

Financial Affairs Symposium

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Check against delivery



Good morning, and welcome.

I want to begin by thanking IBC's Financial Affairs Symposium Working Group for planning today's conference. The group is led by Craig Pinnock – and it's a valued source of information and guidance on financial matters. I know their work is appreciated across the industry.

My intention this morning is to set the stage for two of the topics we are exploring on today's agenda – IFRS 17 and the OSFI Reinsurance Framework Review.

Both are important. Both are preoccupying our industry. And both raise important questions about the role and direction of regulation in Canada – and its potential impact on both companies and consumers.

Let me start by stepping back.

In 2009, the world was just beginning to recover from the global financial crisis. Canada had endured the downturn better than most. Many credited our country's system of banking and financial regulations.

A decade later, it's fair to wonder if we perhaps took the wrong lesson from that experience.

The key to our resilience back then was having the right regulation. But today, we too often act as though the answer is more regulation.

And frankly, that impulse is out of step with the times we live in. It risks setting Canada apart from the rest of the world – making us less competitive and less able to attract investment.

To be absolutely clear: No one wants to create a Wild West environment in which major financial industries are vulnerable to a 2008-style crisis.

As Canadians, we want financial stability.

That's why we should all insist on clear, practical, far-sighted regulation of financial market participants.

But we should also insist on regulation that delivers a competitive marketplace and reflects our modern world.

Let me tell you about a meeting I had back when I first took over as CEO at IBC.

We were contacted by a government delegation from Poland. They were interested in learning how to develop a free-market auto insurance system – so they came to Canada.

They were in for quite an education – though perhaps not in the way they expected.

They asked about the Ontario system. I said, here's how it works: The government sets the policy framework. They tell us what we can sell.

Around the table, I saw a raised eyebrow or two from the Polish delegation.

I told them: The government also establishes the underwriting rules. They set the terms and conditions of each sale.

Around the table, more raised eyebrows. A few heads were scratched. I said: Oh, did I mention that insurance companies are forced to sell a policy if a consumer wants one?

Confused looks all around.

And then my big finale: I told them: The government sets the price we can charge.

All around the table, those raised eyebrows became dropped jaws.

They didn't say anything – but the look on their faces spoke volumes.

It said: We have come to the wrong place.

The problem has only grown worse since then. In almost every part of our country, the auto insurance system is broken. And it's broken in large part due to excessive – and in some cases illogical – regulation.

In Alberta right now, insurance companies are essentially being forced to lose money. That's not an exaggeration. The terms under which insurers currently operate in the province of Alberta make it literally impossible to turn a profit.

Who does this serve? Not our industry, obviously. But neither does it serve consumers.

In Ontario, there is reason for optimism. Earlier this month, the government committed to transformative changes to the auto insurance system. We believe that these changes will stabilize the system for consumers and our members.

We live in a time of globalization. Large financial companies have many choices for where they invest their capital – and where they base their operations.

With our approach to regulation, we are basically encouraging these companies to rethink their presence in Canada.

We're fighting against the tide of progress.

Today, people and countries are more connected than ever before.

E-commerce and the movement of capital and people across borders has become more seamless.

Taken as a whole, these are important developments with significant ramifications – especially for smaller countries... and especially for smaller countries that rely heavily on trade and exports.

In other words, countries like Canada.

We have a vested interest in welcoming those who seek to invest or build a company here.

But just as we need immigration to help keep up with demand for skilled labour, we need policies and regulations that make Canada attractive to international capital.

And yet, we seem determined to do the opposite. Auto insurance is one example.

To a different extent, we also see it with IFRS.

Canada has embraced the new standards. We are all in – despite the complexity, despite the cost, despite the fact that our closest neighbour and competitor is not on board.

At IBC, we've spent the last 18 months sitting down over and over with our member companies, trying to help them interpret and adapt to the new standards. We also worked together with our global peers to get the implementation date deferred for a year – to January of 2022.

The bottom line is this: As a country, we are leading the way on a huge new global standard – one whose impact on our companies and our economy will remain unclear until the standard is actually put in force.

One that will set us apart from some countries.

And then there's the OSFI reinsurance review – yet more proposed regulation that's out of touch with today's reality.

Essentially, OSFI wants to reform the framework of reinsurance in this country.

It wants to substantially increase the amount of capital that companies with largest exposures to commercial risks need to hold in Canada.

So we did our research. We looked for other jurisdictions that were subject to similar requirements. We didn't find any. There are aspects of reinsurance capital localization practiced by developing nations, but OSFI's approach is not endorsed by the OECD, the IMF or the IAIS. And that observation alone should lead OSFI to pause and reconsider. The amount of additional capital that would be required in Canada is massive. And it's causing profound concerns within our industry.

For our part, we at IBC are encouraging OSFI to slow things down – to take the time to conduct a thorough review of the potential business and economic impacts of their proposed changes.

It's important to remember: The Canadian commercial insurance marketplace consists mainly of companies with global operations. They will feel these changes the most.

These companies have choices to make when it comes to deploying their capital.

We want to be in the business of encouraging global companies to invest in Canada – to build and expand their operations here. To create jobs and serve Canadian needs.

But more than that, we need global companies to be active in Canada if we are to maintain a financial system that can withstand the impact of a major natural disaster.

Let's remember that global reinsurers were responsible for paying out close to 80 per cent of claims after the Fort McMurray wildfire.

Like a lot of things in our industry, the OSFI recommendations are complex and technical. They aren't going to send the average Canadian running into the street with a megaphone and a protest sign.

But let's be absolutely clear about their potential impact.

The changes could prompt some global market players to turn their backs on Canada.

That could mean fewer competitors and higher costs to consumers.

And the changes are being proposed at a time when insurance companies are already enduring difficult financial results.

Last year, insured catastrophic losses were close to \$2 billion – about 60 per cent higher than in 2017 – even though we experienced nothing on the scale of the Calgary floods or the Fort McMurray fires.

Commercial insurance performance was significantly weaker than the previous year. Combined ratios in auto were close to 100 per cent.

Right now, we should all be concerned about where the OSFI framework changes are taking us.

At a time when natural disasters like flood and wildfire are a growing challenge, we can't afford to alienate the major global companies that have the capital needed to cover substantial claims.

Even as we encourage Canadians and policy makers to adapt to the new threats posed by climate change, we need global reinsurers to be active in Canada – and ready to help us cope with the financial aftermath.

The OSFI proposal goes too far in terms of prudential regulation and economic policy.

It doesn't reflect the world we live in today.

And it doesn't serve the interests of consumers – because consumers benefit from a strong and competitive marketplace.

As a country, we shouldn't be putting up walls – or setting ourselves apart from other countries for no good reason.

We shouldn't be taking measures that will lead to higher prices.

We should be pursuing modern, efficient regulation that protects Canadians – and positions Canada to attract capital and create jobs.

If we do that, we give both our industry and our country a better chance to succeed and prosper.

Thank you.