

Edmonton Journal

Mixing insurance, banking a no-no: Flaherty; New rules from Ottawa to clarify services banks can advertise online

Thu Oct 8 2009
Page: E6
Section: Business
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Dateline: OTTAWA
Source: Canwest News Service
Illustrations: Photo: Journal Stock / Flaherty

Finance Minister Jim Flaherty has asked Canada's banks to stop advertising insurance on their websites, and informed them the federal government will soon bring in new rules compelling them to do so.

In a letter to the country's biggest banks on Wednesday, Flaherty said, "It has come to my attention that some banks are using their websites to undertake insurance activities."

"As you know, the business of insurance is not permitted in a bank branch, other than for some limited activities, as laid out in the Bank Act and supporting regulations," Flaherty noted in the letter, which was also sent to the Canadian Bankers Association and the Trust Companies Association of Canada.

The letter stated that the government plans to bring in new policy measures "at the earliest opportunity" that will bring websites under the same regulatory regime that applies to bank branches.

"Some of the banks...are in the insurance business, and that's fine, that's their separate business," Flaherty told reporters Wednesday.

"The policy concern has always been mixing the insurance business and the banking business in the same location, and that's what we're trying to avoid. It's been avoided since the early 1990s.

"Now, with technology advances, it's a bit more challenging, so we're addressing that issue."

In a strongly worded reply, the Canadian Bankers Association argued that Flaherty's decision would limit consumer access to insurance products.

"We are completely shocked that Mr. Flaherty would want to limit how and where consumers can access information about insurance," spokesman Andrew Addison said in an e-mail. "Further, Mr. Flaherty has taken this step without any public consultations with Canadians or the banking industry."

The bankers' association pointed to a ruling last June on the matter by a federal industry watchdog. In the ruling, the Office of the Superintendent of Financial Institutions concluded that, under Canadian law, a website does not qualify as a bank branch, and thus Canadian banks are free to promote any insurance products online.

In the early 1990s, the government allowed banks to

operate insurance arms, on the condition they not market both banking and insurance products at bank branches.

But with many Canadians now doing their banking online, the definition of what constitutes a "branch" has become less clear.

Several of Canada's biggest banks currently advertise insurance on their websites. For example, the website of Canada's biggest bank, Royal Bank of Canada, contains a link to the company's RBC Insurance division on its home page.

A Liberal MP, Alexandra Mendes, on Wednesday introduced a private member's bill that would ban banks from promoting insurance online.

Mendes said the bill would ensure that small-and medium-sized insurance brokers will "enjoy a level playing field."

The Insurance Brokers Association of Canada has been lobbying for the ban for some time.