

Marianne Harrison

President & CEO, Manulife Canada

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Mr. Glenn Campbell
Director
Financial Institutions Division
Finance Sector Policy Branch
Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa, ON K1A0G5
Sent by email to: LegislativeReview-ExamenLegislatif@canada.ca

RE: A CONSULTATION DOCUMENT FOR THE REVIEW OF THE FEDERAL FINANCIAL SECTOR FRAMEWORK

Dear Mr. Campbell,

I am writing to provide you with Manulife's comments on the Department of Finance's (Finance Canada) consultation paper, "Supporting a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future". Our comments are supportive and complementary to the response of the Canadian Life and Health Insurance Association.

Headquartered in Toronto, Manulife Financial Corporation is a leading international financial institution with \$934 billion in assets under management and administration (as of June 2016). Operating today as John Hancock in the United States and Manulife elsewhere, we help more than 20 million customers in 22 countries and territories with their big financial decisions. Through our workforce of more than 34,000 employees and 63,000 agents, here in Canada and around the world, we provide financial advice, insurance and wealth and asset management solutions that support our customers' lifestyles and secure their financial futures.

Serving one in three Canadians, Manulife is a leading provider of financial services in Canada and we offer a wide range of protection, estate planning and investment solutions through a diversified multi-channel distribution network.

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We operate as John Hancock in the United States and Manulife in other parts of the world.



Manulife is supportive of the Government's periodic review of the financial sector legislative and regulatory framework and we are pleased with the process that Finance Canada has set out in its consultation document.

Overall, we feel that the federal financial sector framework is serving Canadians well. The current framework, including the restrictions that limit bank promotion of insurance, support a competitive market that delivers the financial products and services that Canadians require while also ensuring financial stability and the fair treatment of customers. As such, we do not believe major policy changes are required.

However, we would like to raise several items for consideration, as well as provide several recommendations for changes of a more technical nature.

Positioning Canada as a Fintech Leader

Technological innovation forms a significant component of Manulife's global growth strategy. Through the establishment of our technology innovation labs in Toronto, Boston, Waterloo and Singapore, we are partnering with small, innovative companies to explore the ideas that drive efficiency, increase competition, and improve outcomes for financial consumers.

We are finding these partnerships to be mutually beneficial. While Manulife provides knowledge of financial markets and the needs of consumers, smaller firms bring fresh perspectives and an understanding of new technologies. Moreover, smaller firms are benefitting from our experience of building solutions that align with regulatory objectives.

Although Canada is well positioned to be a leader in financial services innovation, in our experience it has been unable to leverage its comparative advantages and is not regarded by the fintech community as a global hub.

This is a missed opportunity. Our financial regulatory system is very well-respected internationally and has a reputation for being flexible, principles-based and outcome oriented. We boast a number of large, internationally active financial institutions who are interested in working with fintech companies in Canada, the United States and around the world. And we are home to highly skilled workers, deep capital markets, and world-class, technology-focused universities and colleges.

Below we provide two recommendations for Canada to improve its position as a global leader and attractive destination for fintech.

Our first recommendation is for Canada's fintech policy and regulation to continue to carefully balance the interests of innovation, competition, and consumer protection.

To achieve this balance, the regulatory framework for financial services, including services offered by fintech companies, should apply based on the *nature of the product or service* being provided rather than the *nature of the entity* delivering the product or service.

This will ensure that Canadian consumers continue to have protection and legal recourse against fraud, misconduct, and insolvency regardless of how they chose to receive their financial service. It will also provide a consistent approach to supervise systemic risk and maintain stability in the marketplace.

Secondly, we recommend that Canada develop a single, comprehensive, and inclusive “regulatory sandbox” to help fintech firms navigate our regulatory frameworks and promote partnerships and investment.

Regulatory sandboxes are an approach that encourages firms to develop new ideas under the direct supervision of a regulator. This encourages innovation within in an established framework, with limited exposure to markets, and without immediately incurring all the normal regulatory consequences of engaging in the activity.

As a model, sandboxes are quickly becoming an international best practice and are promoted by innovation leaders such as the United Kingdom, Singapore, Hong Kong and Australia.

Canada’s regulatory sandbox could build on international efforts by creating a comprehensive framework and a single point of contact for participants to engage with all regulators across the provinces and federally. Moreover, Canada’s sandbox should provide opportunities for startup firms to collaborate with traditional financial institutions and allow open participation from all firms regardless of size or partnership.

We encourage the federal government to take a leading role in coordinating with the provinces, financial market regulators, financial services regulators and the financial services industry to develop a common fintech framework.

Supporting International Financial Regulation and Trade

Finance Canada and the Office of the Superintendent of Financial Institutions (OSFI) play an important role in the development of international regulatory standards and ensuring that there is coordination in supervising internationally active financial institutions. These activities support Canada’s reputation as a safe place to invest and are vital to ensuring international confidence in Canadian companies and financial institutions.

We recommend that the government continue to recognize and support the important role of Finance Canada in facilitating Canada’s trade relations and ensuring Canada continues to be a leader in international discussions about financial regulation and financial stability. We further recommend that OSFI’s mandate formally reflect their international activities, as well as the important role OSFI plays in establishing global standards and coordinating international regulatory dialogues, which contribute to Canada’s reputation as a leading jurisdiction for financial services.

Investing in Infrastructure

Life insurers like Manulife enter into contracts that frequently last decades. We build investment portfolios consisting of long term investments and seek to minimize risk and maximize return while matching asset duration with our long-term liabilities. As a long-term asset, Manulife and other life insurers are keenly interested in infrastructure as an area of investment.

The Government of Canada has committed to an impressive plan to increase funding for public transit, social infrastructure and green infrastructure with the aim of creating economic growth, encouraging social inclusion and reducing greenhouse gas emissions.

This much needed investment will stimulate economic growth and drive productivity gains. Manulife is pleased to be a leading investor in these sectors, with \$5 billion of infrastructure equity investments, and \$40 billion of infrastructure debt investments in our core North American insurance portfolios, including Public-Private Partnerships, utility, and project investing.

The *Insurance Companies Act* prevents Canadian life insurance companies from permanently holding a controlling equity stake in infrastructure projects or companies. We suggest that this restriction be removed to provide life insurance companies more incentive to invest in infrastructure assets.

Canada would not be the first jurisdiction to recognize the important role life insurers play in investing in infrastructure. The European Commission and the European insurance regulator have recently changed their regulations to allow life insurers based in the European Union to own and operate high-quality infrastructure companies.

By removing the 25% cap on how much of the equity an insurance company can permanently hold in an infrastructure company, the Canadian life insurance industry could be empowered to be more effective investors in infrastructure.

Cybersecurity

The rapid evolution and increasing number of cyber security attacks potentially pose a serious systemic risk to Canada's economy and financial system.

OSFI continues to show leadership in this area by continually recognizing cyber security in its strategic priorities and developing policy tools such as the *Cyber Security Self-Assessment Guidance*.

We appreciate this proactive approach and recommend that the Government continue to provide OSFI and Finance Canada with the resources, strategies, tools, and technologies necessary to mitigate these concerns and promote the inclusion of both these organizations when these discussions take place throughout the Government.

Technical Amendments

Attached to this submission is an appendix that sets out several suggested amendments that we believe could improve the efficiency of corporate governance or clarify legal relationships.

Thank you again for the opportunity to provide input and we look forward to continued discussion about how to improve the financial sector framework in Canada.

Sincerely,



Marianne Harrison
President & CEO, Manulife Canada

APPENDIX 1. TECHNICAL CONSIDERATIONS

Transferring Policies under Assumption Reinsurance

Manulife recommends that the legislative framework be amended to improve the process for transferring policyholders from one insurance company to another. The parties to a transaction should have the choice under Canadian law to structure a transaction with certainty that policies subject to assumption reinsurance are legally transferred to the reinsurer, with the cedent being freed of contingent liabilities. OSFI's position, taking into consideration OSFI's Assumption Reinsurance Transaction Instructions (Index A No.10.1), is that an assumption of policies does not relieve the cedent of contingent liabilities, unless each affected policyholder provides consent. This contrasts with other jurisdictions that allow for a full legal transfer of policies, subject to regulatory and/court approval, such as the United Kingdom.

Even in the absence of such reforms, we recommend that the *Insurance Companies Act* (ICA) be amended so that the voting rights attached to par policies terminate on an assumption reinsurance transaction. Currently, the ICA defines a "participating policy" as "a policy...that entitles its holder to participate in the profits of the Company". A technical argument can be made that a par policyholder has no right to vote because there is no right to participate in the profit of the ceding company following the assumption reinsurance. Despite this technical argument, it is generally accepted that a par policyholder whose policy is transferred to a reinsurer through an assumption reinsurance transaction retains a right to vote at meetings of the ceding company. It would be more appropriate for policyholders to have voting rights at meetings of the reinsurer, who administers their policies. An amendment to the ICA is therefore recommended.

Corporate Governance

Manulife recommends that the ICA be updated to include corporate governance amendments that are consistent with the aims of the amendments to the *Canada Business Corporations Act* that are contained in Bill C 25, including in particular amendments to allow for implementation of the notice and access rules set out in securities laws.

Notice and Access/Equal Treatment of Registered and Unregistered Shareholders

We recommend that the ICA be amended to defer to the requirements of securities legislation with respect to 'notice and access' to shareholders concerning delivery of annual meeting materials. As CLHIA noted in its federal financial services review submission to the Department of Finance in 2010, corporate law and securities law create different rights for shareholders depending on whether their holdings are registered or not. Under s.334 of the ICA, an insurance company must deliver its annual financial statements to shareholders. The ICA defines the holder of a share to be the registered shareholder. Beneficial holders must request materials in order to receive them. For demutualized companies such as Manulife, hundreds of thousands of policyholders became registered shareholders on demutualization. Manulife cannot rely upon the 'notice and access' requirements with respect to these registered shareholders, and there does not appear to be any policy rationale for this difference in treatment.

Virtual Shareholder Meetings

Manulife recommends that any amendments to the ICA take into account the changing landscape and advances in technology with respect to shareholder communications and shareholder meetings. In contrast to a traditional shareholder meeting which shareholders attend in person at a specified geographic location, a virtual shareholder meeting is conducted through the internet, allowing shareholders everywhere to vote, ask questions, and otherwise participate. Although not used frequently in Canada at this stage, technological advances are allowing for full participation in the proceedings and any amendments should facilitate the ability for companies to choose the means by which they hold meetings of their shareholders.