is different from that of banks and life insurance and health insurance companies, in the sense that we are not wealth managers; we are risk managers and risk poolers. That's our vocation in the markets, to share with you the risk, to help you manage that risk, and that's what we use our dollars for. So it's a bit of a different vocation.

I would want to say with respect to the manufacturing sector that smart companies are always going to be there. The relationships they establish with their insurers, with their banks and so on, will help sustain them in that vocation.

I had the pleasure, for example, of talking to David Foot at the University of Toronto, a great demographer. If you look at the

demographic pyramid of China today, China has an aging population. They're going to be facing the challenges that you and I are talking about today in 10 to 15 years. China is not going to be the lowest-cost producer in 10 years. That's going to change the shape of the world dramatically.

So many of the trends we are seeing today are not necessarily the ones that we will see going in the future, which is why we need to make sure we have a solid manufacturing core in Canada.

• (1020)

Mr. Dave Van Kesteren: Could the banking section and the insurance industry also comment on that?

Mr. Frank Swedlove: Yes. Obviously we need to ensure that we can be as efficient and effective as possible. I think some of the things we've talked about today are extremely important to ensure that, including an effective tax regime and ensuring that we have the proper training and education in place, but also of course there's the issue of regulatory overlap and burden.

We're an industry where every province and every territory has a regulatory responsibility. All our members have to be licensed in each of those jurisdictions. So it's vital that we have an effective regulatory system so we can provide the services to Canadians on both the life insurance and the wealth management side. In the absence of that, costs increase and pension costs for individuals increase, and we're not able to provide the same investment opportunities for Canadians. So we need to have an efficient and effective regulatory system in this country.

Mrs. Nancy Hughes Anthony: I don't want to repeat what my colleagues have said here, but I go back to that point about partnership. Of course, we think Canadian manufacturers can compete with others around the world; they must. Can their bankers help them in situations? Of course, they can, and particularly as our industries and our banks together become more national and international scope.

But I don't think there's any silver bullet that says this particular company is going to be more competitive than the next. It's that mix of things, and at the risk of repeating again, it's the risk of the entire business climate. Is it easy to do business in Canada? Are the tax rates competitive? Can you get the job done? Have you got the labour? That's what we all should be striving to make sure is a reality.

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

We'll go to Mr. Eyking.

Hon. Mark Eyking (Sydney—Victoria, Lib.): My question is about an article in the newspaper today, in which the finance minister stated that we should be looking at the pension plans being used to invest in the infrastructure of this country. I don't know who's best to answer that question.

On the outside, it sounds quite enticing, and it may be the right thing to do, but the fear would be in the long term that business people, Canadians in general, would be paying to use the infrastructure that for so long we've been used to paying through our taxes to have installed. What are your comments on this move or this initiative that could mean the average citizen or companies would be footing the bill to use the infrastructure in the future in this country?

Mr. Mark Yakabuski: I referenced that article in my original remarks, because I think we have no choice as a country but to look at additional public-private partnerships to rebuild the infrastructure we have.

The percentage of our gross domestic product that has been invested in infrastructure has plummeted since the 1960s. The reality is we have pools of capital that are prepared to invest in these projects and we are not allowing them to do so. At the same time, I don't believe the tolerance of Canadians is such that they believe all of that burden should be borne by the taxpayer.

When we look at the degree of the infrastructure deficit, just for water and sewage systems in this country, that's now estimated at about \$31 billion, and that's only to rebuild water and sewage infrastructure to the existing level of performance. What we indeed need, as I mentioned in my remarks, in advance of climate change and the severe weather we're going to get, is we need to rebuild systems at a much better level than they have been. So that's going to cost more than \$31 billion.

As I say, I think the trick is to get innovative partnerships between the private sector and the public sectors, the provinces and the municipalities and the federal government, if possible, working together to get the job done.

• (1025)

Hon. Mark Eyking: There's no doubt that we need investment in infrastructure. I don't think anybody is debating that. It's the issue of government policy: should we be lowering taxes, like GST, and starving our coffers, and then turning around and having a user fee on our consumers and businesses of this country?

Mr. Mark Yakabuski: Well, the fact of the matter is that a lot of other countries are looking at this. This is what our infrastructure investment looks like over the past 30 years. It's been plummeting at a fast rate. I think we have to simply recognize the inevitable, which is that more money needs to be invested quickly in restoring our infrastructure. I don't believe anyone is going to go out there and advocate that there be a sharp increase in taxes at any level of government in order to make that happen. So I think we need to work innovatively at public-private partnerships.

Hon. Mark Eyking: Do you have any projections on what it would cost to use those services? These pension plans are going to expect a fairly decent return on their investment.

Mr. Mark Yakabuski: As they legitimately should; it's the money of their pensioners.

The Chair: You have a minute and a half, Mr. Eyking.

Hon. Mark Eyking: You alluded to the investments we have abroad. There's one clip here where you say that finance and insurance contributed 44.1% of Canadians' direct investment abroad in 2006. I think it has been talked about a little bit today, but how

much is this going to affect what's happening in the United States, with that amount of investment that we have in foreign...I guess it's in the United States? How is it going to ricochet and rebound to our Canadian economy over the year 2008?

Mrs. Nancy Hughes Anthony: I don't have the breakdown of how much is in the U.S. versus, let's say, Asia or Latin America, where I know some of our members are certainly extremely active.

Is your concern about a slowdown in the U.S. economy?

Hon. Mark Eyking: No, I think that's probably inevitable. I think it's how this is going to react to the amount of investment we have in the U.S., and especially some of the so-called bad investments that we might have down there dealing with the mortgage situation.

Mr. Terry Campbell: As Nancy was saying earlier, we're seeing the banks report this week and next. There is an impact of the slowdown, but in terms of the specific issue in the United States that has caused a problem, sub-prime mortgages and so on, most of our members have been fairly clear that their exposure to that particular aspect is quite minimal. The impact we're seeing up here is this unique Canadian financial instrument, the asset-backed commercial paper—at least the problem is sort of unique here.

In terms of your specific question regarding the housing problem in the United States and the sub-prime mortgages, we had very little exposure to that. That was very much a U.S. kind of phenomenon, and the way the Canadian banks did their investments in the United States avoided that particular aspect.

As you said, the question is—

The Chair: Sorry, we're over time here, and Mr. Swedlove indicated he wanted to answer as well.

You have 10 seconds.

Mr. Frank Swedlove: On the insurance side, the tradition is, in each market, to have assets match liabilities on behalf of the policyholders in that location. Also, in the life insurance industry there's very little short-term paper that's purchased, because our liabilities tend to be long term. So with respect to the life insurance industry, I guess the quick answer would be that it shouldn't have any effect on the life insurance industry operating in Canada.

The Chair: Thank you, Mr. Eyking.

We'll go to Mr. Stanton.

Mr. Bruce Stanton: Thank you, Mr. Chair.

I have one brief question. It's actually for Mr. Swedlove.

In your opening remarks you made a comment with respect to international trade arrangements, bilateral arrangements, and so on, in referring to the Doha Round, the now-resumed round with the WTO, that the service sector not be held hostage. I think that was the term you used. Could you explain what you meant by that?

•(1030)

Mr. Frank Swedlove: Thank you for the question.

I think this is a very important issue for all financial services. It's very important that we get access to these markets, if we want our companies to have opportunities to expand, to operate effectively, and to be able to use that head office expertise I talked about earlier.

One of the concerns we have with the Doha negotiations is that the focus tends to be on agriculture and some manufacturing activity, and the services sector has been given less consideration in the debate. We want to encourage all of those in the federal government who are involved—and we are doing this internationally with our colleagues in other services sectors—to ensure we have a meaningful participation of services, and financial services, in this round of negotiations.

So we think it's vital for the Canadian economy. As we talk about our economy evolving and services becoming an increasingly important part of it, if we still want to be internationally active, we need to be pushing a strong services agreement in Doha and in bilateral agreements.

Mr. Bruce Stanton: But you would do so more or less in conjunction with the other sectors, so you meant that we not try to pit one sector against the other but that we all should be...?

Mr. Frank Swedlove: Correct.

Mr. Bruce Stanton: Excellent.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Stanton.

We'll go to Mr. Simard.

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Mr. Chair.

Thank you for being here this morning.

I'd like to come back to the 44% of Canada's direct investment that's abroad. I think it's a very interesting figure, and it would be interesting for this committee to know exactly where these funds are invested. Three or four years ago the international trade committee did a study of the Asia-Pacific region, and one of the things that was almost embarrassing for Canada was the lack of presence of our financial institutions and insurance companies out there. If it weren't for Manulife and Scotiabank, and CIBC to a lesser extent, we just weren't present.

So I think it would be interesting for us to know why we're not there, or whether we've increased our presence there in the last couple of years, because if we're not in the emerging markets and all our investment is in the United States, maybe we will have a problem down the road. So I think that would be important.

Mrs. Nancy Hughes Anthony: If I could comment, I would agree. As I mentioned, that specific figure was in the recently issued report of the Competition Policy Review Panel. This is the panel that has been struck by Mr. Prentice's department, which did a background on this. Perhaps between our efforts and your committee's efforts we could find a breakdown of that and find that further information.

Mr. Frank Swedlove: For us, obviously the United States is a very good market. The Manulife acquisition of John Hancock, for example, was significant. Sun Life and Great West Life both have major investments in the United States.

Outside of the United States, the very large focus is on Asia, and both Manulife and Sun Life have very active, major operations in a number of countries in Asia. Those two Canadian providers are among some of the leading life insurers in those countries and perceive their greatest opportunities as being in China and India.

Hon. Raymond Simard: Obviously, we were told that size does matter in those areas, so mergers might be one of the solutions we may want to propose, or at least consider. If we're going to penetrate those markets, we may at least want to look at partnerships of Canadian banks.

One of the fascinating things I heard today was an insurance industry person talking to us about the importance of our governments getting a hold of this whole global warming issue. I thought it was fascinating that it was one of your priorities, as I had never thought of it in that respect.

If the insurance industry is looking down the road now and taking into account global warming in terms of pricing, are we going to be faced in five or ten years with major increases because of this?

Mr. Mark Yakabuski: First of all, we look ahead a lot more than five or ten years, I can tell you that much. That's why I wanted to talk to you today about this infrastructure challenge, because the degree to which Canada adapts more quickly to the forces of climate change—and we're talking principally about frequent severe weather—Canada will be more successful than other countries. I'm saying this is one of our tremendous challenges today. We have to get on with the challenge of adapting to climate change, and there are a number of things that have to happen. Most importantly, we must have the infrastructure to deal with it, and the faster we get on with that challenge....

Don't talk to me about price increases; I don't want to talk about price increases. I want to talk about what we need today to ensure that we can handle these forces, that we can protect Canadian communities, because that's the real challenge. You can only factor in the price if these things don't happen.

•(1035)

Hon. Raymond Simard: That was my question. Basically you will be factoring this in if these things don't happen; you have no choice.

Mr. Mark Yakabuski: Ultimately insurance will represent the cost of protecting Canadians, and it will incorporate those prices.

Hon. Raymond Simard: Thanks.

I'd like to talk briefly about research and development. This is a factor in Canada. We have been lacking in that respect in a lot of the manufacturing sector.

Do you know how the banking and insurance industries here compare with other countries? For instance, are we investing more or less than other countries in that sector?

Mrs. Nancy Hughes Anthony: Mr. Chair, I could provide further information to the committee. I might need to do that.

Clearly banks are leaders specifically in development of technology, and clearly it is an area in which there is huge investment.

Are there other aspects, Terry, that you would raise?

Mr. Terry Campbell: Nancy is absolutely right. We really are a high-tech sector.

Comment was made earlier about our partnerships with universities, and a lot of that is directed toward the research angle, particularly in the technology area.

Hon. Raymond Simard: Is Canada doing well internationally? Are we investing our share, a proportional share, of our revenues into research and development? Do we know?

Mrs. Nancy Hughes Anthony: That is the question we'd like to take back to see if we can get you further information.

Hon. Raymond Simard: You will get more information. Thank you.

Mrs. Nancy Hughes Anthony: Yes.

The Chair: Thank you, Mr. Simard.

We'll go now to Mr. Arthur.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Thank you, sir.

Madam Anthony and Mr. Campbell, you had a very candid answer to the question about payday loans. Your answer to a large extent was that if banks were open at night and on Saturdays, maybe many people wouldn't deal with payday lenders, who charge a lot of money for loans that people could get at the bank at a better rate, and maybe with more respect, and maybe in a more human way.

At the same time, if we talk about service in the service industry, we can see that banks are not of one accord when we talk about service to the consumer. You have TD Canada Trust, which is making inroads in Quebec, at least, with very open hours, augmenting in a spectacular way the number of hours in a week when we can deal with a banker. You have some banks, especially the Royal Bank, that don't seem to give a hoot about that.

What's the real tendency of your industry? Are we going to see more banks follow TD Canada Trust, or are we going to see more banks follow the lead of the Royal Bank in not caring about the consumer? Where is your industry going?

Mrs. Nancy Hughes Anthony: You can imagine, Mr. Arthur, how delicately I have to respond to this question.

All the member banks—and that includes President's Choice Bank and ING, which work virtually—have their specific business strategies. They are all trying to compete for individual retail business, meaning getting you into the branch and making sure your needs are met, and they are competing for commercial business and for small business and so on.

We can see, as I think was demonstrated in some of my presentation, that the points of access are actually growing: there are more branches, more ATMs, more electronic banking, and more ability for a consumer to connect with a financial institution. In some cases the hours are also increasing. I think I can say that the trend is for more access and more services at more times of the day, which, generally speaking, is what consumers seem to want.

Mr. André Arthur: Thank you.

I was somewhat amused when Mr. Swedlove mentioned the solidity of the life insurance business in Canada.

My pension plan was with Confederation Life, so you can now understand my little smile. It crashed, and it took years and years for people who had invested their pensions in Confederation Life Insurance Company to get back their capital, but not the interest. Their pensions stopped growing the day Confederation Life crashed; years later, thanks to your little pool arrangement, we got back our capital, but not more. There was no growth. It was a no-growth situation for a pension plan, one in which time is money.

In what specific area of the insurance business are Canadian companies the best in the world? I don't mean size; I mean new ideas, inventiveness, research, development. In what specific area are you the best in the world?

● (1040)

The Chair: Mr. Witol.

Mr. James Witol: Believe it or not, I think we're the best in the world in terms of solidity and security. The Canadian life insurance industry has a record of financial soundness that I think is unmatched around the world.

We have a strong regulatory regime. We've had it for many, many years. What this regulatory regime requires is a substantial set of risk-based capital requirements. Canada was the first life insurance industry around the world to determine through the regulatory regime the capital requirements, based on a very careful assessment of the risks the financial institution was assuming. The capital requirements in Canada were imported by the United States.

Mr. André Arthur: Are you telling me that the best part of the Canadian insurance business is that government watches over you?

Mr. James Witol: It is a good part of why we're good.

Mr. André Arthur: Thanks to the government, you're good.

Mr. James Witol: That's in part true, yes.

Mr. André Arthur: Thank you, sir.

Do I still have time?

The Chair: No, you're over time, unfortunately.

Mr. André Arthur: I won't be able to ask Mr. Yakabuski how he became an expert on global warming?

The Chair: We'll have to leave that debate for another time.

We'll go to Ms. Nash, please.

Ms. Peggy Nash: Thank you, Mr. Chair.

I want to raise another issue that I think affects many people right across the country, but certainly disproportionately affects people who are at the low end of the income scale, and that's the issue of bank fees. This is something a lot of people feel they're being nickel-and-dimed on; they feel they're being charged to access their own money. Even if you're cautious in using bank machines, the reality is that for many people, based on their working hours, the only way they can access their money is through bank machines. It ends up affecting you in a kind of nickel-and-dime way, but it can add up to hundreds of dollars a year.

I know that more than 20 years ago the banks did not charge these fees, and today they're extremely profitable—I understand the profits last year were about \$19 billion. At a time when many Canadians are finding their income certainly not growing, and in some cases declining, and especially in a place such as Toronto, where the cost of living is so high, how can we justify having bank fees for people to access their own money?

I know there are American subsidiaries of Canadian banks that no longer charge these fees. I know the British banks no longer charge them. Why are we still charging these fees here in Canada?

Mrs. Nancy Hughes Anthony: There is a wide range of options available for consumers. I'm thinking particularly about, as you mentioned, low-income Canadians, seniors, students. It is important I think for consumers to shop around and see whether they can find the lowest-fee package that suits their particular needs. Maybe they don't need bells and whistles in their particular account or their particular credit card or whatever; they just want plain vanilla.

There is I think a good variety of accounts and opportunities. I've just recently been in conversation with our good member at the President's Choice Bank. That is a "no fee" bank, for example. Many consumers, too, could hopefully take advantage of some of the information that's available, such as that from the Financial Consumer Agency of Canada, which actually has a website that lists things such as credit cards and charges on various accounts, where consumers can go shopping for what they need.

In terms of some of those international comparisons, I think you have to be very careful that we're not comparing apples and oranges. For example, in the U.K. they may at the moment have no fees on their ABM charges, but if you want to get a money order or have money transferred, etc., it costs several multiples of the amount a Canadian bank charges.

Overall, in the annual picture for an individual or a family, what are you going to need, and can you find a reasonable, affordable package of services? I think the answer is yes, but it needs some work.

• (1045)

Ms. Peggy Nash: I can only—

The Chair: Ms. Nash, Mr. Yakabuski did want to answer.

Mr. Mark Yakabuski: Very quickly.

I think it's very important when talking about financial regulation, as in regulation of any field, that we understand the consequences of regulating the minutiae and the picayune. I think it's vitally important that consumers have information about the choices they have with

respect to banking products and insurance products and all the rest of it.

If we want to have a really productive Canadian economy, we must have an engaged Canadian consumer as well. And there should be expectations on the part of consumers that they take the time to seek out the information they need about the financial products that are best for them and to make the right choices on that basis. There needs to be a common effort here, not just a stipulation that financial institutions have to do this and that.

The Chair: Thirty seconds.

Ms. Peggy Nash: Well, I know it was not regulation that got the U.K. banks to drop their fees; it was public pressure. And they did so voluntarily, without regulation. I can only imagine that the Canadian banks must be under similar pressure, because every time you take money out of the bank, that fee smacks you right in the nose. It does irritate people that they are being nickel-and-dimed to get their own money.

On your issue about consumer education, what are the banks doing to educate people, especially low-income people, about the options for avoiding these fees?

The Chair: Briefly, Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: I think each one of the banks does provide those kinds of educational materials. As I mentioned, so does the FCAC, and so does the Canadian Bankers Association. If you go onto our website, you will see a wide variety of pretty straightforward information material about managing your money, about credit, about what a mortgage is, that kind of thing.

The fact of the matter is, there needs to be a fair return to the banks in some way, shape or form. As I said, when you look at the U.K. example, there may not be an ABM fee, but there is an enormous fee for other kinds of services. So I still think that when I looked internationally at the kinds of banking services offered by country, Canadians are still getting a good bargain in terms of their banking services.

The Chair: Thank you, Ms. Nash.

I'm going to ask a few questions in the next Conservative spot.

I hear what all of you are saying with respect to smarter regulation. Many of you have pointed to internal trade within Canada. I think that's a very fair point. But in terms of regulation, we hear it very often that we need smarter regulation, and we need less regulation in certain cases, but it's often at the abstract level. Do you have a list of regulations that are currently being imposed on your industries that you could submit to the committee, or examples of specific regulations you want to highlight, that are in fact harmful in a competitive sense?

• (1050)

Mrs. Nancy Hughes Anthony: It's a lovely invitation and we will take you up on that.

Mr. Terry Campbell: Absolutely.

Mrs. Nancy Hughes Anthony: Once again, I think our examples would go along the line of not necessarily eliminating this or eliminating that, but showing where there is regulatory overlap or duplication. That is really I think the frustrating point.

Mr. Mark Yakabuski: Regulatory streamlining, I call it, and we can give you lots of examples.

The Chair: Okay. It would be good if you can provide that.

The second issue is with respect to infrastructure. There is a big debate over infrastructure. I mean, our government has invested what we would consider a substantial amount of money over the last two budgets for infrastructure over the next seven years. Now you've had the FCM report coming out and saying...I think it's a \$123 billion deficit. I mean, this is one of the things.... It seems the more money you put in, the more of a growing problem you realize we have.

I think what you say, Mr. Yakabuski, with respect to challenges of weather.... I don't want to get into debate over climate change, but in Edmonton in the last few years we've had severe floods in certain areas. I have to say your industry responded very well, and those are the remarks I got from constituents. But this was infrastructure that was put in place I think in the 1970s, 1980s, and 1990s. So this was not your decaying, old, 1950s-and-earlier infrastructure.

With the growth of cities, like in my city and other cities around the country, has your industry done a critical analysis of the FCM or other reports and come up with an infrastructure plan going forward 20 years? I know certain cities, like the City of Edmonton, have done that, but has this been done on a national scale so we can actually get an accurate picture of what's needed, especially on the water and sewer side?

Mr. Mark Yakabuski: It has not been done, and it needs to be done. I fully grant that.

Remember that \$33 billion over seven years is a very considerable sum of money. I'm certainly not going to say otherwise. Remember that in 1967 Canada spent 5% of its GDP on infrastructure spending.

The Chair: And today...?

Mr. Mark Yakabuski: In 2002, we were spending just over 2% of our GDP on infrastructure spending, so there's a big difference there. Obviously, some of that is related to the baby boom and such. The need is more critical in some of the older cities and the downtown areas and others. We all grant that. I think it is a growing concern.

The fact of the matter is there are lots of areas of this country—I'll give you a perfect example. Last summer, a city in southern Ontario almost had to close its water treatment plant on two occasions. Now what does that mean? It couldn't properly conduct the waste water it was receiving and treat that water. That means that a source of clean drinking water would potentially have been compromised for that city and raw sewage would have been flowing directly into Lake Ontario. I don't want to exaggerate these things. The fact of the matter is that this is not a scenario we want to see happen on a repeated basis in future years.

Let's recognize that we have some issues. Granted, more analysis needs to be done, but we need to understand that the fiscal gap, the total financial gap, is considerable. I don't believe this can be financed quickly and entirely by public sources. That's my response to the other question. Therefore, I think we need greater cooperation among all levels of government, and we need to look at more innovative public-private partnerships to achieve the challenge.

The Chair: I'm pretty much out of time, so I'll just state this, and perhaps you could submit this in a written submission. In terms of tax rates, if there are any suggestions you have for the committee with respect to corporate capital, both provincial and federal, with respect to income taxes going forward.... The response we got to the fiscal update was fairly positive, but I think people said some more changes are necessary. If we can get that in as well, we'd appreciate that.

I will now go to the Bloc Québécois.

Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Is the rising dollar having a positive impact on your industries? I don't know which organization said that 56% of its income came from outside Canada. The rise in the dollar therefore has a beneficial effect for you because, if you pay for insurance somewhere in the world, you pay for it in Canadian dollars. If the dollar is higher, there is a price difference. Is the higher dollar positive for your industry?

• (1055)

Mr. Yves Millette: It's neutral in our case because we always pay in the currency of the country where we do business. Insurance policies in the United States are payable in U.S. dollars. Reserves are accumulated in the United States in U.S. dollars. It's only in the area of profits and surpluses that there can be a difference.

Mrs. Nancy Hughes Anthony: I would say the same thing. Obviously, there is a balance between the purchases of businesses that operate in U.S. dollars and expenditures in Canadian dollars. These are the two sides of the same coin. We don't consider that it's very negative or very positive for the banks.

Mr. Mark Yakabuski: The impact is very minor for the moment.

Mr. Robert Vincent: Should the government do something to help you? Perhaps your three sectors are doing very well and you don't have any recommendations to make to the committee. Life is beautiful. The banks are making profits of \$6.4 billion, and lower taxes will give them a few million dollars more. Things shouldn't go too poorly. But in your sectors, are there any problems that we could help you with? Is everything going well?

Mr. Yves Millette: To the extent that our industry has a fair tax system, things are going well. The property and casualty insurance industry receives very few grants from governments, federal or provincial. Even our consumer compensation systems, when a business goes bankrupt, are completely financed by other members of the industry. Governments could therefore add very little, unless they want to innovate and create new subsidies for the industry. Very few industry subsidies come from the federal, provincial or even municipal governments.

[*English*]

The Chair: Mr. Yakabuski.

[*Translation*]

Mr. Mark Yakabuski: Like Quebec, the federal government must absolutely encourage the other provinces to harmonize the sales taxes. That's absolutely essential to the productivity of the Canadian economy. The same is true of the list that we are going to submit.

[English]

The Chair: Ms. Hughes Anthony, we're running very close here.

Mrs. Nancy Hughes Anthony: I have some concluding remarks. I would never say *tout va bien et il ne faut rien faire* when it comes to the banking industry. I feel the Canadian banking industry is a success story domestically and internationally. But it needs that business climate, and that business climate has the factors that were

mentioned around the table today—tax, regulatory and federal-provincial relations, and labour—that we have to keep an eye on.

The Chair: Thank you very much for your presentations here this morning.

Thank you, members. We will be dealing with Ms. Nash's motion after the witness tomorrow afternoon.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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