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— Stephen Ledrew, Toronto lawyer, former president of Liberal party



In the battle for insurance sales, the real muscle is on Main Street, not Bay Street

One for the little guys

BY DUNCAN MAVIN

It was supposed to be the financial-services battle of 2006, and on the surface, it was a gross mismatch.

In one corner: Canada's banking industry — \$200-billion worth of market capitalization, almost a quarter of a million employees generating almost \$70-billion of revenue at more than 5,000 branches and offices across the country.

The heavyweight big banks were eager to muscle in on the insurance industry. Specifically, the banks wanted restrictions lifted that currently bar them from selling or marketing insurance in their bank branches.

In the other corner: a loose collection of about 30,000 insurance brokers was on the ropes defending its turf.

If the banks are ever able to sell insurance through their branch networks, it could be doomsday for the brokers, some said. Thirty-two billion dollars in premiums previously paid to brokers would be diverted into the vast coffers of the banks, complained the brokers. Their businesses would be bankrupt, dumping a significant number of their estimated 50,000 workers on the employment scrap heap and reducing consumer choice.

Royal Bank of Canada chief executive Gord Nixon, perhaps the most powerful player on Bay Street, was at the forefront of the banks' fight.

In March, at RBC's annual meeting, Mr. Nixon struck an early blow, declaring, "Canada is the only developed country in the world that prohibits consumers and small-business owners from buying insurance products, or even getting information about insurance from their bank."

Toronto-Dominion Bank chief executive Ed Clark — as well-connected politically as anyone on Bay Street — followed up at his bank's annual meeting: "We're saying there are 33 million Canadians being negatively impacted."

With a review of the Bank Act by Ottawa initially due for the fall, the banks were gearing up their lobbying machines, piling pressure on a young, free-market Tory government to open up the insurance market.

Yet in this David versus Goliath battle, somehow the underdog brokers won out.

On June 14, the Finance Department released a white paper supporting the Tory's election promise that favoured upholding restrictions the banks wanted abolished.

The question some observers were left asking: How did the small, independent insurance brokers defeat the might of Canada's big banks?

The answer is complex, and depends on whom you are talking to. The bankers point to the influence of the broker lobby at a local, especially rural, level. The brokers say they didn't have to lobby too hard because the argument in favour of maintaining the status quo was so strong. Meanwhile, there are others that say the Tory government is more interested in protecting local small businesses than in wealthy centralized banks.

Another factor could be explained by the old adage: It's not the size of the dog in the fight but the size of the fight in the dog.

The chief executive of a large Canadian insurer explained that the amount of "noise" about access to insurance sales from the banks was "disproportionate" to the impact it would have had on the banks' bottom line.

For the banks, insurance is just another product, he said. But "for the brokers, it was a much bigger issue. It was a matter of survival."

Dan Danyluik, the Insurance Brokers Association of Canada's (IBAC) chief executive, said brokers have the emotional edge. "While [the banks] have tons of resources, we have a lot of passion."

And they also believe they have a strong argument.

"I don't think the brokers had to do a hell of a lot," said a senior manager with a large insurance company.

Ottawa understood the argument that giving the banks more access to insurance sales would ultimately limit consumer choice if brokers were



Royal Bank of Canada chief executive Gord Nixon, below, a powerful player on Bay Street, was at the forefront of the banks' failed fight against small insurance brokers such as Bob Kimball, above, who runs Pearson Insurance in Sussex, N.B., and is president of the Insurance Brokers Association of Canada.

forced out of business, she said.

Besides, she added, "I don't think consumers like banks."

However, it's generally accepted that the brokers are more influential at a local level than many people outside of the financial services industry would think. That is especially true in ridings outside of the banks' centre of influence.

"If you look at who the key people are in Toronto social circles, it's not insurance brokers," said a bank lobbyist. "But as you get into more rural and smaller communities, if you own a decent-sized insurance brokerage, you are an important person in town.... You are an influential person."

Bob Kimball, president of the IBAC, is a good example.

Mr. Kimball runs Pearson Insurance in Sussex, N.B., a community of

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just a few thousand residents. Pearson was established in 1935, and Mr. Kimball bought it 24 years ago.

"If I'm typical — and I think I am — we're normally people that enjoy dealing with other people and, therefore, we get quite involved in the community," he said.

In fact, Mr. Kimball has been president of the local rotary club, president of the downtown business association and president of the community Crime Stoppers association. He also does an annual stint as Santa Claus delivering gifts to nearby retirement homes and is well-connected to just about everyone in the community through his business, including those who run sports teams or other community activities.

Similarly, IBAC executive Mr.

Danyluik is mayor of the small Saskatchewan town where he lives and runs his business.

"Being small-business people, we are very much part of the community," Mr. Danyluik said.

It's true that such insurance giants as Manulife Financial Corp. also weighed into the debate on the side of the brokers. But the real influence was on Main Street, not Bay Street.

Brokers are often among the wealthiest local businessmen in a small community, said one Bay Street corporate communications specialist with a big bank.

"They are politically active to begin with. They are part of a sales culture that has them increasing their local profile because it's part of their local customer base."

In contrast, local bank managers no longer have the same sort of influence. Often their discretionary lending limits are restricted and they are rotated around different branches every few years, which means they are not as connected to the communities in which they work.

Some in the financial-services sector argue the influence of the brokers is unfair.

A two-time candidate for federal government said in both the 2000 and 2004 campaigns, he was targeted by three or four local insurers who donated campaign funds and expected a private audience.

"They'd say how important it is for their business to thrive and continue to thrive," he said. "I got a decent-sized cheque from all of them." Parliamentary candidates from all parties probably got similar cheques that provide "a pretty important boost" to campaign funding, he said.

Stephen Ledrew, a Toronto lawyer and former president of the Liberal party, says the power of the insurance brokers shows the key to politics is local.

"The big banks get to speak to whoever they want in the Ottawa government," he said. "But instead of being top down, influence is bottom up." Thirty years ago, banks could



GLENN LOWSON / NATIONAL POST FILE PHOTO

make big donations to help get their voices heard. But thanks to reforms in campaign-funding regulations, that is no longer possible. Now, he says, influence weighs most heavily at the riding level, where the insurance brokers are among the most polished lobbyists.

In other words, the campaign contributions of each of the big six banks do not have the same clout as those of thousands of individual brokers.

Although the debate had been due to rage all summer, the Tories seemed to have closed the door on the banks even before the financial services white paper in mid June.

After speeches in New York and Toronto in May, for instance, Finance

Minister Jim Flaherty told reporters there would be no change to existing regulations along the lines the banks were pursuing.

There were similar comments at the Rideau Club in Ottawa from Tory grandee Hugh Segal, who was the guest of honour at the annual dinner of the Insurance Bureau of Canada (IBC), which represents Canada's insurance companies.

Mr. Segal, a respected and long-standing member of the Conservative caucus, told the assembled politicians and financial-services bigwigs the banks would not get their way.

One member of Ottawa's financial-services community who was in attendance said, "What was said was not entirely a surprise, but if it's Hugh Segal saying it, I thought, 'well [the brokers] really have cemented their position here!'"

In fact, their position on insurance reflects that the Tories' loyalties lie with small businesses rather than large corporations with centralized power.

Still, though the battle might have been won by the brokers this time around, there are plenty of observers from both sides who think the war is not yet over.

On June 20, RBC chief operating officer Barbara Stymiest told an audience at the Economic Club of Toronto the bank was "not discouraged" from its pursuit of changes to insurance regulations, despite the government white paper.

Although other banking insiders admit there will likely be no change in the government position without a majority in Ottawa, the significance of Ms. Stymiest's comments is not lost on the insurance brokers.

"I don't think the debate has come to an end," said IBAC's Mr. Danyluik. He said the banks will continue to come after the brokerages. In the meantime, he said, the brokers will continue to push their arguments with individual MPs, and they will be ready for a rematch.

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