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# CAFII ALERTS WEEKLY DIGEST: April 21 – April 28, 2023

April 28, 2023

*The CAFII Alerts Weekly Digest is intended to provide a curated compendium of news on insurance, regulatory, and industry/business/societal topics of relevance to CAFII Members – drawn from domestic and international industry trade press and mainstream media – to aid in Members' awareness of recently published media content in those areas.*

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# GOVERNMENT/LEGAL/REGULATORY DEVELOPMENTS

## AMF Priorities For Year Ahead Include Crypto, Total Cost Reporting

*The Quebec regulator also plans to improve complaint handling and financial literacy*

*By Investment Executive Staff, April 27, 2023*

https://www.investmentexecutive.com/news/industry-news/amf-priorities-for-year-ahead-include-crypto-total-cost-reporting/

Quebec's Autorité des marchés financiers (AMF) published its priorities for 2023–24 on Thursday, April 27, with numerous initiatives in play ranging from improving complaint handling to stepping up regulation within the crypto-asset sector.

The priorities, based on the regulator's 2021–25 strategic plan, include consumer-focused initiatives such as providing tools to help consumers file complaints in the financial sector as well as tools to strengthen financial literacy.

The regulator will publish a model framework for the use of artificial intelligence, the statement of priorities said, and produce related educational materials for consumers.

As part of enforcement, the regulator intends to combat offers of illegal products on social media through improved detection, particularly for crypto-assets.

In partnership with the Canadian Securities Administrators (CSA), the AMF said it will continue to develop a framework for the registration of crypto-asset trading platforms that are subject to securities legislation.

It will also continue to optimize its insider trading and market manipulation detection and investigation tools.

Compliance priorities include finalizing amendments related to outside activities and professional liability insurance of representatives and registrants, and continuing an initiative to more effectively collect data from financial institutions.

The AMF also said it will continue to work on several ongoing projects with the CSA and insurance regulators, including disclosure related to total cost reporting for investment and segregated funds, and guidance on upfront compensation in segregated funds.

Regarding sustainable finance, the regulator said it will incorporate ESG factors into financial activities and decisions.

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# OSFI Releases New B-10 Guideline On Third-Party Risk Management

*By Christopher Ferguson, Partner; Julie He, Associate; and Aniket Bhatt, Articling Student, Fasken, April 27, 2023*

OSFI Released New B-10 Guideline on Third-Party Risk Management | Knowledge | Fasken

On April 24, 2023, the Office of the Superintendent of Financial Institutions (OSFI) published its final updated Guideline B-10: Third-Party Risk Management Guideline **(**the "Guideline"), which outlines OSFI's expectation that Federally Regulated Financial Institutions (FRFIs) take a risk-based approach to manage third-party arrangements. OSFI undertook a 5-month public consultation process following the release of a draft Guideline B-10 last April ("Draft Guideline"), based on which it updated the Draft Guideline with further clarifications regarding the application of and requirements under each expected outcome of the Draft Guideline. In particular, OSFI emphasizes that FRFIs should apply the Guideline in a proportionate manner based on the level of risk and criticality of each third-party arrangement. The Guideline will be effective on May 1, 2024. You can find our bulletin on the Draft Guideline here.

**Proportional Approach in the Application of the Guideline**

In response to concerns surrounding the Draft Guideline's broad scope, the final Guideline provides that FRFIs should determine the "intensity" with which to apply its expectations based on the level of the risk and criticality involved. OSFI recognizes that third-party arrangements have a variety of forms and urges FRFIs to apply the Guideline in a manner that is proportionate to 1) the risk and criticality of each third-party arrangement; and 2) the size, nature, scope, complexity of operations, and risk profile of the FRFIs. For example, the Guideline notes that a low-risk third-party arrangement may not require an exit or contingency plan, and a legal review may not be necessary for a low-risk, short-term arrangement.

Adding to the focus on flexibility, the final Guideline acknowledges that certain third-party arrangements may not be negotiable or may not be subject to written contracts. In these cases, FRFIs are expected to manage risks, as appropriate, through monitoring, business continuity measures, contingency planning, and other resiliency mechanisms.

**Clarification Regarding Risk Assessment Criteria**

The final Guideline reiterates that criticality is an important consideration in the assessment of third-party risk, adding the following criteria in considering criticality and risk:

- the degree to which the third party or subcontractor supports a critical operation of a FRFI;
- the impact on business operations if the FRFI needs to exit the third-party arrangement and transition to another service provider or bring the business activity in-house;
- the probability of the third party or subcontractor failing to meet expectations due to insolvency or operational disruption;
- the information management, data, cyber security, and privacy practices of the third party and its subcontractors; and
- the third party's use of subcontractors and the complexity of the supply chain.

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The final Guideline also redefines "Concentration Risk" as coming in two forms, with institution-specific concentration risk stemming from the over-reliance of an FRFI on a single third party, subcontractor, or geography for multiple activities, while systemic concentration risk arises when one third party service provider or geography provides services to multiple FRFIs.

OSFI expects all FRFIs to take reasonable steps to assess the concentration risk associated with their third-party arrangements across "multiple dimensions", including geography, supplier, and subcontractor, and FRFIs are expected to assess concentration risk to "the greatest extent possible."

**Clarification Regarding Subcontracting Risk**

The Guideline requires FRFIs to assess the overall risk arising from their third parties' subcontractors. This requirement is broader than in the Draft Guideline, which would only have required FRFIs to assess the existence of material subcontracting and whether their impact could outweigh the benefit of their third party arrangements.

To ensure that FRFIs have ongoing visibility into subcontracting risk, the Guideline requires FRFIs to receive ongoing updates and reporting on the third party's use of subcontractors. The Guideline provides that such monitoring and management of subcontracting risks should be scaled according to the risk level of the arrangement and criticality of services provided by the third party.

**Other Updates**

The Guideline aims to be less prescriptive and to reinforce expectations regarding due diligence and written arrangements. Relative to the Draft Guideline, the final Guideline limits the application of the diligence factors in Annex 1 to only high-risk and critical third-party arrangements.

Regarding technology and cyber risk with respect to third-party agreements, the Guideline largely reiterates the requirements in the Draft Guideline, but with the introduction of a new outcome that requires that the "technology and cyber operations carried out by third parties are transparent, reliable and secure."

In considering "cloud portability," FRFIs are required to "assess the benefits and risks of portability and mitigants in the absence of portability." The Guideline adopts the definition of "cloud portability" set by the US National Institute of Standards and Technology (NIST), which means "the ability for data to be moved from one cloud system to another or for applications to be ported and run on different cloud systems at an acceptable cost."

**Transition Period**

To provide "adequate implementation time to self-assess and build adherence," the Guideline provides for an extended transition period for FRFIs and is set to be effective from May 1, 2024. Third-party arrangements initiated on or after May 1, 2024, are expected to adhere to all relevant sections of the Guideline.

**Next Steps**

Going forward, FRFIs should review and update existing arrangements made before May 1, 2024, at the earliest appropriate contract renewal to meet the expectations of the Guideline.

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## Unlicensed Activity, False Statements Lead To $30,000 FSRA Penalty

*By Kate McCaffery, The Insurance Portal, April 18, 2023*

The Financial Services Regulatory Authority of Ontario (FSRA) announced on April 17 that it had imposed administrative monetary penalties totalling $30,000 on Michael Stoddart after Stoddart continued to hold out as an insurance agent to his clients after his license had been revoked. He was also found to have violated Ontario regulations when he knowingly made false or misleading statements in order to obtain payments and provide services to insured clients.

According to FSRA's notice of proposal in the case, Stoddart and his partner, Susan Keshen, continued managing his book of business together after Stoddart's license was revoked in August 2008 for failing to provide requested information to the regulator.

"After Stoddart's insurance agent license was revoked in 2008, Keshen took over Stoddart's book of business," the notice states. "Neither Keshen nor Stoddart advised clients that their insurance agent had changed." Keshen did not pay Stoddart for the transfer. Keshen then created Standard Wealth Management (SWM), an unincorporated entity. "Keshen advised investigators that she was not aware that SWM had to be licensed."

Stoddart's emails, meanwhile, identified him as the managing partner of SWM. He continued to be involved in significant transactions and met with his clients, often alone and without supervision, to discuss insurance products. "The language and format used in Stoddart's communications with clients reasonably gave the impression that he was their insurance agent." Nine different clients reported meeting alone with the unlicensed representative. At least one former client stated that she was not aware that Keshen had become her registered advisor.

The arrangement was discovered after an estate trustee reported to Manulife that Stoddart had potentially misappropriated funds. In a minutes of settlement entered into by Stoddart and the Financial Services Commission of Ontario (FSCO), the former insurance regulator in Ontario, the minutes confirm that Stoddart failed to respond to a request by FSCO compliance staff for an accounting of client funds. "Despite multiple follow-up requests, Stoddart never provided the requested accounting to FSCO and instead allowed his license to expire," the notice states.

The notice of proposal goes on to discuss the misappropriation of client funds, describing how Stoddart purported to set up a *Cash Accumulation Fund* (CAF) for a client, creating false documentation for both the client and later for the client's estate executor.


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While the client was alive, Stoddart and on one occasion, his daughter, deposited $500 a month from their own accounts into the client's account, telling the client that the payments were from the CAF. In June 2019, Stoddart made two transfers totalling $128,240 back to the client's spouse.

"Administrative penalties in the amount of $30,000 are hereby imposed on Michael Stoddart, for the reasons set out in the notice of proposal," FSRA concludes in its order sanctioning the former agent.

*Read Story* (Subscription Required): *Unlicensed activity, false statements lead to $30,000 penalty - Insurance Portal (insurance-portal.ca)*

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## Travel Complaints Crackdown: Government To Introduce Bill Putting Burden Of Proof On Airlines, Not Passengers

### *Airline Group 'Disappointed' In Bill That Would Also Cut In Half The Time Airlines Are Given To Resolve Passenger Disputes.*

*By Josh Rubin, Toronto Star, April 21, 2023*

You're guilty until proven innocent.

That's the message the federal government is sending to airlines as it unveils new legislation to deal with passenger complaints.

Federal transport minister Omar Alghabra is set to discuss changes to the Transportation Act on Monday, April 24, but details of the legislation were posted online on Friday, April 21 as part of a wide-ranging government omnibus bill.

Among the changes? An attempt to close a widely-criticized loophole which has allowed airlines to avoid paying compensation by claiming the cause of a delay or cancellation was outside of their control, and necessary for safety purposes.

"It is presumed to be within the carrier's control and not required for safety reasons unless the carrier proves the contrary," said the legislation, which also envisions a shorter, 90-day time frame for resolving passenger complaints. The current complaints process with the Canadian Transportation Agency, at least on paper, is supposed to take 120 days.

The Association representing Canada's major airlines criticized the legislation, saying it won't make anything better for passengers.

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"Canada's airlines are disappointed that the federal government has not focused its legislation on measures that would improve the overall air passenger experience, namely shared accountability, including requiring better data and performance indicator-sharing from all entities in the air travel system," said Jeff Morrison, president and CEO of the National Airlines Council of Canada in an emailed statement.

The legislation also revealed more details proposed by the federal government in its March budget, including shifting the CTA complaints process into a mediation structure, instead of its current quasi-judicial form.

Shifting the burden of proof from passengers to airlines is a matter of fairness, said a spokesperson for Alghabra.

"Our government was the first in our history to implement a Bill of Rights for air passengers. We have strengthened these rights since 2019 and we will continue to do so. It is clear that the burden of proof must be on the airlines and not on the passengers — and that's exactly what we're going to do," said Nadine Ramadan in an emailed statement. "Canadians can rest assured we are doing everything we can to make the changes necessary to ensure our air sector runs safely and smoothly as we head into the summer travel season."

The government had come under heavy pressure to respond to the chaos that unfolded in airports as COVID-19 travel restrictions were gradually lifted. Backlogs of complaints about delays and cancellations, lost or damaged bags, and other passenger concerns, swamped the CTA.

With the proposed changes, the government is on the right track, at least in theory, argued John Gradek, a former Air Canada executive and head of McGill University's Global Aviation Leadership Program.

"This is something that the airlines have been pushing back against hard," said Gradek, adding that the changes would bring Canada's Air Passenger Protection Regulations more in line with stricter European regulations. "This brings us closer to Europe, no question."

Still, Gradek said passengers shouldn't get their hopes up that the new complaints process will be much quicker. There doesn't appear to be consequences if timelines aren't met, Gradek said.

"There's no accountability there, which is disappointing," Gradek said.

Passenger rights advocate Gabor Lukacs was even harsher, calling the proposed changes "smoke and mirrors."

"This is the government wanting to be seen doing something rather than actually doing something," said Lukacs, adding that he had no confidence that the new process will be quicker than the current one.

"Ninety days is the timeline on paper. But right now the timelines are 120 days, and people are waiting 18 months," said Lukacs.

The proposed new CTA complaints system also clamps down on how much information is released during the process, and doesn't really define criteria for evidence or proof.

"To call this a kangaroo court would be doing a disservice to kangaroos," said Lukacs. "I'd still recommend people go to small claims court for their complaints. This is smoke and mirrors."

Read Story (Subscription Required): [*Travel complaints crackdown: Liberals toughen passenger rights | The Star*]

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## CLHIA Comments On National Climate Change Adaptation Strategy

*By Kate McCaffery, Insurance Portal, April 17, 2023*

*https://insurance-portal.ca/life/association-comments-on-national-adaptation-strategy/?utm_source=sendinblue&utm_campaign=daily_complete_202304-17&utm_medium=email*

The Canadian Life and Health Insurance Association (CLHIA) has responded to Environment and Climate Change Canada's National Adaptation Strategy, saying greater collaboration is needed to develop and disseminate information about the linkages between climate change and life and health outcomes. It also calls on the government to leverage the industry's appetite for sustainable investment opportunities.

"Climate change presents a complex and long-term risk to public health, and consequently, to life and health insurers. As such, while managing climate change is of interest to many, it is an area of significant and growing concern to the life and health insurance industry and we see it as our responsibility to support adaptation efforts and to build a more resilient Canada," CLHIA writes.

The Association adds that the industry is encouraged by the government's consideration of climate change and its impact on physical and mental health. "However, the causal linkages between climate change and life and health outcomes lack sufficient study. Canada's healthcare system requires significantly more robust research to more reliably forecast how climate change will impact the health and well-being of Canadians."

CLHIA recommends greater collaboration between all levels of government, health care providers, and health insurance companies. "We would also recommend a dedicated research funding stream and the development of data-sharing mechanisms with the private sector to better understand the impacts of climate change and health-related risks."

# OTHER CAFII MEMBER-RELEVANT NEWS

## BMO CEO Says Recent Turmoil Has Put Banks Through A 'Live Stress Test'

*By Stefanie Marotta, The Globe and Mail, April 18, 2023*

https://www.theglobeandmail.com/business/article-bmo-ceo-agm-2023/?utm_medium=email&utm_source=Top%20Business%20Headlines%20Morning%20Edition&utm_content=2023-4-22_7&utm_term=BMO%20CEO%20says%20recent%20turmoil%20has%20put%20banks%20through%20a%20%E2%80%98live%20stress%20test%E2%80%99&utm_campaign=newsletter&cu_id=Ts6FwhWx6n2rSHC0x7MiReEeeFJOJkTb

Bank of Montreal chief executive officer Darryl White says turmoil in the banking sector put the banks through a "live stress test" in recent months, opening the door to tighter scrutiny from regulators amid wavering trust in the industry.

Over the past month, Canada's banking regulator and the federal government have clamped down on rising risks to the country's biggest banks as heated interest rates put more pressure on borrowers and two U.S. bank failures cast doubt over stability among lenders. Mr. White said that the increased monitoring is expected and appropriate given the Canadian banking sector's conservative regulatory requirements, which helped buttress it against fallout from Silicon Valley Bank's collapse.

"I don't really see this necessarily as a change in tone or a change in environment, broadly speaking," Mr. White said. "It's a focus that's appropriate given the environment of the time. We've been through this, through all sorts of issues over time, and it's generally been really effective."

Canadian regulators had already turned a more watchful eye on lenders in the year before the collapse of two U.S. banks sent markets spiralling, but the federal government and the Office of the Superintendent of Financial Institutions have signalled in recent months that they are considering further measures to guard against any potential risks.

On Tuesday morning, April 18 while BMO's annual meeting was in session, OSFI unveiled its second annual risk outlook, adding two new challenges to the list. It highlighted liquidity and funding risk as the second-most urgent risk after a real estate market downturn, emphasizing the need for banks to have sufficient deposits and assets that can be converted into cash when unexpected issues arise – one of the factors that led to the failure of Silicon Valley Bank.

Ottawa is also taking precautions. In its budget released in late March, the federal government said that it plans to expand the mandate of OSFI to include determining whether financial companies have sufficient protection against security threats and widening the range of circumstances in which the regulator can take control of a federally regulated financial institution.

Mr. White said that in the past, regulators have increased monitoring of the banking sector in response to fluctuating levels of risk. He said that in recent months, BMO has fielded more calls from clients about the stability of the bank's balance sheet and the tools it uses to mitigate financial risks, but that "regulation and the supervision in the Canadian banking system has been very effective for a long time."

"It's been effectively like a live stress test over the last month," Mr. White said. "The concerns have been a little bit more acute given some of the volatility that we've seen in the U.S. banking sector – which by the way is a lot more stable today than it was a few weeks ago – but it has been all around the element of trust."

Bank of Montreal is the fourth Big Six lender to hold its annual shareholders meeting, with Bank of Nova Scotia, CIBC and RBC hosting in early April.

Shareholders rejected a proposal for BMO to conduct a "racial equity audit" to have a third party review its employment, compensation, and business practices, including how it sells products and services. BMO recommended that shareholders vote against the proposal, saying in its proxy that it is independently tracking progress on its own diversity initiative.

"We measure ourselves against some pretty ambitious outcomes on racial equity," Mr. White said in an interview. "We want to make sure that any measurement that we introduce, we have confidence that it's effective. And when and if we get there, we'll potentially take a different view."

Even though the proposal failed, 37 per cent voted in favour.

While BMO has its own initiative, "we believe these steps are insufficient to identify, address, and prevent the discriminatory impacts that BMO business practices may have on certain demographic groups," Shareholder Association for Research and Education representative Manna Jacob said during the meeting.

The same proposal was also turned down at RBC's annual meeting on April 5. Canada's largest lender had asked shareholders to vote against it, telling them in its proxy that it doesn't want to do an audit until the banking industry develops standards that apply to all companies. The proposal failed by a slim margin, with 44 per cent voting in favour.

Three other large Canadian banks have already adopted similar shareholder proposals, including Canadian Imperial Bank of Commerce, National Bank of Canada, and Toronto Dominion Bank.

Shareholders also rejected two opposing climate-related motions from separate groups: a proposal to implement a vote for shareholders to indicate their level of satisfaction or dissatisfaction with the bank's environmental policies, as well as a proposal asking the bank to commit to continuing to invest in the oil and gas sector.


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## National Bank CEO Worried About Effect Of Remote Work On Downtown Montreal

*By The Canadian Press, April 21, 2023*

[National Bank CEO worried about effect of remote work on downtown Montreal - The Globe and Mail]

The CEO of National Bank plans to maintain a flexible approach toward his employees working in the office, even though he's worried about the impact remote work is having on the vitality of downtown Montreal.

Laurent Ferreira said he's worried about the effect the widespread adoption of telecommuting is having on small businesses in Montreal's downtown business district.

"I'm concerned for downtown Montreal and I think the business community has a very great responsibly (to ensure) the dynamism of Montreal's ecosystem," he said in an interview on Friday, April 21, during the bank's annual shareholders meeting.

But, for now, Mr. Ferreira doesn't want to impose anything on his teams.

"We want a flexible approach. We want the teams to organize themselves and for them to decide when they need to meet, work together," he said.

It's an approach that contrasts with that of the Royal Bank of Canada, which has asked its employees to work from the office three or four days a week, depending on the nature of their work.

National Bank is suggesting workers come in 40 per cent of the time, though Mr. Ferreira said he would like a "better balance" that sees employees coming in more frequently.

But he said telecommuting hasn't had a negative effect on the productivity of the bank's employees. Around 12,000 people work at National Bank's downtown Montreal headquarters. The bank will begin gradually moving into a new 40-storey tower during the second half of the year. The project, announced in 2018, represents an investment of more than half a billion dollars.

Mr. Ferreira told the shareholder meeting he expects the economy to slow in 2023 and 2024, but noted that the job market remains resilient.

National Bank is in an enviable position to deal with an economic slowdown, Ferreira said, with higher capital reserves than its peers.

"Because we're in an advantageous position, that might allow us to gain market share," he said. National Bank's capital ratios were at 12.6 per cent on January 31, 2023.

"It's more than the required minimum of 11 per cent and more than most peers when you take into account their acquisition plans," said Darko Mihelic, an analyst at RBC Capital Markets.

National Bank wants to grow organically, without acquisitions, in other Canadian provinces and has identified commercial banking and wealth management as its main avenues for growth.

"That's where we're putting the emphasis, especially outside Quebec, but you understand that commercial and wealth management clients also need a bank account and a credit card, so it's all related," he said.

Like the CEOs of other large Canadian banks, Mr. Ferreira was asked about the institution's environmental policies during the shareholders meeting. The bank does not want to completely divest from the oil and gas sector, but wants to support companies that are making efforts to de-carbonize their operations.

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## Considerations When Selling Insurance To The Gig Economy

### *One In 10 Canadians, Many Lacking Employer-Sponsored Disability Coverage, Work In The Gig Economy*

*By Greg Meckbach, Investment Executive, April 26, 2023*

*https://www.investmentexecutive.com/news/industry-news/considerations-when-selling-insurance-to-the-gig-economy/*

Hundreds of thousands of Canadians could be in the market for individual disability insurance because they depend on gig-economy work, but placing coverage is not easy, advisors suggest.

Individual disability insurers have traditionally favoured white-collar professionals such as dentists and doctors, said Geoff Cook, certified financial planner with Infinite Financial in Barrie, Ontario.

"You can't really buy disability without [working] 30 hours [a week], at least," he said. "And then you've got to supply a T4, and if you don't supply a T4, you might not actually be getting a decent product."

"Many in the gig economy are self-employed and they are concerned about reporting their income to justify the benefit amount," said Jean Salvadore, senior director of life and living benefits with RBC Insurance. She explained that underwriters can work with business owners and contract workers to evaluate business and personal income so that all income is counted.

Placing individual disability for gig workers can also be complicated because workers could potentially have multiple jobs, said Toronto-based advisor Brian Shumak.

As such, advisors should manage gig workers' expectations on coverage availability. For example, if a gig worker can get individual disability coverage, it will probably be in the guaranteed renewable category rather than non-cancellable category, Shumak said.

In a non-cancellable policy, premiums cannot be increased, benefits cannot be reduced, and the insurer cannot unilaterally cancel the contract. With a guaranteed renewable disability policy, the insurer can raise the premiums for everyone in a certain class or category but cannot raise individual premiums.

"The ability to qualify for a non-cancellable product is diminishing and as a result of the historic claims experience, you're going to see a lower desire for the remaining companies to maintain the non-cancellable product," Shumak said, alluding to Manulife Financial Corp.'s decision in 2022 to stop selling its non-cancellable products.

Another area in which to manage expectations is the scope of disability coverage. In the event of a claim, a dispute could arise between the claimant and insurer over whether or not the claimant can do their job, Cook said, suggesting that an advisor should explain the definition of "disability" in a policy to clients.

The ideal policy would pay income replacement if the policyholder cannot do the duties of the job they are trained to do, Cook said. "[But] there's another definition of disability called 'any occupation,' which means, for lack of better terms, that if you can work anywhere, we won't pay you. If you can't pound nails as a carpenter but you could be a greeter at Wal-Mart, we won't pay you."

"Any occupation" coverage is generally less expensive.

The share of Canadians in gig-economy jobs (including drivers, artists, and freelancers) nearly doubled to 10% in 2020 from 5.5% in 2005, Employment and Social Development Canada said in a report released in March. This works out to roughly two million Canadian gig workers. A separate 2019 Statistics Canada survey found that 48.6% of gig workers had no wage-earning job and relied solely on gigs.

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## Toronto's Office Vacancy Rate Is Now Higher Than It's Been For Nearly 30 Years — And Peak Vacancy Could Be Years Away

### *Study Shows Vacancy Rate Hit 15 Per Cent This Year As Companies Struggle With Post-Pandemic Employees Refusing To Make The Commute*

*By Josh Rubin, Toronto Star, April 5, 2023*

Toronto offices are the emptiest they've been in nearly three decades, and experts say that the vacancy rate could keep rising for years, as companies adjust to employees working from home in the wake of the global pandemic.

A new study by commercial real estate firm CBRE found that the vacancy rate for downtown Toronto office space hit 15.3 per cent in the first quarter of 2023, the highest it's been since 1995. That's up from just two per cent in March 2020, when the pandemic was declared.

In suburban Toronto, the vacancy rate was even higher, hitting 20.1 per cent.

Shekhar Bhardwaj, Toronto research manager for CBRE, said that Toronto's overall office vacancy rate of 17.5 per cent will likely keep rising at least for the rest of this year, although he expects it won't hit the peaks seen in other cities, such as Calgary, where the downtown office space vacancy rate is at 32 per cent.

"Twenty five to 30 is a little unrealistic. But do I think there's still room for the vacancy rate to move up in Toronto? Yes," said Bhardwaj. "My sense is 2023 will be a bumpy ride and then 2024 will open the way to recovery."

Veteran real estate analyst John Andrew is more pessimistic, noting that many companies are in the middle of long-term office leases.

"We could still be quite a few years away from really seeing the peak. It wouldn't surprise me if we're three to four years away from really seeing the worst of this," said Andrew, a retired real estate professor from the Smith School of Business at Queen's University.

The rising vacancy rates come at the same time as office building owners — including real estate investment trusts — are facing higher financing costs, as interest rates have soared, Andrew noted.

"It's brutal for office REITs right now," Andrew said, adding that he wouldn't be shocked if the vacancy rate in Toronto hit 30 per cent over the next few years. Workers who have gotten used to working from home, he said, aren't keen to start commuting into the office again.

"As much as a lot of employers would really like their staff back in the office, if not full-time then close to it, they're getting pushback from people, and it's hard to get and retain talent," said Andrew. "I just don't see companies forcing people. They're too concerned about retention."

Working from home, a tiny trend pre-COVID, has become the new reality in the pandemic's wake, said Nathaniel Baum-Snow, a professor of economic analysis at the University of Toronto's Rotman School of Management.

"There's a fundamental shift in how companies are using office space," said Baum-Snow, who is also a managing editor at the Journal of Urban Economics. "It's pretty much universal that firms are realizing, given their experience with the pandemic, that they don't need nearly as much office space as before the pandemic. So as leases come up for renewal, it's extremely common for firms to be downsizing their space and consolidating offices."

And because office leases are long-term, Baum-Snow agrees that we likely haven't seen the worst of it yet.

"Because commercial leases tend to be in the 5 to 10 year range, it's going to be a relatively long-run process during which we see this playing out."

Still, he added, longer-term means there's more time for the real estate market — and the economy — to adjust.

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"I think that longer run is a good thing, because that means it's not just a huge shock coming all at once."

If there's one relatively bright spot for downtown Toronto, it's that it's got a lower office vacancy rate than suburban areas.

Bhardwaj says that's partly driven by a "flight to quality." If companies need less space for an office, some of them will decide to be in a more central location.

"Flight to quality is another reason downtown vacancy is a little bit lower. That helps not only to attract talent but to retain talent."

Read Story (Subscription Required*):* *https://www.thestar.com/business/2023/04/05/flight-from-downtown-toronto-office-vacancy-rate-highest-in-nearly-30-years-and-its-worse-in-the-suburbs.html?source=newsletter&utm_content=a02&utm_source=ts_nl&utm_medium=email&utm_email=6D73923380F292A40DC042B455F0FDE3&utm_campaign=sbj_175044*

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## Regional Canadian Routes See Higher Airfares, Fewer Flights Even As New Carriers Emerge

*By Christopher Reynolds, The Canadian Press, April 10, 2023*

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On a cold, cloudy Thursday night in February, Donovan Onishenko arrived at the Calgary airport on a delayed flight from Atlanta and rushed to catch his connection to Saskatoon. With the airplane still at the gate, he said WestJet ticket agents told him the flight was full and about to depart without him.

"When I was told the next flight was six days away, I asked what I was supposed to do, and was told that I would have to wait until then, with no mention of assistance," said Onishenko.

"No hotel rooms or meals, no transportation or luggage allowance."

He and two others found that there were no rental cars available either, but one of them had a friend willing to lend theirs.

"So we borrowed the vehicle, fuelled up, grabbed some food and drove all night, arriving in Saskatoon about 7 a.m. on Friday, February 24. At this point I had been awake for over 24 hours," he said.

"The one problem is that not many airlines fly into Saskatoon anymore."

Indeed, only one now works his route.

As recently as October 2022, Air Canada and WestJet Airlines Ltd. were flying a combined 540 flights between Calgary and Saskatoon each month, according to aviation data firm Cirium.

Now, WestJet is the only carrier offering commercial flights between the largest cities in Alberta and Saskatchewan. It operated 345 flights between the two airports in February, 36 per cent fewer than when the airlines shared the route. Meanwhile, the route's average fare went up 45 per cent over the last four years.

Fewer flight options from Saskatoon serve as a microcosm for the situation in numerous smaller cities across the country.

WestJet wouldn't comment on Onishenko's specific case without a reservation number, and said it is continuing to adjust its schedule to focus on enhanced non-stop connectivity from Eastern to Western Canada, sun and leisure destinations, and increased regional connectivity in Western Canada.

While a spate of upstart airlines has made domestic plane travel cheaper than ever overall – particularly in the busiest corridors – passengers face higher prices and scarcer trip options in many regions and on international routes. And it's unclear how many entrants will survive in the long run.

Duncan Dee, Air Canada's former chief operating officer, said routes such as Vancouver-Toronto enjoy robust competition, with five airlines offering the trip compared with two a few years ago.

"It's the largest trans-continental city pair in the country in terms of number of travellers. So the fact that you've got new entrants in that market isn't surprising," he said. Budget carriers Swoop Airlines, Lynx Air – launched last year – and WestJet subsidiary Swoop are all relative newcomers.

"What is very peculiar in Canada is what's happening in regional markets, where competition is probably going to be much more constrained outside of the large regional centres."

That's owing partly to the retirement of smaller aircraft, as airlines try to pack in as many passengers as possible per flight, Dee said.

But the sparser flight boards at many airports also stem from a *de facto* division of the country by the two main players: Air Canada and WestJet, which shared nearly two-thirds of the domestic market in 2022, according to Cirium.

Since last fall, Calgary-based WestJet has cut routes in Ontario, Quebec, and Atlantic Canada to refocus on its home turf out west. It has also cut flights on some more heavily travelled corridors, including roughly 80 per cent of its trips between Toronto and Montreal compared to 2019 levels, Cirium data shows.

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Montreal-based Air Canada has mirrored this move, remaining in Central and Eastern Canada while scaling back in the west. It also scrapped 26 regional routes east of Winnipeg in June 2020, with only two resuming since.

Ultra-low-cost airlines hope to open the gate on already popular corridors to a new demographic, as well as revive withered spoke-to hub routes.

"Montreal and Quebec in particular are underserved by low cost carriers and full service carriers on a per-capita basis," said Lynx CEO Merren McArthur in an interview.

But low-cost carriers can only cover so many routes with their modest capacity. Flair and Lynx have fleets of 19 and six planes, respectively.

Overall, the battle for leisure passengers has driven down fares, in spite of inflation, according to Montreal-based travel data firm Hopper Inc.

However, a sample of regional routes reveals pricier tickets on most of them, with flight numbers far below 2019 levels.

The Ottawa-Fredericton route saw average fares for one-way trips rise 106 per cent to US$186 between January 2019 and January 2023, according to Cirium. Over the same period, monthly flights fell 60 per cent after Air Canada pulled out, leaving just Porter to fly the corridor.

Halifax-Montreal prices rose 69 per cent after WestJet dropped the route – and even after Flair picked it up – with monthly flight numbers down to 290 from 506. Regina-Winnipeg fares jumped 39 per cent after Air Canada left the route to WestJet, with flight activity down by two-thirds.

Meanwhile, international travel remains as short on competition as ever, with pricey implications.

Since 2019, roundtrip airfares rose 32 per cent to Europe, 27 per cent to South America, and 14 per cent to the United States, according to Hopper. Fares to Asia currently average $1,475, a jump of 97 per cent from four years ago.

One-way fares for Toronto-London and Toronto-Paris trips last July averaged US$389 and US$431, respectively – five and eight per cent higher than New York-London and New York-Paris routes, which have more carriers working them – according to Cirium.

Antitrust concerns around competition were the key factor that scuppered Air Canada's attempt to acquire tour operator Transat A.T. Inc. in 2021.

Flair, Lynx, and Porter are all scrambling to expand as they serve more domestic routes and sun destinations. But experts question how long Canada can host such intense domestic competition before an airline goes belly up – or follows the merger trend that saw WestJet acquire Sunwing Airlines in a deal approved by Ottawa last month.

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"How long can they basically keep going with their pricing and the customer service issues that they're having in the marketplace? You need some very deep pockets," said John Gradek, who teaches at McGill University's aviation management program.

Flair was late on several plane leasing payments earlier this year, triggering the seizure of four Boeing 737 Max jetliners by a lessor. CEO Stephen Jones has brushed off the temporary arrears as commonplace and their business as solid.

Lynx's McArthur told The Canadian Press that the carrier's profit margins are sustainable.

"It's been tough for Canadian ultra-low-cost airlines, because the ultra-low-cost airlines work when the planes are in the air – a lot," said TD Cowen analyst Helane Becker, citing the age-old conundrum of a vast, sparsely populated geography that creates unique challenges for companies operating in Canada. "There just aren't that many people in every market within Canada."

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