

# Flaherty's blow to banks goes one click



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On the ground floor of a new, 43-storey office tower in downtown Toronto, Canada's largest bank is engaged in a not-so-subtle exercise in pushing the law to its limits.

A visitor who walks through the entrance on the RBC Centre's north side is confronted with two options. Through a glass door on the right is a new Royal Bank of Canada branch, with tellers and loan officers who will lend money to the creditworthy, at extraordinarily low rates right now. Through a glass door on the left is an RBC insurance office, staffed with

cheery people who can sell policies to cover the absurdly priced Toronto homes that customers are buying with all that absurdly cheap money.

This setup meets the letter of the law, if not the spirit. Though the two are less than 10 metres apart, all it takes is a couple of glass partitions to keep RBC from violating Ottawa's long-standing ban on insurance sales in bank branches. On the other hand, for RBC to sell insurance through its website is suddenly verboten, by this week's decree of Finance Minister Jim Flaherty. In other words, the government of Canada's official policy is that an insurance branch is not a bank branch but a website is a bank branch. Confused? The banks are.

"It's so bad," says one senior person at a Big Five bank, "it's almost like you could feel sorry for a banker."

Well, let's not get carried

away. Whether or not the big banks can sell insurance as freely as they'd like to is not a life-altering matter for many people. What matters is the arbitrariness of Mr. Flaherty's sudden crackdown. It's as though the minister has been soaking up a bit too much of his own good press lately.

No doubt that Mr. Flaherty is on a roll. After crushing a braying member of the income trust lobby in last fall's federal election, the minister stumbled badly – a disastrous economic update, the Brobdingnagian budget deficit. But lately he has sprung back to his feet. His mortgage program is getting a lot of credit for helping to restore order to lending markets. Everywhere he goes in the world, he enjoys the halo effect of Canada's sound bank regulation. Ontario and B.C. are going along with his proposal to harmonize sales taxes, something Paul Martin could never

do. Then Euromoney magazine named Mr. Flaherty finance minister of the year, citing his "fast handling of potential problems" in the recession.

The knee-jerk response of the Flaherty-haters was to ask just how low other countries' finance ministers have sunk. That's precisely the response Mr. Flaherty should be going for. The best finance ministers are unpopular. And if he has been successful in his nearly four years in the job, it's because he has been willing to make unpopular decisions that he believes are right.

The HST is a disliked tax; it just happens to be far more economically sensible than a patchwork of federal and provincial sales taxes. The mortgage program, which has seen the government buy more than \$60-billion worth of mortgages, was easily attacked as a backdoor bailout of the banks – but Mr. Flaherty stuck with it

and expanded it, it came clear that it to heal the lending (and that the government could make a bundle too). The income down of 2006 helped cal upside, but he anyway.

That's why his in the banks' insurance federal wise is so not difficult and wrong and easy. It cent political gain icy sense. There is pretense that this for anything other tics, to curry favor ance brokers, who sponsor enough r teams and attend mer barbecues of MPs to be given a pop. "This is an instance to insurance agents in Canada, said in his letter to dian Bankers Ass