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CAFII ALERTS WEEKLY DIGEST: December 2 – December 9, 2022

December 9, 2022

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.

The Weekly Digest will take a three week winter hiatus, spanning the months of December 2022 & January 2023. Following the December 16/22 edition, the next Weekly Digest will be produced for the week of January 6 to January 13/23.

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GOVERNMENT/LEGAL/REGULATORY DEVELOPMENTS

AMF Launches Consultation On Revised 'Regulation Respecting Complaints Handling And Dispute Resolution In The Financial Sector'

By Brendan Wycks, CAFII, December 8, 2022

Avis de consultation - Règlement sur le traitement des plaintes et le règlement des différends dans le secteur financier (lautorite.qc.ca)
https://lautorite.qc.ca/fileadmin/lautorite/reglementation/traitement-plaintes/2022-12-08/2022dec08-r-traitement-plaintes-secteur-financier-cons-fr.pdf
https://lautorite.qc.ca/professionnels/reglementation-et-obligations/consultations-publiques/sujet/assurances-et-planification-financiere/en-cours

On December 8, 2022, CAFII received the following email message (in French only; but Google translation into English also provided below) from Cindy Cote, Regulatory Analyst, Division of Distribution Practices and Self-Regulatory Organizations, at Quebec's Autorite des Marches Financiers (on the AMF's website, the relevant consultation documents appear to be available in French only, at least thus far):

The AMF is today publishing for consultation a new version of the draft 'Regulation Respecting Complaints Handling and Dispute Resolution in The Financial Sector'. The Notice of consultation and the new draft Regulation are available on the Public consultations section of the AMF website. Interested persons can submit their comments until February 6, 2023.

The original version of this draft Regulation, published in the fall of 2021, elicited many comments, particularly regarding the regulatory compliance burden it would impose upon the entities subject to it. Therefore, certain rules and practices have been revised in order to allow greater flexibility for financial institutions, financial intermediaries, and credit assessment agents in the processing of the complaints they receive while maintaining the objective of Authority to ensure fair handling of consumer complaints.

The AMF plans to hold a meeting in early January 2023 to present the changes made in the revised Regulation and answer questions from interested parties. In that session, we will also address the new rules applicable to the reporting of complaints to the AMF. Further details regarding this meeting will be communicated in the coming weeks.

Cordially,
Me Cindy Cote
Regulatory Analyst, Division of Distribution Practices and SROs
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L'Autorité publie aujourd'hui pour consultation, une nouvelle version du projet de Règlement sur le traitement des plaintes et le règlement des différends dans le secteur financier. L'Avis de consultation et le projet de règlement sont disponibles dans la section « Consultations publiques » du site Web de l'Autorité. Les personnes intéressées peuvent formuler leurs commentaires jusqu'au 6 février 2023.

La première version de ce projet de règlement, publié à l'automne 2021, a suscité de nombreux commentaires notamment concernant la charge de conformité réglementaire imposée aux personnes qui y sont assujetties. Ainsi, certaines règles et pratiques ont été revues afin de permettre une plus grande flexibilité pour les institutions financières, les intermédiaires financiers et les agents d'évaluation du crédit dans le traitement des plaintes qu'ils reçoivent tout en conservant l'objectif de l'Autorité d'assurer un traitement équitable des plaintes des consommateurs.

L'Autorité prévoit tenir une rencontre au début du mois de janvier 2023 afin de présenter les changements et répondre aux questions des parties intéressées. Elle prévoit aussi aborder les nouvelles règles applicables à la déclaration des plaintes à l'Autorité. De plus amples détails quant à cette rencontre seront transmis au cours des prochaines semaines.

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Auditor General Conducts Value For Money Audit On Financial Services Regulatory Authority Of Ontario

By Financial Services Regulatory Authority of Ontario (FSRA)

https://www.auditor.on.ca/en/content/annualreports/arreports/en22/AR_FSRA_en22.pdf

The Office of the Auditor General of Ontario (AG) has conducted a value for money audit of FSRA, the first since the Authority's launch in June 2019.

The report is a snapshot in time that offers some recommendations to FSRA and the Government of Ontario. Many of the AG's recommendations will be addressed by initiatives that are already planned for or underway at FSRA.

FSRA has changed the regulatory oversight model for Ontario financial services sectors it inherited by implementing a principles-based, outcomes-focused approach to regulation, supervision, and enforcement.

This has required a fundamental shift in assessing regulatory effectiveness, one that does not focus on the number of inspections or the amount of administrative penalties imposed but by carefully assessing the regulatory and public protection outcomes based on evidence and relevant information.

FSRA was established to take over the responsibilities of FSCO and DICO following a review of their mandates by a government-appointed Expert Panel that made numerous recommendations intended to create a more effective regulator with enhanced powers and more effective governance by having a skills-based Board of Directors. While FSRA has been given, and has in some cases already used, new regulatory and supervisory tools such as rule-making, as identified by the Auditor General, FSRA lacks regulatory authority in a number of areas, such as the automobile insurance and pension sectors, and looks forward to working with the government to address these policy matters to improve consumer protection and public confidence.

Despite a pandemic within a year following FSRA's launch and the need to recruit new employees, the regulator has made important strides in its first 1,000 days, including:

- The enactment of the new Unfair or Deceptive Act or Practices Rule, which has given FSRA greater ability to define proper industry practices based on actual outcomes for insurance consumers;

- The enactment of three new rules in the credit union sector to improve prudential oversight and regulatory effectiveness;

- A new sector-wide whistle-blower program;

- A new risk-based supervisory framework and approach for credit unions;

- Revitalization of conduct supervisory practices and focus;

- A new risk-based approach to supervision for pensions; and

- Building a new culture and hiring over 200 staff.

FSRA agrees with the Auditor General that many systems which it assumed remain outdated, impeding FSRA's ability to be proactive and efficient. That is why FSRA is spending over $30M revamping its systems. That includes upgrading portal and data systems to make them more efficient and ensuring that FSRA generates information that informs its regulatory strategy by measuring outcomes.

FSRA agrees with the Auditor General that it is "a work in progress" and there is still work to be done. After just over three years, FSRA has developed a strong foundation with excellent staff, a solid governance model, rule-making powers, and a well-defined mandate. FSRA will continue to build on that foundation to better protect consumers and improve public confidence going forward.

See FSRA's responses to the Auditor General's recommendations here: [Value-for-Money Audit: Financial Services Regulatory Authority: Regulation of Private Passenger Automobile Insurance, Credit Unions and Pensions Plans]

FSRA Tackles Health Service Provider Compliance

By Mary Or, Insurance Business Canada, November 29, 2022

https://www.insurancebusinessmag.com/ca/news/healthcare/fsra-tackles-health-service-provider-compliance-428902.aspx?utm_source=GA&e=YnJlbmRhbi53eWNrc0BjYWZpaS5jb20&utm_medium=20221129&utm_campaign=IBCW-MorningBriefing-20221129&utm_content=9B8F63D4-69B1-4D0C-AE64-59C8BBAFABC8&tu=9B8F63D4-69B1-4D0C-AE64-59C8BBAFABC8

The Financial Services Regulatory Authority of Ontario (FSRA) has set its sights on the health service provider industry, releasing a two-year supervision plan that focuses on higher-risk service providers.

FSRA's two-year supervision plan for the years 2022 through 2024 aims to support fair and reasonable auto insurance rates for customers and promote high standards of business conduct among health service providers by ensuring that they comply with the law and licensing requirements. It defines health service providers as those who help people who have been injured in an auto accident.

According to the supervision plan's focus areas, FSRA will be selecting practices among the following health service providers for examination:

- Those who conduct examinations that help insurers determine if a policyholder is entitled to a benefit. As controllers of the confidential medical information of many Ontario consumers, these service providers are relied upon by insurers to help adjudicate benefits, significantly impacting consumers' benefit limits.

- Those who have never been examined by FSRA. FSRA will be conducting a compliance review that focuses on common areas of non-compliance among service providers, mainly among those it has not yet examined.

- Those who have a sanctioned practitioner listed on their health claims for auto insurance (HCAI) roster. FSRA considers sanctioned practitioners to be a potential risk to the industry where benefits end up paying for services provided by an unauthorized practitioner.

"By focusing on service providers who are higher risk, FSRA promotes high standards of business conduct and protects consumers' rights and interests," said senior manager for market conduct Beata Morris.

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Morris said that FSRA's oversight and supervisory initiatives were not only designed to foster compliance on the part of health service providers but awareness in the sector as well. "That's why, as part of its supervisory activities, FSRA will be doing more to help service providers understand what they need to do to meet their obligations and treat consumers fairly," she said.

FSRA expects all health service providers to review the two-year supervision plan and it has released relevant publications to guide them through their compliance with the law and licensing requirements, such as its online quick guide to compliance.

Insurance Corporation Of BC Projected To Lose $298 Million

By Mika Pangilinan, Insurance Business Canada, November 28, 2022

ICBC projected to lose $298 million | Insurance Business Canada (insurancebusinessmag.com)

The Insurance Corporation of British Columbia (ICBC) is projected to see a financial loss of $298 million for the current fiscal year, according to the second quarterly report released by the Province of British Columbia last week.

The outlook for commercial Crown corporation net income was changed to $3.3 billion, $576 million lower than first quarter projections. This decline was attributed to ICBC's "lower than expected net income," revealed the report, with operating results down $625 million due to "unrealized investment losses." By comparison, the previous quarter's forecast had ICBC at $327 million.

Aaron Sutherland, vice president for Insurance Bureau of Canada's (IBC) Western and Pacific regions, called these projections "incredibly disappointing news for ICBC's customers, as well as taxpayers in British Columbia who will ultimately bear the cost of these losses."

The implementation of the no-fault regime was meant to help stabilize ICBC's financial situation, noted Sutherland, pointing to how the model enabled ICBC to spend 30% less on what it provides to accident victims.

"Despite this, ICBC is once again forecasting a financial loss," he said.

A previous report by IBC found that ICBC had paid $1.48 billion in injury claims during the 2021/2022 fiscal year. Before the no-fault regime was implemented in 2020/21, ICBC paid out $2.11 million in injury claims.

"British Columbians have a new auto insurance system, but it is the same old ICBC," added Sutherland. "This update is yet another reminder of the cost of ICBC's monopoly, and the need to open the market to competition to give drivers a choice and taxpayers relief."

ICBC's financial results for the first half of the 2022/23 fiscal year reported that corporate net income had slid to $117 million, down $327 million from the same period last year. The insurer said this was due to investment markets being "higher than usual" in the previous year, whereas today's investment markets have been characterized by volatility "driven largely by inflation and rising interest rates."

OSFI Raises Banks' Stability Buffer Amid Higher Debt Levels, Systemic Risks

By Ian Bickis, The Associated Press, December 8, 2022

https://www.ctvnews.ca/business/financial-regulator-raises-stability-buffer-amid-higher-debt-levels-systemic-risks-1.6187312

Canada's financial regulator is raising the amount of capital which major banks need to have on hand, over concerns of high household debt levels and other elevated systemic vulnerabilities.

The Office of the Superintendent of Financial Institutions said on Thursday, December 8 that the domestic stability buffer will go up by half a percentage point to three per cent as of February 1, 2023. It also increased the possible range of future adjustments to between zero and four per cent, rather than the previous top end of 2.5 per cent.

The adjustment comes as debt levels and delinquencies remain fairly stable while debt service costs are on the rise, OSFI chief risk officer Angie Radiskovic told reporters.

"Clearly, we're in a risk environment now where levels of indebtedness have grown. We've got high inflation, we've got rising interest rates, and a lot of our thinking is holding around those types of risks," Radiskovic said.

By raising the amount of money which banks need to set aside, it gives the regulator more room to lower the capital requirements when a downturn hits to give banks access to potentially needed extra funds.

Radiskovic said the adjustments come as the economic risk profile has changed considerably this year, enough to prompt the regulator to release an unplanned update to its outlook in October.

"Things have moved so significantly, the vulnerabilities have grown, and the risk landscape is changing so quickly, that we issued or updated the annual risk outlook."

Radiskovic said the buffer increases will boost the stability of major banks and public confidence in the financial system.

The stability buffer, which applies to domestic systemically important banks, was launched in 2018 and is set twice a year, but can be changed at other times if needed.

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The latest increase will put the bank total common equity tier one ratio needed at 11 per cent when it comes into force in February.

The increase, which gives banks less than the usual four months to increase their buffers, comes as several Canadian banks are working though major acquisitions that will pull down their ratios, but the regulator said it considered the ability of banks to meet the requirement when setting it.

Bank of Montreal said on its latest earnings call that it expected its ratio could fall below 11 per cent if its US$13.4-billion takeover of Bank of the West closes in the first quarter, but expects it to rise above that level by the second quarter, which for the banks begins at the start of February.

OTHER CAFII MEMBER-RELEVANT NEWS

Canadian Tourists May Not Be Able To Claim Trip Cancellations To Jamaica Amid Violence On Island, Travel Expert Warns

By Mitchell Consky, CTV News, December 8, 2022

https://www.ctvnews.ca/canada/canadian-tourists-may-not-be-able-to-claim-trip-cancellations-to-jamaica-amid-violence-on-island-travel-expert-warns-1.6187354

Despite Jamaica's prime minister recently declaring a widespread state of emergency following a surge in gang violence and murder on the island, a travel expert warns that Canadian travellers may not be granted cancellation claims based on their travel insurance policies.

According to Government of Canada's travel advice and advisories notices, travellers entering Jamaica should "exercise a high-degree of caution in Jamaica due to a high level of violent crime."
The state of emergency applies to regions in the capital of Kingston as well as six of Jamaica's 14 parishes. This includes popular tourist spots in Montego Bay.

The Associated Press has reported that the island of 2.8 million people tallied 1,421 killings so far this year. This time last year, Jamaica had 1,375 reported killings, according to Jamaica's Constabulary Force. As the situation continues to unfold in Jamaica, advisory warnings could change.

Martin Firestone, president of Travel Secure Insurance, warns that travel insurance policies do not necessarily account for cancellations or medical concerns when they are attributed to what constitutes "known causes."

"There's a small clause in many of the contracts that basically addresses a 'known cause,'" he told CTVNews.ca on the phone on Thursday, December 8. "If you bought that policy and it's starting to be shown in the media that there is unrest [in a specific destination], and you bought it while knowing that, you may want to cancel your trip, it's too late."

Firestone remains uncertain as to whether most cancellation policies will cover claims given the fact that media coverage has already notified Canadians about surges in crime and violence in Jamaica.

"If you wanted to cancel a trip to Jamaica right now that you bought a couple of weeks ago, and you bought cancellation insurance, will you be able to get paid on that claim? Or, if you buy [cancellation insurance] tomorrow after watching all the news reports, is that now too late and after the fact? I can't seem to get a clear answer on that."

Firestone warned that "being afraid of the rioting" is not a legitimate reason to be granted a cancellation claim, despite the pressing dangers spreading throughout Jamaica.

"You could buy a 'cancel for any reason' policy, but that's a very expensive proposition and, again, that is maybe the only advice that could be given to people right now," he said.

The bottom line, he explained, is that travelling to Jamaica right now is "a really personal decision, but if you have concerns, you have to decide whether you're going to be protected by insurance, both medically and from a cancellation perspective."

"It's going to be dicey how this all falls down," he added.

Porter Airlines Announces Plans To Run 50 Jets From Pearson, Go Head-To-Head With Air Canada And Westjet

New Fleet Of Embraer E-195 Jets Will Offer Economy Travellers More Legroom Plus Included Beer, Wine And Snacks And No Middle Seat, Porter CEO Says.

By Clarrie Feinstein, Toronto Star, December 7, 2022

Economy air passengers are about to get more legroom and zero middle seats on long flights as a new fleet of Porter Airlines jets gets ready for takeoff.

Porter announced on Tuesday, December 6 that it will receive the first of its Embraer E-195 jets this month — the first Porter plane to fly out of Toronto Pearson International Airport — offering a new slate of destinations. The launch date will be made public in "a matter of days," said Michael Deluce, CEO of Porter Airlines.

Porter is set to operate 50 of the new jets by the end of 2024 with the option to buy another 50 from Embraer S.A., the Brazilian multinational aerospace manufacturer.

The aircraft is environmentally cleaner, being 25 per cent more fuel efficient than the average plane and more comfortable as it will be a two-by-two seater — meaning there's no middle seat.

"When doing our customer service research we found that customers hated a middle seat," he said. "We're excited to bring this offering to them which gives each passenger more room."

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Plus, the engine will be 65 per cent quieter than the average plane.

“This will be a product unlike anything else economy travellers will experience across North America,” Deluce said. “It will be highly disruptive to the largest segment of the air travel market — economy seating.”

More than 90 per cent of travellers fly economy, he added.

The new aircraft will operate out of Toronto Person International Airport directly competing with the major airlines including Air Canada, WestJet Airlines, and Air Transat.

Deluce said the move to Toronto Pearson and the size of its impending fleet will allow Porter to travel further afield and attract more customers, unlike its fleet of turboprops at Billy Bishop Toronto City Airport. The De Havilland Dash 8-400 fleet at the Toronto Islands' airport offer 78 seats and because they are turboprop engines — which are not as efficient as jet engines for high altitude and long distance flights — it mainly services Ontario, Quebec, and Atlantic Canada as well as close-by U.S. cities such as Chicago, Washington, D.C., and Boston.

The new aircraft must operate out of Pearson because jets are not allowed at Billy Bishop Airport, where only a small fleet of planes can operate. Porter currently operates 29 De Havilland Dash 8-400 turboprop planes from Billy Bishop.

Deluce said Billy Bishop will continue to operate as normal and will not be impacted by the new jet aircraft fleet operating out of Pearson, even as Porter continues its legal battle with the owner of the island airport's terminal — Nieuport Aviation — in court over the fees associated with parking airplanes.

The quarrelling companies fired a series of lawsuits at each other during the pandemic, each alleging that the other had violated their contractual obligations. Recently, an Ontario judge ruled that Porter must pay Nieuport $130 million in damages. Porter has appealed the ruling.

Porter will offer multiple flights each day at Pearson, unlike low-cost airlines which offer a handful of flights per week. The new fleet will operate throughout North America, including the west coast, the southern U.S. states, Mexico, and the Caribbean. Halifax, Montreal, and Ottawa will be added to the roster later.

A schedule of the new destinations and ticket prices will be announced soon before the first flight takes off.

Porter has two fare structures for E195 flights: PorterReserve, which includes enhanced leg room, two checked bags, meals on longer flights, as well as beer, wine, cocktails, and snacks. There will not be a fee to change flights. And the cheaper PorterClassic which includes beer, wine, and snacks.

“We'll be pricing it competitively for the marketplace, but we have a level of service that is unparalleled with perks other airlines don't offer,” Deluce said.

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The fleet expansion will add 3,000 employees, he noted. Porter currently employs 2,000. The airline is hiring and training flight crews and training pilots to fly the E-195 on a flight simulator at Toronto's Downsview Airport.

Operating out of Pearson Airport puts Porter in a good position to compete with the biggest airlines in Canada, he added.

Porter's CEO sees Air Canada as its biggest competitor since WestJet announced in June that it would concentrate on serving Western Canada. The Calgary-based airline suspended its winter flights to Charlottetown; Fredericton; Sydney, Nova Scotia; and Quebec City on November 15. And it suspended flights between Halifax and Montreal on October 28. WestJet will also suspend flights from Halifax to Ottawa and St. John's in early January.

"With WestJet repatriating back to Western Canada, our main competition is Air Canada," Deluce said. "But now that we have this two-by-two seater, single aisle plane with unparalleled perks and prices, we're offering a completely new experience for air travel in North America."

Read Story (Subscription Required): https://www.thestar.com/business/2022/12/07/new-porter-jets-highly-disruptive-to-major-competitors.html

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Travel Health Insurance Association Announces Partnership With BlueDot

By Mika Pangilinan, Insurance Business Canada, December 5, 2022

[Travel Health Insurance Association announces partnership with BlueDot | Insurance Business Canada (insurancebusinessmag.com)]()

The Travel Health Insurance Association (THIA) has recently partnered with digital health firm BlueDot to help its members mitigate the risk of global infectious diseases such as COVID-19.

Based in Toronto, BlueDot has developed an outbreak risk platform that utilises artificial and human intelligence to track more than 150 infectious diseases globally, providing clients with alerts and reports that help them anticipate and respond to disruptive global health events. The firm was also at the forefront of the COVID-19 pandemic with its analytics and insights, publishing research in some of the world's leading scientific journals.

The partnership with BlueDot will provide THIA members with access to information on emerging health threats around the world and ensure that they will be able to make informed decisions to address potential travel risks and preserve business continuity – particularly as the sector is in the midst of recovering from the pandemic.

"BlueDot Founder and CEO, Dr. Kamran Khan, has spoken on multiple occasions to THIA members over the years," said THIA president Michael Camacho. "Our members know how insightful he is and there is great trust in BlueDot's evidence and work. The pandemic had a devastating impact on the travel sector and travel health insurance, and this is the ideal time—while it is rebounding—to support our members to prepare for future outbreaks."

"THIA has long been at the forefront of educating its members on issues and trends in the travel health insurance industry," added BlueDot founder and CEO Kamran Khan. "We're proud to partner with THIA by delivering around the clock global insights to their community, to help manage emerging risks and maintain business continuity."

How RBC Pulled Off Its Highly Coveted $13.5-Billion Deal For HSBC Canada With Some Unintended Help From Ottawa

By Tim Kiladze, The Globe and Mail, November 29, 2022

He'll never want to admit it, but Royal Bank of Canada chief executive Dave McKay can thank Prime Minister Justin Trudeau, at least in part, for landing Canada's most coveted bank deal in decades.

Like many of his industry peers, Mr. McKay has been frustrated with Ottawa for slapping an additional, permanent tax on bank and life insurance company profits in the most recent federal budget, something Ottawa has attributed to clawing back some of the financial relief it provided during the COVID-19 pandemic.

While the federal government can taketh away, it can also provide, and seven months later, another pandemic financial policy has proven to be quite helpful to RBC – even if the assistance is unintended.

Because there was so much economic uncertainty when Canada entered its first COVID-19 lockdowns in March 2020, the federal government and the country's banking regulator wanted banks to preserve cash as a buffer against any shocks. To enforce this, they prevented the lenders from hiking their dividends, something they often did annually.

There was no way to know it then, but Canada's banks kept churning out profits, even through multiple lockdowns. That meant that all the cash they would have normally put toward dividend hikes piled up on their balance sheets.

RBC wasn't the only lender that saw its coffers swell, but because it is Canada's largest bank by profit, it was able to hoard large amounts each quarter. Ultimately, that money was deployed to win the HSBC Canada auction, in the form of a $13.5 billion, all-cash bid.

At the same time, HSBC Canada's parent, London-based HSBC Holdings PLC, must have seen all that money piling up. So, even though HSBC's global management team had long said it was committed to Canada, if there was any time to sell, this was it. All that excess cash gave HSBC a greater chance of selling for top dollar – and, crucially, an exit before any potential recession.

The second element of RBC's winning strategy, and arguably the most important, is an internal one, and it is rooted in something so often overlooked in business: discipline.

Ever since Mr. McKay acquired California-based City National Corp., which specializes in banking for high-net-worth clients, for US$5.4-billion in 2015, just five months into his tenure, there have been endless questions from investors and analysts about what RBC would do next. Often, they centred on growth in the United States.

Mr. McKay has been batting those questions away for years, suggesting that RBC isn't all that interested in establishing a large retail banking footprint in the U.S. Doing so requires scale, which means it would take one or two large deals to make an impact. To his mind, it just isn't worth it, considering where RBC is starting from, and because retail banking isn't as profitable in the U.S. as it is in Canada.

But the questions kept coming, especially as the Big Six banks started accumulating gobs of cash during the pandemic. Then two of RBC's Canadian rivals, Toronto-Dominion Bank and Bank of Montreal, splurged on deals of their own. Late last year, BMO bought California-based Bank of the West for US$17.1 billion, the largest U.S. deal in Canadian banking history, and early this year TD bought First Horizon for US$13.4 billion.

Standing pat is incredibly tough when rivals are writing big cheques. The fear of missing out is real, and investors tend to be myopic, too, so they have a habit of rewarding short-term revenue growth.

RBC, though, never wavered. "Patience is really important," Mr. McKay said on a conference call with reporters on Tuesday, November 29.

Royal Bank wasn't necessarily waiting for this precise opportunity. "We didn't know **[**the HSBC Canada sale] was going to happen, or the timing," he said. But sometimes executives get lucky. And having all that excess capital allowed RBC to splurge on what Mr. McKay called a "more sure-footed transaction" relative to rivals' deals.

He didn't go into specifics, but based on its financials, Bank of the West is a fixer-upper for BMO. It is also based in a state where BMO has almost no footprint. First Horizon, meanwhile, may not have even been the TD CEO's first choice for its most recent U.S. retail banking deal, after TD was reported to be in the auction for Bank of the West just a few months prior. HSBC, by contrast, is a very profitable bank, with a 14-per-cent return on equity over the past 12 months, rather healthy by global standards.

What RBC will have to prove now is that it hasn't overpaid. Just because it had the cash to burn doesn't mean it needs to use it all.

The bank's executives are stressing that after making some adjustments, it's paying about nine times HSBC Canada's forward earnings, which is below the long-term average trading multiple for Canadian lenders. However, bank deals are also priced off of a multiple of the target's book value, and at 2.5 times HSBC Canada's, RBC is paying a healthy premium.

That isn't necessarily a bad thing. In fact, during Mr. McKay's tenure, it's become a bit of a standard.

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When RBC bought City National, it paid 2.6 times book value, and at the time, almost everyone on Bay Street wondered if the bank overpaid. All those fears have subsided over the past seven years.

What's become clear is that RBC is willing to pay up for quality. Some bankers chase cheap assets, and may get lucky and find a diamond in the rough. RBC, though, has tried that before, and it resulted in a disastrous acquisition of North Carolina-based Centura Banks Inc. in 2001. Unwinding the deal took a decade, and when RBC ultimately sold the division in 2012, it took a $1.5-billion charge in the process.

"We bought a franchise that had to be transformed and changed – it wasn't the 'Tier 1' franchise," Mr. McKay said about Centura in a 2015 interview with The Globe and Mail. "Our biggest [lesson] from that failed venture was that you have to buy the highest quality franchise and build on it."

Sound familiar?

Read Story (Subscription Required): https://www.theglobeandmail.com/business/article-how-rbc-pulled-off-its-highly-coveted-135-billion-deal-for-hsbc-canada/

RBC Faces Challenge Retaining HSBC Canada Business Clients Before Takeover Deal Closes

By Andrew Willis and James Bradshaw, The Globe and Mail, December 1, 2022

Rival banks are targeting HSBC Bank Canada's talent and corporate clients as the country's seventh-largest lender begins an anticipated year-long wait for approval of a takeover by Royal Bank of Canada.

All six major domestic banks got a look at HSBC Canada's operations during a two-month sales process that ended on Tuesday, November 29 with RBC's announcement of a $13.5-billion acquisition.

Headhunters and executives at rival lenders say the five banks that missed out on the big win are now fighting for a consolation prize, in the form of HSBC Canada employees and client relationships.

"We know that there were other financial institutions – not limited to the Big Six banks – who were looking at both the clients as well as the talent at HSBC Canada," said Adam Dean, founder of recruiting and leadership advisory firm Dean Executive Search. "That list of potential suitors is extensive and broad, and it's nationwide."

RBC paid a premium price for the Canadian arm of HSBC Holdings PLC because the division earns dependable profits – $717 million in net income last year – on the back of relatively affluent individual clients, along with its ability to link corporate Canada to HSBC's global network.

When it comes to retail operations, RBC head of personal and commercial banking Neil McLaughlin said the sales process revealed that HSBC Canada's mortgage holders tend to be wealthier than RBC's clients. He said RBC also found out that 90 per cent of HSBC Canada's customer relationship managers have been with the bank for five years or more, building deep ties with the bank's 770,000 clients.

In capital markets, HSBC Canada ranks among the top dozen domestic players in commercial lending and debt capital markets, and the top 20 advisers on mergers and acquisitions, according to data service Refinitiv. This year, the bank advised on major transactions for public sector pension plan PSP Investments, the Quebec government, insurer Sun Life Financial Inc., and engineering firm WSP Global Inc.

RBC places at or near the top of any ranking of Canadian banks, a cachet that some experts predict will entice many HSBC Canada employees and customers to wait patiently for the takeover to close. The two banks are also expected to roll out retention plans. Mr. Dean said: "Moving to RBC is a clear upgrade for anybody on the HSBC platform … I think RBC will be quite successful in retaining broad swaths of talent."

However, that won't stop rivals from using the insecurities that come with a takeover to try poaching from HSBC Canada. The most vulnerable employees and clients will likely be those who are with HSBC Canada because of its strong links to Asian and European markets. Mr. Dean said HSBC bankers in specialized finance roles will want to be assured they have similar responsibilities and compensation at RBC.

Rival banks are expected to lure HSBC Canada employees with signing bonuses, and land corporate clients by reducing fees and cutting interest rates on loans. One investment banker, whose employer bid on HSBC Canada, said his division calculates it can spend roughly $15-million to win over HSBC Canada employees and corporate customers and anticipates earning an additional $70-million of annual profit.

RBC started a charm offensive with HSBC Canada clients and employees the moment it announced the takeover. For retail customers, RBC chief executive Dave McKay talked up the bank's loyalty programs, its vast ATM and branch network, and its global reach. For employees, he highlighted that RBC consistently ranks among the country's best workplaces, and tried to allay layoff concerns by saying: "We have close to 6,000 open roles at RBC right now. So this is actually a talent acquisition opportunity for us."

When it comes to corporate clients, RBC spokesperson Jeff Lanthier said: "Our ambition is to be the bank of choice for commercial clients with international needs."

Consultants say one key to retaining talent in takeovers is to move quickly to name new executive teams that include management from the bank that is being acquired. In a recent report on U.S. financial service mergers, consulting firm McKinsey said that it is critical to give the target bank's "leaders a meaningful role in the new organization and secure their commitment to retain talent and engagement."

Read Story (Subscription Required): https://www.theglobeandmail.com/business/article-rbc-hsbc-business-clients-takeover-deal/

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UPCOMING CAFII MEMBER-RELEVANT WEBINARS AND EVENTS

Web Seminar By Digital Insurance: 2023 Predictions and Year in Review

Dates: Tuesday, December 13, 2022
Time: 11:30 a.m. EST

In this upcoming Transformation Forum, *Digital Insurance* Editor-in-Chief, Nathan Golia will lead a discussion with Saurabh Kulkarni, Vice President, Head of Digital, Insurance, Capgemini, Lindsay Hanson, Head of Behavioral Insurance, Global Strategy and Delivery, John Hancock, and , CEO of Plymouth Rock Home Assurance on what's to come in 2023.

You will learn:

- How economic pressures will influence digital strategy.
- What technologies are poised to take off under these conditions.
- The labor market and its impact on innovation.

Register Here

Second Annual FSRA Exchange Event

Dates: Thursday, January 19, 2023
Time: 8:30 a.m. – 1:45 p.m. EST

Please join The Financial Services Regulatory Authority of Ontario (FSRA) and a great line up of guest speakers and panelists for the second annual cross-sectoral FSRA Exchange event. This year you have a choice to attend **in-person** or **virtually**.

Special speakers include:

- The Honorable Peter Bethlenfalvy, Minister of Finance
- FSRA's Board Chair, Joanne De Laurentiis;
- FSRA's CEO, Mark White.

The general morning session for all FSRA regulated sectors includes a chat with FSRA CEO Mark White, a Consumer Protection Panel and a Principles Based Regulation Panel. You have a choice of afternoon sessions focused on specific sectors: Property and Casualty Insurance; Credit Unions and Insurance Prudential; Mortgage Broker; Life and Health; or Pensions.

Register Here

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Videos By Torys LLP: "The Canadian Fintech Review"

By Torys LLP, November 24, 2022

With constant changes in fintech, industry leaders can be left looking for the most current state of play and legislative responses.

Watch the latest videos in our series "The Canadian Fintech Review" to stay updated on three ever-evolving areas: data privacy, contracting considerations, and technology's impact on the insurance industry.

1. **Insurtech**
   By Jill E. McCutcheon and Brigitte Goulard

The marriage of insurance and technology presents a way for intermediaries and insurers to reinvent how they do business. With the industry now perched on the cusp of an insurtech revolution, the market is experiencing the next wave of efficient products and transparent processes.

Jill McCutcheon and Brigitte Goulard discuss the current state of play for the insurance industry in Canada, including:

- How insurance is regulated
- The adoption of insurtech in Canada
- How technologies impact FTC plans

Watch here

2. **Privacy, cybersecurity, data and AI**
   By Molly Reynolds and Konata T. Lake

Privacy is a leading issue in fintech, with startups, FIs and regulators alike placing it at the forefront of innovation and negotiation discussions.

Molly Reynolds and Konata Lake discuss the Canadian privacy landscape, including:

- What's next for data and AI regulation
- Litigation considerations
- How to craft privacy policies for both Canada and the U.S

Watch here

3. Fintech contracting considerations
By Joel Ramsey and Brigitte Goulard

Navigating the creation and execution of fintech contracts requires exhaustive attention to detail. To limit friction, startups and financial institutions should understand the expectations from both sides of the deal table, and the regulatory oversight they will fall under across their products' lifecycle.

Joel Ramsey and Brigitte Goulard discuss key contract restrictions and regulatory changes impacting the fintech industry, including:

- Updates to the B10 guideline
- Negotiations between startups and financial institutions
- Why contractual issues aren't just about outsourcing

Watch here