



Canadian Life  
and Health Insurance  
Association Inc.

Association canadienne  
des compagnies d'assurances  
de personnes inc.

Remarks by:

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*The Future of the Canadian Financial Services Sector:*  
**A Life and Health Insurance Industry Perspective**

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## INTRODUCTION

Good afternoon, ladies and gentlemen. It is an honour to have this opportunity to address the Canadian Club here in Toronto.

I'm really pleased to see so many people in attendance. I'll do my best to justify your interest and attention. I say that with some trepidation, though, because I've learned over the years that speaking about life and health insurance issues has a certain soporific effect, which can be significantly magnified after a big lunch. I am told that hungry and cranky audiences represent better "going in" conditions for a speaker . . . . . although I am not at all sure I believe that. Maybe one of the two conditions is manageable. In this case, I earnestly hope that most of you are still hungry.

I have been asked to take a look today at developments in the financial services sector from the perspective of the life and health insurance industry in Canada. The public agenda for financial services, of course, has been pretty much dominated by bank issues, principally the merger question, over the last period. So my job today is to try to put a life and health insurance overlay on that broader discussion of the future of the entire sector.

**In that context, then, I want to do essentially three things:**

- 1. one, take a brief look at the major factors driving change in the life and health insurance business;**
- 2. two, look at the range of major issues facing the industry in this rather turbulent environment; and**
- 3. three, focus in on two of these issues for more detailed observations.**

**And then, I will wind up with a few concluding comments.**

But before I move into the main body of my remarks, I want to say a few more words by way of introduction. In some respects, the timing of this appearance for me in terms of the subject matter is quite propitious. In fact, there are two important proximate events that deserve some attention and serve as a useful launch pad into the broader discussion at hand:

- The first is the fact that the long and difficult liquidation of Confederation Life is virtually concluded.
- The second is that, in recent days, legislative amendments were passed in Parliament to enable Canada's four largest mutual life insurance companies to proceed with their announced plans for demutualization.

A word about both of these significant events is important here.

## **CONFEDERATION LIFE**

The last time I spoke in this room was more than four years ago, when I was asked to address a group – a large one as it turned out – on the failure of Confederation Life. In fact, that event – and I cannot recall who sponsored it – was followed by similar meetings across the country, including one in Vancouver under the auspices of the Canadian Club there.

Those were difficult moments for the life and health insurance industry in Canada. The collapse of Confederation Life was a sorry event for the company's policyholders, employees and creditors. And it was a deeply troubling shock to the life and health insurance community at large. People here, and in other places I spoke in various parts of Canada, wanted to know how the Confed situation was going to affect them personally, as policyholders, and more

broadly, how it was going to affect our industry and the business. What protection were we offering consumers? Were we even going to be around much longer to make good on those commitments?

The reaction everywhere was profound and often deeply personal, especially during those difficult months after the federal regulator gave notice that Confed, after more than 100 years of service to Canadians, was no longer a viable business and that it had to be shut down. It was and remains the largest life and health insurance insolvency in North American history. And that includes all of the high profile collapses that have occurred in the United States.

I also recall very clearly the dire predictions expressed in some of the news media across the country in the subsequent year or so. Indeed, according to one well known commentator, we were literally on our death beds. This is from Rod McQueen's considered exposé:

*"The entire sector in Canada," he said, and here I am quoting, "will never recover from this staggering loss of one company."*

That unequivocal assessment, I believe, helped the writer secure a "best business book of the year" award. Well, I am pleased to twist a line borrowed from Mark Twain . . . . . **reports of our demise were greatly exaggerated.** The fact is, there simply never was any substantive foundation to this doomsday thesis. We had a company problem, not an industry problem, and I think events have subsequently borne that out. Essentially, the regulatory system and the industry-run consumer protection plan worked as they were supposed to work.

As I stand here today, I can tell you, first off, that **the liquidation of Confederation Life has been a careful, prudent and well managed process** that has confronted international complexities never faced before. Certainly, it

has taken some time to sort out, but by all standards, it has been most successful. And I have to say in this regard that all those affected by the collapse of Confed – the industry included – owe a great deal of thanks in all this to John Palmer, federal Superintendent of Financial Institutions, his staff, and Bob Sanderson of KPMG who served initially as agent for the liquidator and later directly as liquidator.

I also have to give a word of thanks to CompCorp, which runs the industry-funded consumer protection plan. CompCorp guaranteed from the outset full recovery for all Canadian policyholders who were under the limits of protection offered by the industry. CompCorp, in cooperation with the liquidator, worked to implement a strategy designed to maximize the return to policyholders. It is now anticipated that, in the very near future, Canadian policyholders with policies that exceed the CompCorp protection limits will also receive 100 cents on the dollar. In other words, **full and complete recovery for all policyholders in Canada**. We are also hopeful that, before long, all policyholders in the United States will be paid in full. And early on, you may remember, all U.K. policyholders received full payment.

The point is that the system performed as it was supposed to, and the regulator, the liquidator and the industry worked together to meet their obligations to policyholders in a very complex situation.

I raise all this now for two reasons.

1. First, the Confed liquidation is nearly complete, and it has gone as it should have.
2. Second, the doomsday scenario has not materialized. But that whole episode still sticks in my craw. There was no way to answer it at the time

other than to get on with proving it wrong. As I said, subsequent events have now done that.

## **THE INDUSTRY TODAY: GROWING AND THRIVING**

As far as the financial health of the industry generally is concerned, some **key bottom line indicators** make the point. For example:

- Revenues in the form of premium income have been rising steadily at an average rate of close to seven per cent year over year throughout the past decade – and that is with Confed in the equation – to reach \$37.2 billion dollars as at year-end 1998.
- Similarly, asset values have also continued to grow strongly over the past 10 years, at an average annual rate of 7.3 per cent – to reach \$218.2 billion dollars as of December.

Harold MacKay and his Task Force on the Future of the Canadian Financial Services Sector, in their report, which came out this past September, stated very clearly that, and I quote:

*“The life insurance sector, rapidly consolidating . . . stands at the edge of further challenges and potential growth. The Task Force believes that life insurance companies can become very significant forces in the Canadian financial services sector, operating in more product lines and offering much greater competition to deposit-takers, including banks, than they have in the past. Over time, some insurers are likely to become leaders of major financial services conglomerates.”*

In fact, the Task Force took that observation one important step further by emphasizing that Canada's life insurance companies, and again I am quoting,

*“with their strong domestic base and long-standing international focus, will become even more important and visible members of the Canadian financial services sector in the years ahead. It is very important for Canada, and its evolving economy and needs, that they succeed in this regard.”*

In other words, from the point of view of an independent and impartial tribunal, **Canada's life and health insurers should be able to continue to contribute to the overall economic success of Canada and Canadians, provided that competition and competitiveness are allowed to thrive through the proper public policy framework.**

A new legislative and regulatory framework for financial services is currently being developed by Finance Minister Paul Martin and his senior advisors in the Department of Finance in Ottawa. Presumably, it will give everyone a very clear indication of the public policy direction, priorities and initiatives for the sector. Undoubtedly, it will affect virtually every dimension of the overall public policy environment within which Canada's financial services sector operates.

Apparently, the expectation is for a policy paper to be released in the next several months. We have just seen two key “precursors” to this – both in the form of legislation – one dealing with demutualization, the other with foreign bank branches. Indeed, these pieces of legislation represent complementary forces aimed at beefing up competition within the sector as a whole.

## DEMUTUALIZATION

I also want to say a few words on demutualization, which is of direct relevance to a number of my member companies representing four of the country's largest insurers.

Demutualization, of course, is the ungainly term for converting a company owned by its participating policyholders into a stock company that is owned by shareholders. It typically involves issuing common shares to eligible policyholders, who will then be able to realize fully the value of their ownership in the company either by holding the shares or by selling them.

This is a major development in the evolution of this industry. It **speaks to the industry's continued capacity for growth and for change in the marketplace.** At the same time, it **represents a massive redistribution of wealth**, with literally millions of Canadians set to benefit from the outcome.

The fact is, if policyholders approve, Canada is about to experience a significant wave of new share ownership. It is estimated that, within the next two years, approximately \$10 billion dollars will be placed in the hands of some two million Canadian policyholders who will now become shareholders. That is an average of about \$5,000 dollars per eligible policyholder. It is expected that two of the demutualizing companies will be among the top 15 companies on the Toronto Stock Exchange as measured by estimated market capitalization.

By conservative calculation, this may well represent the largest single distribution of wealth in our country's history. Billions of dollars of share capital will be in the hands, or the control, of individuals who will wield considerable purchasing power and investment clout. That will have a very **positive impact on the**

**economy.** Some projections I have heard in this respect call for real economic growth of 0.30 per cent from this event alone. The related employment effects will see thousands of new jobs created within the first couple of years immediately following demutualization, and government coffers will see an influx of additional revenue from various taxes. All of this is good news for Canada and for Canadians.

## **DISCUSSION FRAMEWORK**

Let me turn now to put all of this in an appropriate framework. As I do this, I am reminded that, up until a few years ago, at discussions such as this, I would have talked almost exclusively about solvency and access to capital issues. Certainly, that is a collection of issues that still retains a place on the industry's agenda – in particular, the access to capital aspect of demutualization, which I have just mentioned. But I am pleased to say that solvency and capital adequacy are much less a pivotal point on the radar screen today.

There are, in fact, a number of other major issues, or sets of issues, facing the business that are of more immediate concern. This afternoon, I want to review those various issues. Their implications are important – for the life and health insurance industry, for the financial services sector as a whole, and for our customers. Indeed, each one could be the topic of a discussion like this on its own. I intend only to outline the subject in the broadest terms.

First, I need to set the stage by explaining the factors that are driving our business today and are contributing to shaping those issues and events with which Canadian life and health insurance companies must deal. Of course, these factors are, in many cases, relevant to other financial services providers . . . . as well as business generally.

## THE CHANGE FACTORS

To put it simply, we are operating in an extraordinary environment that is generating immense change in the financial services business at large, as well as the life and health insurance business in particular. From my perspective, there are six key factors that appear to be driving this change. I mention them in no particular order of priority, as follows:

1. First, **global structural change**, which is fueled by the development of a global marketplace and the changing role of government in an era that is characterized by reduced government expenditures and tight fiscal management.
2. Second, **intense competition**, both domestic and international, and from non-traditional sources as well.
3. Third, **rapidly changing technologies**.
4. Fourth, **increased capital requirements**, for both growth and regulatory purposes.
5. Fifth, **low profitability and cost pressures**, which are leading to a search for scale and scope economies.
6. Sixth, **demographics and changing markets**, with key three influences: shifts in consumer attitudes and expectations; aging and the inter-generational wealth transfer; and developments in Third World markets.

## MAJOR INDUSTRY ISSUES

These are the factors, I believe, which represent the main influences in our operating environment. These are also the factors that are shaping public policy through the legislative framework and the issues with which we must deal as a consequence. As I indicated a moment ago, all of this affects not only our industry but all competitors in financial services and their customers . . . . . probably most everyone in this room.

So, what are these issues that flow from these change factors? From my perspective, they are best looked at in six fundamental groupings.

### 1. The Distribution Revolution

First, **the distribution revolution**. This is all about **new products, new channels of distribution, new alliances**, among **a variety of other strategic responses** by industry players – such as exits from the Canadian market, and the bolstering of international operations. This also takes in the whole concept of banks in insurance – or “**bancassurance**”, as it is called in Europe – as well as the Internet and electronic commerce.

Bancassurance is only a small piece of this important revolution in distribution facing the life and health insurance industry in Canada. I also do not believe that, in the long run, it will be a determining factor in the viability of the industry. But it does matter in the short run, and the issue has an important public profile.

Moreover, I understand that no visit by an insurance industry representative to such an important public forum would be complete without some

discussion about banks in insurance! It seems to me that too much is said about this issue generally and, often, much of it is wrong or overblown.

**Currently, the law says that banks can own insurance companies.** Most of them do and a number are among my members. Indeed, they own and operate life and health insurance subsidiaries that participate in the market on exactly the same terms and conditions as all other life and health insurers. Such subsidiaries currently generate annual premiums of about \$2.5 billion dollars.

Furthermore, **banks can sell a variety of insurance products in their branches**, most notably, mortgage and loan insurance and travel insurance. This accounts for annual premiums of about \$1.1 billion dollars.

Given all this, banks and other deposit-takers already account for about \$3.6 billion dollars annually in life and health insurance premiums . . . . . more than 10 per cent of the entire Canadian market.

**So what is the problem for the banks? The issue is just this. Banks want their powers extended further in the insurance business. Quite simply – and this is what the highly visible dispute is all about – under the current law, they cannot use personal customer information to target market life insurance, and they can't sell the product in their branches. As things stand right now, we hope to keep it that way.**

Now, some of you may recall that the MacKay Task Force recommended additional insurance distribution powers for deposit-taking institutions – specifically, in-branch selling of life insurance by banks – provided that three conditions would be met. Those conditions relate to prohibiting coercive tied

selling, protecting the privacy of personal information, and ensuring appropriate proficiency standards for any bank intermediaries who want to sell additional life insurance products.

From the perspective of the life and health insurance industry, until these conditions can be met effectively . . . . . and can be shown to have been met effectively . . . . . our public policy concern and argument with respect to the protection of privacy and the potential misuse of personal information will remain.

But let me make another point. While our industry agrees with and supports the conditions set out by the MacKay Task Force, I should go on for a moment to say that life and health insurers have **other broader concerns about the general policy framework** in which we currently operate vis-à-vis banks and other deposit-takers.

The major legislative overhaul of relevant federal legislation in 1992 essentially completed the dismantling of the historic four pillars – banks, trust companies, investment dealers and insurers – which had characterized the Canadian financial services sector up until that time. After 1992, with really only three major exceptions, every financial services organization – bank, insurance company, trust company, credit union, and so on – subject to general safety and soundness requirements, would be able to do, in-house, what any other organization could do.

The three major exceptions were:

1. Deposit-takers could not sell most insurance in their branches nor make use of personal customer information to target market insurance products.
2. Insurers could not take deposits.
3. Fiduciary functions would remain the sole province of trust companies.

Again, **outside of these exceptions, every company would be legally entitled to do, in-house, what everyone else could do.** Life and health insurers have maintained that **these reforms, which we supported then as we do now, were never put fully into force.**

For example, **under the 1992 law, we are entitled to issue debit and credit cards.** Yet we cannot directly issue such cards and use them through Interac, Canada's only payment card network, unless we are members of the Canadian Payments Association.

Now you see the Catch-22 here. **We have the legal right to directly issue debit and credit cards, but unless we can have access to Interac – a private utility – these cards will be of little use to cardholders.** To be a direct member of Interac, you have to be a member of the Canadian Payments Association, a federal Crown agency. To be a member of that Association, you must, among other things, be a deposit-taker. Need I go on?

**The issue is this. Life and health insurers currently pay out just under \$100 million dollars a day to Canadians. In an era where the means and the technology governing those payments is continually changing, not to be a member of the group responsible for the maintenance and the**

**evolution of the payments system is becoming a huge competitive problem . . . . . especially when one of your major competitors effectively runs the system and access to it!**

A few years ago, the former head of London Life – now a Great-West company – said to me that it galls him to see a customer on his books for maybe 50 years and the company's last official act is to hand him over to a bank when it issues a cheque for life insurance proceeds and gives it to his widow. Why not instead hand her a debit card so she can access her funds directly? Some of the funds may go to deposit-takers, but other funds may remain with the insurer in various savings products. Savings products, incidentally, account for half of all insurance industry premium in Canada.

**The financial services business is about two principal activities: finding customers and keeping them. Increasingly, payments system issues will be central to both these activities and insurers must be at the table. Certainly, they should not be kept out by legislative oversight or misdirected public policy.**

So our current lack of access to the payments system is one example of a less-than-level playing field. There are others, such as much needed equity in terms of competition and fairness for all customers when it comes to consumer compensation arrangements – in other words, putting CompCorp and CDIC on the same footing, which the MacKay Task Force recommended unequivocally.

In a nutshell, the essence of our position in talks with the government and in submissions to the MacKay Task Force and to the Parliamentary Committees

studying the Task Force recommendations is this: **Get the playing field leveled so we can effectively use the broad business powers that we were given in 1992. Once that happens, then we can talk about further extending bank powers, including insurance powers.**

## **2. Marketplace Relations**

So much for “the distribution revolution”. Now let me get onto the next major set of issues on the industry’s plate: **marketplace relations**. This is related to the distribution revolution but is not focused on new channels or alliances. It includes the whole matter of market conduct in an increasingly competitive marketplace. Legislative and regulatory compliance and consumer relations are two dominant issues here. Associated – and very important – considerations are industry image, and self-regulatory issues such as life insurance illustrations and standards for licensing and discipline of intermediaries.

## **3. Solvency, Access to Capital and Capital Adequacy**

Another set of issues I have already talked about. This is the whole area of **solvency, access to capital and capital adequacy**. But here I need to add to what I said earlier.

Collectively, the industry is responsible for solvency through CompCorp, and the momentum continues to be toward **sorting out problems before an insolvency occurs**. In addition, the industry continues to work with regulators on **standards and requirements**, and all of the associated issues there.

Individually, industry players have responded to changing capital requirements through **a number of strategies**. These include plans to demutualize, which I discussed earlier, but there are other important avenues, such as the sale of subsidiaries, rights offerings, subordinated debt, and so on. Although somewhat less crucial than a few years ago, a key consideration here continues to be **ratings** and their impact on consumer confidence and investment markets.

#### **4. Pressures to Consolidate**

The next set of issues is related to **pressures to consolidate**. This is an ongoing reality that will likely continue in the coming years. It is being moved in particular by **the increasing need for access to capital, cost minimizing strategies, technology and competition**.

The extent of consolidation in the industry can be illustrated over a relatively short time frame. In 1990, the top 10 life and health insurance companies generated close to 60 per cent of Canadian premium income and represented about 66 per cent of all industry assets. The top 10 now generate close to 79 per cent of premium income in this country and represent close to 85 per cent of assets.

An interesting question arises in this context. Is there going to be a concentration problem arising in the shadow of further consolidation? I do not think so, and there is certainly no evidence of a problem at the moment. Certainly, none of the general industry watchers, including the rating agencies, see a problem in that regard. **Indeed, often the worry seems to be that there is almost too much competition within the life and health**

insurance industry, or as Standard and Poor's puts it, a "*tooth and nail*" environment.

## 5. Taxation

Let me turn now to a fifth major issue on my list – **taxation**. This is one aspect of our multi-faceted business issues that all of you in this room, as business people and as tax payers, will relate to. **The crux of the issue for us is that the system of taxation of financial services in this country has become unreasonable and punitive.**

I want to stress that my point here is not about paying taxes. We all do that and we all understand that the fiscal crisis so visible a few years ago has pushed Canadian tax rates up to record highs. There may be lots wrong with that situation by itself, but the problem is that **the taxes financial institutions pay are significantly higher than taxes paid in other sectors of the economy. They increase the cost of financial services in Canada and make our financial institutions less competitive abroad.** And this has been acknowledged by independent economic observers and government officials alike.

Consider, for example, that the financial services sector accounts for about 20 per cent of federal corporate income and capital taxes, while accounting for less than six per cent of all corporate profits in this country. That statistic comes from a recent Conference Board of Canada study, looking at transfers from financial institutions to governments.

As for the life and health insurance industry itself, over the past 10 years – from 1987 to 1997, to be exact – overall taxes paid by the industry

quadrupled to more than \$1.8 billion dollars. And the compound annual growth rate, 15 per cent, of the industry tax burden over that period was two and a half times the growth rate of industry profit over that same period.

Our industry in particular is subject to layers of different taxes paid to different levels of government.

- Federally, we are looking at corporate income tax, capital tax, large corporations tax, investment income tax, payroll taxes and, of course, the Goods and Services Tax. There is also “mark-to-market” taxation of equity investments, which the federal government introduced in 1994. It places a tax on capital gains that have not yet been realized or recognized in income. This seriously distorts the balance between earnings and current taxes.
- Provincially, we have the premium tax, as well as the income tax, payroll tax, retail sales and real estate taxes. In Ontario and Quebec, our industry is also obliged to collect and to remit retail sales taxes payable by policyholders on group insurance premiums – over three quarters of a billion dollars worth of tax.

My point in all this is that **virtually everyone involved in the serious review of the sector more broadly and our industry more particularly – from the MacKay Task Force to the influential House of Commons Finance Committee and the Senate Banking Committee – has stated, very clearly, that the tax situation must be changed.**

In fact, Mr. MacKay and his Task Force were very firm in their recommendations that this be resolved quickly. For example, they called for equitable tax treatment of financial institutions relative to other Canadian

industries and to financial institutions in other countries. They also recommended that special capital taxes on financial institutions be eliminated . . . . . or, at the very least, that the capital tax burden be shifted to profits.

All this is very strong endorsement of our industry position – and that of our banking and other financial services colleagues – over many years. And I must tell you that when bankers publicly endorse insurance company views, you know you're on to something big. In fact, Ray Protti, my counterpart at the Canadian Bankers Association, told this very audience back in early November that

*“transaction taxes” . . . and here I am quoting . . . “particularly on insurance - where both the level and the layering, in some instances tax on tax on tax - exacts a significant toll on that industry” . . . meaning ours.*

The bottom line here is just this. If Canada does not get this financial services tax situation straightened out, there is a very good chance that the goose that lays the golden egg – and hundreds of thousands of jobs besides – will be well and truly cooked, to mix a metaphor.

### **Economic and Social Contribution – Beyond the Taxpayer Role**

The fact is that the financial services sector is fundamental to the smooth running of Canada's entire economic engine, effectively functioning as its financial circulatory system. Furthermore, the sector makes a tremendous contribution to the country's economy and society.

Speaking for the life and health insurance industry specifically, I can tell you that this contribution is significant. In addition to direct financial support as major taxpayers, life and health insurers' real contribution is also manifested

in their role as service providers, as employers, as purchasers, as exporters and as investors. For example:

- As service providers, life and health insurers offer a wide range of financial security options to protect about 22 million Canadians . . . . . which, by the way, also serves to reduce the pressures on government social programs. And here I am referring to the whole gamut, from individual and group life insurance; to retirement and investment products such as annuities, RRSPs, RRIFs and pensions; to health insurance such as disability and critical illness. I will get back to the area of health insurance in a moment, as it represents one more major set of industry issues.
- As employers, life and health insurers employ more than sixty thousand Canadians full time right across the country. Many thousands of those jobs are right here in the Greater Toronto Area, where 72 companies have their head offices. Another forty-four thousand Canadians who work as independent sales agents derive at least part of their income from the industry. And the jobs of thousands of other Canadians in other businesses are also sustained to some degree as a result of the significant purchases insurance companies make in the course of their day-to-day operations.
- As exporters, life and health insurers earn foreign exchange, help to sustain jobs for Canadians in this country, and assist Canada in maintaining a healthy balance of trade. Our companies operate in more than 20 countries around the world, and about 44 per cent of their total worldwide premium income – that is, revenue of about \$24 billion dollars – comes from those markets abroad.

- As investors, our industry manages one of the largest pools of long term investment capital in the country. Most of the \$218 billion dollars of total industry assets that I talked about earlier are invested primarily in government and corporate bonds, and commercial and residential mortgages.

In fact, our industry helps to finance many major Canadian enterprises in the resources, utilities, transportation and communications sectors, as well as finance. Companies such as B.C. Tel, Consumers Gas – and yes, even the Bank of Montreal – have derived at least a quarter of their debt financing needs from our industry.

At the same time, our industry plays a key role in meeting the financing needs of all levels of government in Canada. As a case in point, government securities represent about 25 per cent of our total investments.

I could go on about the various forms of contribution this industry – and, indeed, all financial sector players – make toward our collective and individual well-being, well beyond the financial contribution through taxes. But I think you get the picture. Hopefully, the Minister and his officials do, too.

## **6. Health Care Reform**

Moving forward with my list of industry issues, the next – and final – area I want to deal with today has major public policy implications – not just for the business of my members but for all Canadians – indeed, for everyone in this room. This is the matter of **health care**, or **health care reform**.

The basic fact is that we are in the *life and health* insurance business. Providing health insurance that complements and supplements what government provides is a fundamental part of our operations. And we are talking important numbers here.

- Life and health insurers pay out more than \$35 billion dollars annually to Canadians – as I noted earlier, about \$100 million dollars a day – in the form of benefits. Only nine per cent of that goes to beneficiaries as death claims for life insurance contract proceeds. The rest – more than 90 per cent – goes out in the form of payments to the living, as it were. . . . . as annuity or disability benefits, as reimbursements for health care costs, as dividends, cash surrender values, matured endowments. And of that, about a fifth of the payouts is for health care related expenses such as disability, drug cost coverage, dental care, vision care and extended health treatment.
- In Ontario specifically, in the past year, benefit payments under health insurance policies alone amounted to about \$3 billion dollars.
- When it comes to prescription drug insurance, we are talking about some 16.5 million Canadians – 6.5 million Ontarians – who are covered by employer-sponsored group insurance plans that provide comprehensive coverage.

I won't burden you with more numbers but the point that needs to be made is that, obviously, reform of the health care system is vital to the interests of my member companies, and we aim to be at the table as key stakeholders in the process. The fact is that the cost pressures on governments are immense and, one way or another, the state will be

pushing more and more procedures and coverages out of the traditional core of medical and hospital services into the private sector.

As that happens – and it has already in a significant way in Quebec – privately funded and run programs are expected to step into the breach. At the same time, pressures on supplementary drug coverage programs are continuing to intensify, especially as we see powerful new drugs being introduced. Many are part of high expense treatment regimens, just as private plan sponsors are trying very hard to contain costs.

Clearly, this is an area in which significant change is underway. **We are major players in the business with major interests at stake. Those interests are thoroughly consistent with the public interest and must be further shaped to meet that public interest as it evolves in the period ahead.**

## **CONCLUSION**

Ladies and gentlemen. In about the last half hour or so, I have shared with you a perspective, on behalf of the life and health insurance industry and my 80 some member companies, on the major issues we face, the forces behind those issues, and the public policy framework that is required to enable us to continue to serve Canada and Canadians.

This is clearly an important industry, and an industry having to cope with considerable change and to respond to many major – and different – business imperatives. I sometimes think, in the context of this turbulent environment, that we in the financial services sector – at least at the life and health insurance

industry level – do not spend enough time looking outward . . . . . at our customers, our regulators and our competitors abroad.

Maybe it is time that all financial services providers raise their sights to the issues that cut across all of our industries – issues such as taxation, investment, competitiveness and regulatory harmonization – including marketplace relations – both at home and abroad. These issues, I believe, are what will most affect the overall prosperity of our clients, of our country's economy, and of Canadians everywhere.

At the end of this century, based on what we can see today, I believe the life and health insurance industry in Canada can look forward to a sound future. Certainly, our success cannot be taken for granted, but with the right public policy framework for the entire financial services sector, it is my sincere belief that we will succeed.