A Canadian Success Story:

PROMOTING TRADE IN LIFE AND HEALTH INSURANCE

May 2017

1.0 Introduction

International trade is a vital contributor to economic growth, productivity, and investment. It also supports many well-paying, high skilled jobs all across Canada. International trade has always been important for Canada, with exports being one of the main drivers of the economy since the mid-1800s. Today, one out of every five jobs in Canada is directly linked to exports.

Although Canada's international trade has primarily been defined by the natural resources, agriculture and manufacturing sectors, the services sectors is growing in importance. According to the World Trade Organization (WTO), international trade in insurance and pension services has grown at an annual rate of eight percent over the last ten years. Over the past 15 years, world exports of financial services have tripled while Canadian exports have quadrupled.

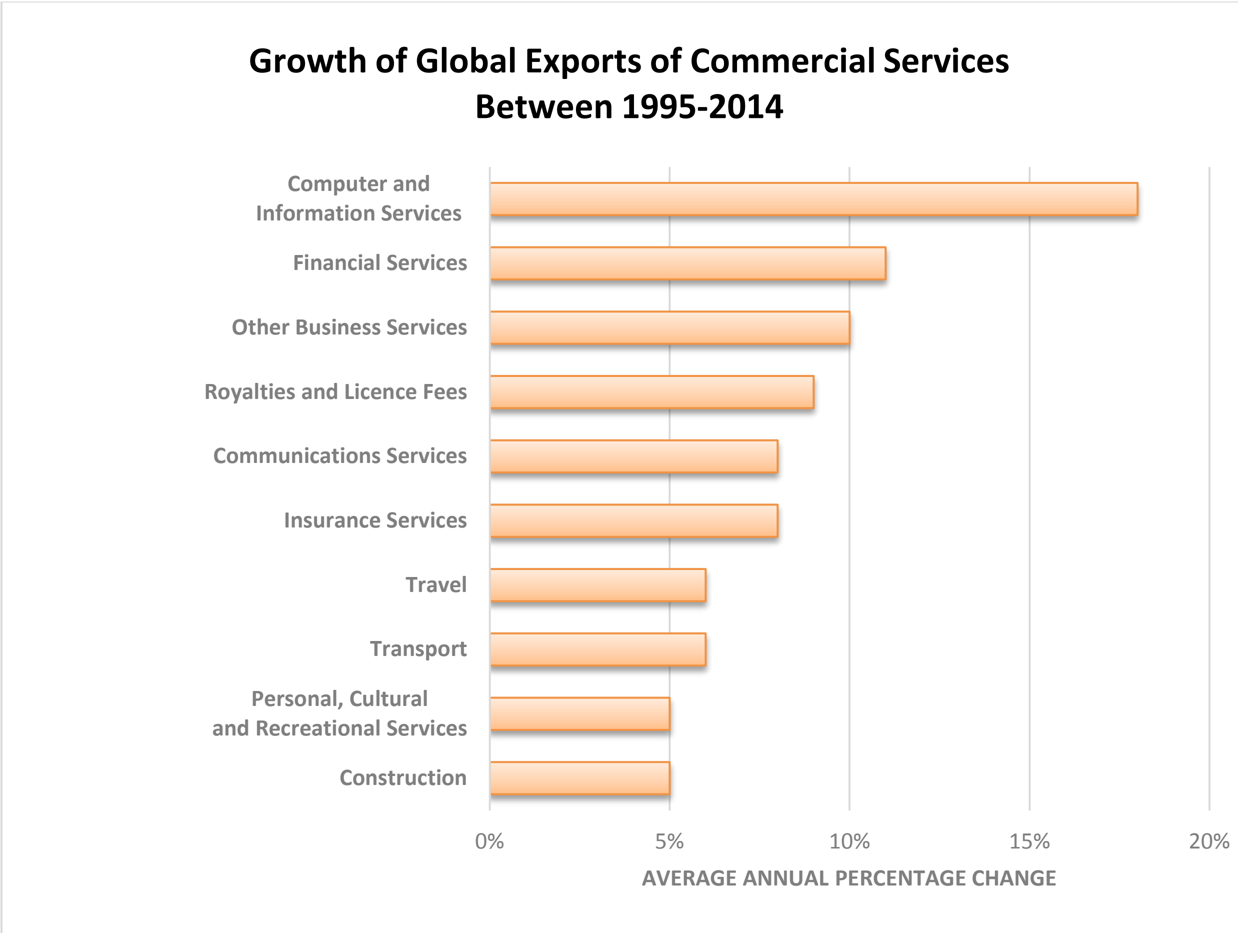
This growing emphasis on services, and financial services in particular, is welcome as Canada has a significant competitive advantage in these areas. Canada is home to some of the most globally competitive financial services companies and benefits tremendously from their international operations. Not only are they a significant contributor to Canadian gross domestic product (GDP) and employment, but the expertise, innovation and capital derived overseas to a large extent funnel back into the Canadian economy.

With the growing recognition of the importance of financial services to the global economy, and Canada's reputation as home to a sound financial services sector, Canadian companies are well positioned to take advantage of new opportunities all over the world.

Canadian life and health insurers are strongly supportive of efforts to increase Canada's international trade footprint, and agreements such as the recently concluded Canada-European Union Comprehensive Economic and Trade Agreement (CETA) are an important step in the right direction.

It is important, however, to realize that while trade agreements are helpful, they do not necessarily guarantee substantive market penetration. Canadian companies also require a sound domestic regulatory and policy framework in order to support their international operations.

This position paper briefly describes the benefit of trade in financial services to Canada, the participation of our insurance companies in foreign markets, and the policy directions the Canadian government should take to promote and facilitate trade, particularly for financial services.



Canada punches far above its weight when it comes to trade in financial services and the sector represents an important avenue for Canada to further increase its' exports. Over the past decade, Canadian exports of financial services grew by about ten percent per year, much more than other services sector exports.[1] In fact, financial services are among the top five fastest growing Canadian exports, and is generally one of the few sectors where Canada runs a trade surplus. Such surpluses can play an important role in counterbalancing the trade deficits that are appearing in other areas of Canadian trade.

Canadian insurers operate in more than 20 countries, serve millions of people and hold $800 billion in assets internationally. These internationally competitive companies offer an extensive suite of products for both individuals and groups and their business is growing. Between 2005 and 2014, Canada's share of global exports of pension and related services increased from 0.18 to 0.29 percent while its share of other financial services grew from 0.79 percent to 1.35 percent.[2]

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[1] Evans, Todd; Gouett, Matthew. *Canadians at the Gate: International Expansion of The Canadian Banking Sector*. Export Development Canada. September 10, 2013. Pg. 11.

[2] Ciuriak, Dan; Kronick, Jeremy; Schwanen, Daniel. "Opening up New Trade Routes for Financial Services: Canada's Priorities"

Canada's financial services sector is among the most competitive in the world and is highly successful internationally. For example, Manulife's insurance sales in Japan have been growing at an average rate of 23 percent per year for the last decade and in 2015 their Asian operations experienced the third consecutive year of record insurance sales[3]; Sunlife Financial also experienced significant growth in the region, where the net income grew from $174 million to $252 million in 2015.[4]

C.D. Howe Institute. December 10, 2015. Pg. 5.

[3] Manulife Financial, 2015. Annual Report. Accessed August 2016. http://manulife.force.com/servlet/servlet.FileDownload?file=00P5000000dfLKVEA2

[4] Sunlife Financial Inc, 2015. Annual Report. https://cdn.sunlife.com/static/global/files/Annual%20reports/2015/1_SLF_English_AR.pdf accessed August 2016.

2.0 Benefits of International Trade in the Financial Services Sector

Financial services play an important role in the Canadian economy and are a cornerstone of healthy economic activity. There is a strong correlation between a competitive financial services sector and economic growth and productivity. Many other sectors of the economy would be unable to function efficiently without access to financial services such as insurance, banking, investment and financing.

2.1 Contribution to the Canadian Economy

The international operations of Canadian firms are a significant source of capital. In fact, international operations provide an increasing share of revenues for Canadian financial institutions. Canadian life and health insurers held $804 billion worth of foreign policy holder assets invested at the end of 2015, an increase of almost 20 percent from 2014. Research conducted by the Conference Board of Canada found that 40 percent of firms surveyed derive up to a quarter of their revenues from their international operations.[5]

The success of these operations drives additional expansion back in Canada. The financial sector employs about 791,000 people in Canada or about 4.4 percent of the Canadian workforce.[6] The life and health insurance industry employs approximately 150,000 Canadians all across the country in what are generally high-skilled, high-paying jobs. The average salary of Canadians working in finance and insurance services is over $63,000, well above the national average of approximately $49,000.[7]

2.2 Facilitating Trade in Other Sectors

The international operations of Canadian financial services firms can facilitate the expansion of other areas of the Canadian economy. When going abroad, Canadian financial institutions generally use a whole suite of additional services such as accounting services, legal services, IT services, and others, and will often rely on pre-existing relationships with known service providers. Once established, the foreign operations of Canadian financial firms become a conduit for additional exports of products to the foreign consumer base. Therefore, the international expansion of financial services can facilitate exports in other service areas. Each dollar of Canadian foreign direct investment (FDI) can generate up to 20 cents of additional exports.[8]

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[5] Ai, Lin; Burt, Michael. *Examining the International Footprint of Canada's Financial Sector*. Conference Board of Canada. 2014. Pg. 25

[6] Burt, Michael. An Engine for Growth: 2016 Report Card on Canada's and Toronto's Financial Services Sector. The Conference Board of Canada. 2016.

[7] Statistics Canada Statistics Canada. Table 281-0063 - Survey of Employment, Payrolls and Hours (SEPH), employment and average weekly earnings. Accessed: June 3, 2016.

[8] As referenced in: Evans, Todd; Gouett, Matthew. Canadians at the Gate: International Expansion of the Canadian Banking Sector. Export Development Canada. September 10, 2013. Pg. 13.

2.3 Improved Competition

In order to survive in foreign jurisdictions, Canadian firms must constantly ensure that their business practices are best-in-class. In fact, Canadian financial services firms are highly innovative. According to Statistics Canada's Survey of Innovation and Business Strategy, 73.6 percent of financial services firms reported the adoption of new practices or products.[9] Such innovation includes the adoption of new practices, the optimization of operations, the development of innovative products and services, and improved efficiency throughout the financial supply chain. In other words, exposure to new markets allows Canadian companies to maximize their competitive advantage and to expand their global supply chains. These innovations are in turn shared with their Canadian operations thereby increasing their competitive advantage domestically.[10] For example, Manulife's Vitality program is now available to Canadian clients after a successful launch in the U.S. market. This innovative program promotes healthy living by rewarding participants for active lifestyles, may reduce costs to insurers by lowering claims and reduces the health care burden to society.

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[9] Burt, Michael. An Engine for Growth: 2015 Report Card on Canada's and Toronto's Financial Services Sector. The Conference Board of Canada. 2015.Pg. 33

[10] Hodgson, Glen; Paris, Roland. "The Benefits of Foreign Direct Investment: How Investment in Both Directions Drives Our Economy." Conference Board of Canada. March 2006.

3.0 Promoting International Trade in Financial Services

The international operations of financial services are an important contributor to their overall success and provide direct benefit to Canada. In order to expand internationally, Canada's financial services companies depend on a variety of factors. These include: a supportive domestic environment; the existence of a sound regulatory framework in the host jurisdiction; fair competition with domestic suppliers in the host market; a strong and enforceable international trade framework; and cooperation between financial supervisors.

Canadian life and health insurance companies have a strong international reputation. Several of the largest Canadian life and health insurance companies have a long history of international trade. For example, Manulife has been operating in Asia for almost 120 years. In fact, the first Manulife life insurance policy was sold in the Philippines in 1901 and the company remains one of the country's top ten life insurers in terms of premium income. Similarly, Sun Life Financial has been offering life insurance in China, Hong Kong and India since 1892, while Great West Life has enjoyed a successful European presence since 1903.[11]

3.1 Domestic Regulatory Regime

Canada is the fifth largest financial market internationally and is highly respected for its sound regulatory system. During the 2008 global financial crisis, Canadian financial institutions did comparatively well. They were able to retain their strength at a time when some of their key competitors in Europe, the U.S. and Japan struggled to maintain their international presence.

The ability of Canadian financial institutions to successfully compete abroad is dependent on the regulatory regime they operate under domestically. While sound regulatory policy can benefit both consumers and companies, unpredictable, opaque or overly-onerous policies can stymie competition and growth. A balanced regulatory regime is vital for the ongoing competitiveness of a financial market.

Consolidated regulation applies in Canada, where regulatory standards apply to the entire operations of a financial institution whether the operations are in Canada or abroad. Experience has shown that this approach is entirely appropriate for ensuring that the complete world-wide operations of the firm can be assessed by a primary regulator. In addition, the strong reputation of Canadian regulators means that foreign regulators can rely on Canada's domestic regulatory system in times of stress.

However, capital standards and regulatory requirements that are substantially out of line with international norms can put the industry at a competitive disadvantage with foreign competitors. Regulators need to strike the right balance between safety, soundness and flexibility. They should be

[11] Great West Life Insurance Company. Annual Report, 2014. Pg. 3.

aware of the potential implications that regulatory changes may have on the competitiveness of firms, particularly where they compete abroad. A regime that ensures strong prudential practices, competent oversight and transparency is in the best interests of both consumers and financial services suppliers.

Recommendation 1:

When developing regulations, Canada's regulators should be mindful of the need for Canadian insurers to be competitive internationally and ensure that capital and other regulatory requirements are no more onerous than is necessary to meet prudential objectives.

4.0 International Trade Agreements

4.1 Free Trade Agreements

Free trade agreements (FTAs) are an important way to address some of the challenges associated with international expansion and are a vital component of Canada's international trade strategy. Like many Canadian financial institutions, life and health insurers are working to expand their international operations and are specifically interested in underserved markets with low foreign penetration rates. Target markets tend to have similar characteristics such as high growth potential, political stability, as well as predictability and transparency of the regulatory process. Markets with a strong or growing middle class are also of interest to the sector. As incomes and purchasing power increases, the growing middle class exposes hundreds of thousands of people to the financial services sector for the first time.

For emerging economies, increased access to financial services means greater economic opportunities for citizens and local businesses. Financial services allow citizens and businesses to save money, build investments, guard against uncertainty and ultimately provide a pathway to reduce poverty.

Unfortunately, emerging economies can be challenging markets to penetrate due to a wide assortment of restrictions such as opacity of the regulatory process, bias towards local firms, limits on the degree of foreign ownership, the form of establishment and the range of services that can be offered. For Canadian financial services firms wishing to export their services to these markets, FTAs can be very helpful in boosting cross-border business by reducing trade barriers, increasing certainty by establishing transparent rules for economic activity, and improving dialogue between parties.

Recommendation 2:

Canada should ensure that its international trade agreements include a strong focus on the financial services sector. In cases where existing FTAs do not have coverage for the services sector, efforts should be made to update them.

4.2 Proposed Bilateral and Plurilateral Trade Agreements

Canadian life and health insurers are strongly supportive of the Government’s efforts to increase Canada’s trade through international agreements. The eventual implementation of the CETA will position Canada as a country with an ambitious trade agenda at a time of increasing global protectionism. This is, however, only a first step. There are other areas where Canada should seek to expand its footprint internationally.

India

Canada's trade relationship with India is the third fastest growing in Asia. While slow, liberalization of the Indian economy is ongoing and the recent financial sector reforms send a positive signal of increased openness. Unfortunately, there remain a number of challenges for Canadian companies seeking to expand their operations in India. Regulatory transparency and predictability remain a significant concern and an FTA with India would help alleviate these concerns and provide some predictably to the long-term nature of the relationship. Unfortunately, bilateral negotiations are not moving quickly and a renewed focus is required to help promote these negotiations.

NAFTA

The North American Free Trade Agreement has been of significant benefit to all three parties. Since its ratification over 20 years ago, trilateral trade has quadrupled from $297 billion to over $1.4 trillion. Canadian life and health insurers are supportive of the existing agreement and are ready to work with the Canadian government to maintain our competitive advantage in the North American market.

TiSA

The Trade in Services Agreement (TiSA), which represents approximately 70 percent of the world trade in services, marks an important step in the revitalization of the multilateral trading system. Canadian financial services firms are supportive of the TiSA and its attempts to update rules in several key areas such as financial services, licensing, professional services, e-commerce and the temporary movement of business professionals. Most recently, the pace of the negotiations has lagged and there are concerns that the new Administration in the U.S. will not be supportive of a plurilateral agreement. Given the importance of services to the global economy, it is crucial that the Canadian government continue to be a strong supporter of an ambitious and timely TiSA agreement.

Recommendation 3:

Canada should continue to make free trade agreements a priority. Canadian officials should continue to work with their trade partners to ensure that ongoing negotiations such as the TiSA and the Canada-India FTA maintain momentum. In all cases, these agreements should include a significant and robust financial services component.

5.0 Establishing Cohesive, Transparent and Effective International Trade Rules

The services components of Canadian FTAs generally contain several core elements that are vital for financial services:

- A negative list approach, meaning that all sectors are covered by the agreement **unless** specifically identified as being excluded;
- A prudential carve-out (as specified in the Financial Services Annex of the General Agreement on Trade in Services). For the financial sector, the prudential carve-out ensures that countries have the ability to protect investors, policyholders and depositors while ensuring the sound regulation of the financial services sector;
- Provisions to increase market access and provide non-discriminatory treatment for Canadian financial services firms; and
- Ratchet mechanisms that bind future services liberalization.

These are all important elements for trade in financial services but there are a number of emerging and important issues that also need to be addressed such as regulatory cooperation, rules governing the operations of State Owned Enterprises (SOEs) and the cross-border transfer of data.

In terms of rules governing the commercial operations of SOEs, Canada should promote agreements that prohibit unfair advantages to state affiliated entities. SOEs with commercial operations should be subject to the same requirements as the private-sector competitors with which they compete. Some of the principles that should be covered include: the prevention of preferential treatment of SOEs; the prevention of any guarantees that are extended only to the policyholders of the SOEs; and the limitation of the ability of SOEs to cross-subsidize their insurance-related businesses from other business areas.

Another area of trade policy that is rapidly emerging as a key area of concern is the cross-border flow of business data. Canadian life and health insurers with international operations operate on a 24/7 business model. Many rely on the secure flow of data across borders for various commercial and back-office functions. Therefore, the ability of companies to move business data quickly and securely across jurisdictions is vital to their international competitiveness.

Recommendation 4:

Aside from the standard elements of FTAs, Canadian FTAs should also cover emerging trade issues such as the cross-border flow of information and rules governing the commercial operations of State Owned Enterprises.

6.0 Improved Metrics

As Canada continues to expand its international trade footprint, it is crucial that it has access to strong, evidence-based data.

Despite the fact that the services sector is a significant contributor to Canada's economy, a clear picture of how services are traded is lacking. For example, the value of services traded through foreign affiliates is not yet measurable while online sales and other methods of services delivery are often embedded in other statistics and therefore difficult to clearly extrapolate.

The lack of data for the services sector makes the adoption of evidence-based policy more difficult. Canadian negotiators who are attempting to increase market access for Canadian firms must often rely on outdated information or anecdotal evidence. In order for Canada to adopt the best policies and to ensure the best outcome for Canadian firms during FTA negotiations strong metrics are required.

The challenge associated with tracking international trade in services is not something that Canada experiences in isolation. The Organization for Economic Development (OECD), the World Trade Organization (WTO) and other international bodies have been developing new methodologies for the collection of international services trade data. The standardization of data collection globally is vital and Canada should continue to engage with these organizations and support these initiatives.

Recommendation 5:

The Canadian government should allocate sufficient resources to ensure that Statistics Canada is able to improve its collection of services sector metrics. Understanding the importance of a coherent international framework for services sector metrics, Canada should continue to work with its main trading partners as well as various international organizations to improve the collection of international trade data for the services sector generally and the financial services sector in particular.

7.0 Building Relationships

Following the 2008 global financial crisis, with the international focus on improving the regulation and oversight of the financial services sector, multiple jurisdictions turned to Canada for leadership. Canada's reputation for sound and transparent regulatory policy set it above many of its peers. Since that time, regulatory cooperation has become a major focus for the financial services sector. Many modern FTAs contain mechanisms to foster regulatory cooperation, which are useful tools in the development of a transparent and coherent regulatory environment.

While important, there are other methods for fostering regulatory cooperation and improving dialogue than those imbedded in trade agreements. For example, Canada has launched Financial Sector Policy Dialogues (FSPDs) with a number of jurisdictions including China, Indonesia and India. These dialogues are important mechanisms for the development and maintenance of good relations between financial regulators. They also foster deeper collaboration between financial institutions and can help with the identification of regulatory best practices.

Trade missions are also an important avenue to foster positive relations and build business opportunities. When properly designed to address strategic priorities and when relevant stakeholders are adequately engaged, trade missions can be invaluable tools to foster growth. For example, the September 2016 mission to China included participation by senior representatives from the Canadian business community and served to unlock $1.2 billion in business deals and provided additional opportunities for both countries.

Recommendation 6:

Initiatives such as FSPDs and trade missions are invaluable tools and should continue to be given high priority. In order to ensure success, the business community should be fully consulted and given advanced notification of upcoming trade missions, state visitors and FSPDs.

8.0 Strategic Cooperation

Canada has a long-term interest in an international system based on multilateral rules and institutions, and in a peaceful, prosperous and inclusive Asia-Pacific region of which it is part. It is in Canada's interest to ensure that, while building on traditionally strong relations with the U.S. and Europe, it also develops broader and deeper political, economic and other ties with Asia.

Asia

Over the past ten years, Canadian exports to Asia have skyrocketed, due in part to an emerging middle class and increased purchasing power. The region is a massive importer of goods and services, and is the destination for the majority of global Foreign Direct Investment (FDI).[12] Asia is expected to be responsible for 90 percent of growth in the life and health insurance industry in the next ten years.[13]

Canada's interest in the region should focus on markets with high-growth potential such as Indonesia, Thailand and the Philippines and countries with which it does not yet have bilateral trade agreements. Active participation in forums such as the Asia-Pacific Economic Cooperation (APEC) and efforts to promote bilateral relationships with these countries are two ways in which the Canadian government can be helpful.

China

The rapid expansion of the Chinese market ensures that China will be a commercial hub for the foreseeable future. To build on Canada's already successful, constructive and long-term relationship with China, leaders from both sides need to establish an ongoing, strategic economic dialogue.

The Canada-China Foreign Investment Promotion and Protection Agreement (FIPA) was a step in the right direction for deepening Canada-China relations, as was the establishment of Toronto as a renminbi trading hub. Despite this progress, these initiatives are still in the initial phases and more can be done to promote this long-term bilateral relationship. The Canadian life and health insurance industry welcomes the launch of consultations on a possible Canada-China FTA and believes that these talks represent a significant opportunity to deepen the bilateral relationship.

There are numerous barriers to trade and investment with China including the protection of indigenous firms, the strong presence of SOEs and the lack of transparency and predictability for regulatory processes. China is also undergoing numerous domestic reforms which could result in further market liberalization. Such reforms are of significant interest to the life and health insurance sector. Canada is well-positioned to work with Chinese counterparts to ensure a cooperative and transparent dialogue throughout this process. In order to further its long-term relationship with China, constructive, bilateral engagement should be institutionalized and viewed as a long-term objective of the Canadian

[12] *World Investment Report 2015.* United National Conference on Trade and Development. 2015.
[13] Sunlife Financial. Sunlife Financial in Asia. Web.
https://cdn.sunlife.com/static/global/global/files/media/Company%20fact%20sheets/Country%20fact%20sheets/pa_e_Asia_fact_sheet.pdf Accessed Online, February 2016.

government. Furthermore, the Canadian government should ensure that any potential Canada-China economic agreements are ambitious and comprehensive enough to make real progress in opening financial services markets, designed to reduce non-tariff barriers to trade, and increase regulatory transparency.

Recommendation 7:

The Canadian government should continue to pursue constructive dialogues with key markets in the Asia-Pacific region. In terms of priority markets, China remains of significant interest to the Canadian life and health insurance sector. Constructive, bilateral engagement with the Chinese must remain a priority and should be a long-term strategy of the Canadian government.

9.0 Conclusion

Canada’s financial services sector is a success story and many Canadian companies are among the most competitive in the world. The international success of these companies brings significant gains back to Canada in the form of both direct and indirect employment, increased innovation and capital. While this success is something of which Canada should be proud, we have only scratched the surface of our full potential. There are concrete steps that the Canadian government can take to increase growth and ensure the long-term competitiveness of the sector.

Canadian life and health insurers need a supportive domestic environment in which to grow. Sound policy is built on the foundations of a clear understanding of the economy and the economic performance of different sectors. Improved metrics for the financial services sector must be a priority both for Canada, and for its peers. Without a more detailed picture of trade in financial services, it will be difficult to measure and build the sector.

Canada's financial sector regulatory policy has been recognized as one of the most sound in the world. There are ways that Canada can leverage this reputation to its advantage including through the promotion of best practices internationally and increased dialogue between regulators. This is especially important for areas of strategic interest to the sector, such as the Asia-Pacific region.

FTAs are another avenue by which Canada can promote the interests of the sector. The CETA is expected to provide gains to the financial services sector and has set a high standard for future agreements. Among the FTAs currently under negotiation, the TiSA and the Canada-India Comprehensive Economic Partnership Agreement are of particular interest to Canadian life and health insurers and our members remain strongly supportive of the timely conclusion of ambitious agreements. Furthering our strategic partnerships with key markets such as China must also remain a priority, especially in instances where Canada’s long-term economic and political interests will benefit from deeper engagement.

Canada is home to a strong and vibrant financial services sector. Strategic trade policy combined with a supportive domestic environment will allow Canadian life and health insurers to thrive on the global stage.

ANNEX: LIST OF CLHIA RECOMMENDATIONS TO PROMOTE TRADE IN LIFE AND HEALTH INSURANCE

Domestic regulatory regime

1. **When developing regulations, Canada's regulators should be mindful of the need for Canadian insurers to be competitive internationally and ensure that capital and other regulatory requirements are no more onerous than is necessary to meet prudential objectives.**

International Trade Agreements

2. **Canada should ensure that its international trade agreements include a strong focus on the financial services sector. In cases where existing FTAs do not have coverage for the services sector, efforts should be made to update them.**

3. **Canada should continue to make free trade agreements a priority. Canadian officials should continue to work with their trade partners to ensure that ongoing negotiations such as the TiSA and the Canada-India FTA maintain momentum. In all cases, these agreements should include a significant and robust financial services component.**

Establishing Cohesive, Transparent and Effective International Trade Rules

4. **Aside from the standard elements of FTAs, Canadian FTAs should also cover emerging trade issues such as the cross-border flow of information and rules governing the commercial operations of State Owned Enterprises.**

Improved Metrics

5. **The Canadian government should allocate sufficient resources to ensure that Statistics Canada is able to improve its collection of services sector metrics. Understanding the importance of a coherent international framework for services sector metrics, Canada should continue to work with its main trading partners as well as various international organizations to improve the collection of international trade data for the services sector generally and the financial services sector in particular.**

Building relationships

6. **Initiatives such as FSPDs and trade missions are invaluable tools and should continue to be given high priority. In order to ensure success, the business community should be fully consulted and given advanced notification of upcoming trade missions, state visitors and FSPDs.**

Strategic cooperation

7. **The Canadian government should continue to pursue constructive dialogues with key markets in the Asia-Pacific region. In terms of priority markets, China remains of significant interest to the Canadian life and health insurance sector. Constructive, bilateral engagement with the Chinese must remain a priority and should be a long-term strategy of the Canadian government.**