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—
Chair

Mr. Brian Pallister

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• (1530)

[English]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Ladies and gentlemen, welcome. Welcome to our witnesses today.

Members of the committee, I hope you enjoyed your week back in the riding. We will continue our discussions of vote 10, referred to the committee on Tuesday, April 25, 2006. We have several witnesses today, in two panels. We'll follow with some committee business thereafter.

I would like to welcome our witnesses. We're sorry that because of the shortness of time, we'll just ask you to give you a brief overview of your positions. That will leave the committee the maximum possible time to make its inquiries of you. I believe we're going to start with Mr. Charles, from AIG United Guaranty Canada.

Mr. Charles, I invite you to make a couple of minutes of comments. You may proceed.

Thank you, sir.

Mr. Andy Charles (President and CEO, AIG United Guaranty Canada): Thank you, Mr. Chairman and honourable members.

My name is Andy Charles. I'm the chief executive officer of AIG United Guaranty Canada. We are part of AIG, one of the world's leading insurers. AIG conducts business in over 130 countries. We've been in Canada since the early 1960s; we currently employ more than 850 Canadians.

Mr. Chairman, we believe that increased competition in mortgage insurance will benefit consumers, financial institutions, and the Canadian economy. At the same time it will make the government-backed insurance system safer by diversifying risk among more participants.

Allow me to highlight a few points. First, AIG has a rock-solid commitment to provide insurance to the entire Canadian market, urban and rural. We intend to provide innovative insurance across all segments.

Second, we are undergoing a rigorous examination process. OSFI is ensuring that we have adequate capitalization to serve the market through all parts of the economic cycle. The requirements for upfront capitalization are stringent, and we will meet them. We are backed by our parent, a company with \$800 billion in assets and ranked by *Forbes* magazine as the fourth-largest corporation in the world.

Third, fostering competition, with well-capitalized insurers creating more choice, will reinforce the strength of our marketplace.

New insured mortgages have a value of over \$50 billion a year, and the total value of outstanding mortgages is more than \$615 billion.

Fourth, as Budget 2006 states clearly, the provisioning change to \$200 billion is due to the expansion of the mortgage market, not because another competitor is entering the market. Adding another well-capitalized insurer will diversify the taxpayer's risk.

Finally, increased competition benefits consumers. The entry of the existing private mortgage insurance company generated new products and better service for Canadians. We ask for the same opportunity.

Mr. Chairman, I would like to close with a quotation from a few years ago: "We applaud the government's intention to promote competition in mortgage insurance by levelling the playing field. Healthy competition clearly benefits consumers, lenders, and taxpayers."

The speaker then was Peter Vukanovich, the president of Genworth Financial Canada. We applaud his sentiments and think what was true then is true today.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Charles.

We'll move to Mr. Murphy with the Canadian Institute of Mortgage Brokers and Lenders.

Mr. Jim Murphy (Senior Director, Government Relations and Communications, Canadian Institute of Mortgage Brokers and Lenders): *Merci, monsieur le président et mesdames et messieurs.* My name is Jim Murphy. I'm the senior director of the Canadian Institute of Mortgage Brokers and Lenders, or CIMBL, which is an 8700-member national association.

CIMBL represents all facets of the mortgage industry including mortgage lenders, mortgage insurers, mortgage brokers, and mortgage agents. We have members in all ten provinces and two of the territories.

You know that the residential real estate market in Canada has done exceptionally well over the last several years. Our industry is a key component of helping Canadians reach their dream of home ownership.

Two studies we have undertaken—one from last fall on the state of the residential mortgage market in Canada, and a second one from earlier this spring highlighting consumer choices in mortgages—show that there is over \$615 billion in outstanding mortgage credit in Canada today, and that this total is growing by 10% each and every year. You have copies of these research findings in the packages before you.

Mortgage insurance is a key component of the financial network that helps Canadians own their own home. It is a system that has worked well in Canada. As home prices rise, the ability of many Canadians to have a down payment of 25% or less diminishes. And I should say that this rule applies to federally incorporated deposit-taking institutions under the Bank Act. Our industry and mortgage insurance provide the means for Canadians to own a home.

CIMBL supports competition in the mortgage insurance marketplace. We believe, however, that the committee and the government should be fully aware of the issues related to competition, so that the overall financial integrity of the system is maintained.

I'd like to highlight three issues.

First, there should be a level playing field for mortgage insurance providers in the country. Second, the financial viability of the industry must be insured, particularly if there is any downturn in the market—and we're noticing a slowdown in a couple of the provinces. Last, protection for borrowers and home owners must be paramount.

Merci.

•(1535)

The Chair: Thank you very much, Mr. Murphy.

Now, we'll have Mr. Vukanovich from Genworth Financial Canada.

Mr. Peter Vukanovich (President and CEO, Genworth Financial Canada): Thank you, Mr. Chair.

Hi. My name is Peter Vukanovich. I'm the President and CEO of Genworth Financial here in Canada.

[*Translation*]

I would like to thank the committee for having invited me here today.

[*English*]

Given I've only got a couple of minutes, I'll try to quickly take you through my points.

The proposed changes to the mortgage insurance industry before this committee may appear to be technical, but they are no small matter. Collectively, they result in the opening of the mortgage insurance marketplace to new entrants, something that's not been seen in our country since 1995. Indeed, they represent significant policy changes to the industry, with far-reaching consequences for Canada's housing market, our financial services sector, and, more importantly, the nearly half a million families per year who get helped by mortgage insurance. Yet there's been virtually no study or analysis that we've seen regarding the practical consequences that these dramatic changes would create.

These changes will hasten the arrival of at least three new players in the marketplace, which has been exceptionally well provided by and served by two players for more than 40 years. To compete, all of these players will be financially guaranteed by the government. This is significantly more complex than letting property and casualty insurance companies into a marketplace. As such, we believe the best advice that we can give this committee is to halt the implementation of these changes and study them. Take the time to understand exactly what it will mean for families looking to buy a home and for the government.

There's one critical thing I'd like explain to you today: it's that homebuyers pay for mortgage insurance but they do not choose the insurer. That's right, it's the lender, not the buyer, who controls the decision over mortgage insurance. That distinction is fundamental for policy-makers to appreciate because it demands that a proportionate set of protections be put in place for homebuyers. I should hasten to add that Genworth Financial supports the government's desire to see increased competition within our sector. We welcome more competition, so long as it results in choice and benefits to homebuyers and companies can sustain volatile real estate cycles.

Increased competition, however, must be accompanied by two further conditions: the kinds of homebuyer protections I just mentioned and a level playing field for new entrants and old players alike. Unfortunately, the policy changes before this committee fail to deliver on either of these conditions and in fact could worsen the framework that currently exists. Without proper market conduct rules, the government's objectives could be undermined and existing public policies and benefits of mortgage insurance could be diminished.

That's why further understanding is required before changes are implemented, and we urge you to require three additional safeguards along with what we're talking about. The first one is for this committee to recommend prohibiting U.S.-style financial arrangements between insurers and lenders. There's ample evidence from other markets that without a prohibition of this sort homebuyers will not be the beneficiary of new competition but it will be quite the opposite. As Moody's rating agency states about the U.S. industry, mortgage insurance is a commodity, differentiating oneself from other competitors is difficult, there's limited competition on the price, and lenders' interests are likely to remain aligned with the mortgage insurance firms. These types of arrangements make the amount of money, that percentage to lenders, the key determinant of mortgage insurance. Of course, this is all legal, but we're just not sure that's what this committee or this government is expecting.

Second, in terms of safeguards, we believe the committee should recommend clear protection against adverse selection, or what is sometimes known in the insurance business as cherry-picking. Simply put, if new market entrants are allowed to ignore most of the market and focus exclusively on the most lucrative parts, then all buyers and lenders will pay more. To add much more rigour to this analysis, we've engaged an internationally prominent consultant and economist to conduct the kind of independent study we believe is required. His full analysis is not concluded yet, but he's saying that he would very much like to get this done in the next couple of weeks and have it ready for your perusal.

Finally, we believe the committee should recommend a level playing field for all participants. As you know, the government guarantee backing up the mortgage insurance industry is unevenly applied between us and the government provider. This creates a permanent price advantage of several hundred dollars per loan, which in a highly competitive mortgage business is one very fat thumb on the scale. With a built-in price advantage, competition based on differentiated products and services is very difficult to achieve.

In conclusion, I want to emphasize Genworth's support for increased competition. We welcome it. However, I cannot honestly say that I'm enthusiastic about the prospects for homebuyers if the current proposals proceed without the additional protections that I just told you about.

Canada's housing market is the envy of the world and there's no reason why it shouldn't continue to be, provided that we don't make a mistake or a series of mistakes that we'll regret later.

• (1540)

[Translation]

Thank you. I would be happy to answer any questions you may have.

[English]

The Chair: Thank you, Mr. Vukanovich.

Now we'll hear from Mr. Tonnesen, CEO of the Triad Guaranty Insurance Corporation.

Mr. Mark Tonnesen (President, CEO, Triad Guaranty Insurance Corporation): *Bonjour.*

My name is Mark Tonnesen and I'm the CEO for Triad Guaranty Insurance Corporation. Prior to joining Triad I was vice-chairman of RBC Insurance in Toronto.

Triad is a private mortgage insurance company, headquartered in the United States, and is currently before OSFI with a draft application to provide this insurance in Canada. It was founded in 1987, based on the philosophy of strong risk management, product innovation, and superior customer service. Our products are primarily offered in areas where affordable housing is a priority. In fact, our typical customer is a first-time homebuyer with an average house price of around \$150,000.

I am here to support the government's intention to open this market to more providers. This move will create upsides for taxpayers and consumers alike. First, adding more market partici-

pants will reduce the risk to taxpayers and increase the stability of the housing market by spreading the risk across multiple providers; reducing the risk assumed by government providers; bringing additional diversified capital into the market; and eliminating the risk where one private mortgage insurance company could pull out of the market, leaving the entire Canadian housing sector in turmoil.

Second, consumers will benefit from increased competition, through better service, lower costs, and product innovation, all of which makes home ownership more affordable. Monopolies, even duopolies, do not provide the same incentives for customer service, product innovation, and price reduction. Why would they, when theirs is a captive market?

Canada has among the highest regulatory standards in the world, and because of this, a competitive market will also be a secure market. Apart from the very rigorous review that OSFI conducts to ensure the viability of MI providers, every province regulates the conduct of the insurance market. Numerous regulations specifically prohibit the types of activities about which some members and competitors are concerned.

It is vitally important for the government to ensure the safety of the market. It is also important to ensure that consumers have a choice, and the choice is not simply between the government and a private sector monopoly. This creates too much risk for the government and too little benefit for the consumer.

I'd be pleased to address any of the issues in more depth at your convenience, Mr. Chairman.

Thank you.

The Chair: Thank you very much, Mr. Tonnesen.

Now, Monsieur Roy, Mouvement des caisses Desjardins, *s'il vous plaît.*

[Translation]

Mr. Noël Roy (chef de produit, financement hypothécaire, Direction du développement de l'offre, Fédération des caisses Desjardins): Thank you, Mr. Chairman.

My name is Noël Roy and I am responsible for the development of Desjardins' mortgage financing product. I would first like to thank the finance committee for their invitation to appear this afternoon.

With some 5.5 million owner- members, consumers and businesses alike, Desjardins is the leading financial institution in Quebec as well as the largest cooperative financial group in Canada. Elsewhere in Canada, Desjardins is associated with caisses populaires in Ontario, Manitoba, and New Brunswick, as well as with Desjardins Credit Union in Ontario. With a market share approaching 40 per cent, Desjardins is by far Quebec's leader in the residential mortgage credit market. As such, Desjardins has approved approximately 600,000 mortgage loans throughout all regions of Quebec. Close to 30 per cent of our mortgage loans portfolio benefits from a mortgage insurance protection, mainly with the CMHC and to a lesser extent, Genworth Financial. We enjoy excellent relationships with both entities.

As noted in the 2006 budget, the current government program which provides a government guarantee for companies that ensure mortgage loans has contributed to a competitive mortgage insurance market and more affordable housing for Canadians.

We support the government's initiative to encourage competition in the mortgage insurance market. Increased competition in this market will promote greater housing accessibility at more competitive costs. We therefore believe that extending the guarantee program to new entrants will allow a greater number of Canadians to enjoy home ownership.

However, we believe that the following conditions are key to the establishment of a sound competitive mortgage insurance market. First, all participants from the private sector offering mortgage insurance must be subject to the same rules and conditions and must only be allowed to intervene in this particular market. Real competition will only occur if all players operate on a level-playing field. Second, it is critical that mortgages not be subject to an anti-selection process. Such an approach would disadvantage home owners outside urban areas and more particularly rural residents. The framework governing the activities of such entities must therefore ensure that all mortgages will have an equal right to a guarantee.

In conclusion, we wish to reiterate our support to initiatives that encourage more competition in the mortgage insurance market. Thank you again for the opportunity to appear before you today.

• (1545)

[English]

The Chair: Thank you, Monsieur.

We'll begin with Mr. McCallum, for seven minutes, sir.

Mr. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair. I'll probably need less time than that.

Basically, I'm starting out favourably disposed to what the government wishes to do, because it's also what our government had wished to do. I just discovered recently that we had the same process as well as the same substance. But perhaps more fundamentally, I tend to be on the side of Adam Smith, thinking that more competition is better than less competition and that a duopoly is probably not optimal.

I basically have two questions. The first would be to either Mr. Charles or Mr. Tonnesen, I think, or to Monsieur Roy.

Since I begin with a bias very much in favour of what the government is proposing, I think the onus of proof is on the other side. In the Desjardins submission, one of the conditions given, the second one, is that it is critical that mortgages not be subject to an anti-selection process that would disadvantage home owners outside urban areas, and more particularly rural residents. So I'd like to ask those who propose to enter the competition to explain whether there would be such an anti-selection process and whether there would be any risk for rural people in this new, multi-company, competitive world?

I also have a question for Mr. Vukanovich. I'm not making any accusations—I must stress that—but I think it was Mr. Turner who really pushed this, and then when I read on Mr. Turner's website of March 19 about his friend Peter Vukanovich coming to visit him a

few days ago in his riding office, and since he seems to be instigating this, I want to ask what the nature of that relationship is, just for the record and without making any accusations.

Those are my two questions, Mr. Chair.

The Chair: Mr. Charles, would you proceed?

Mr. Andy Charles: Mr. McCallum, with respect to servicing all markets, it's our commitment to be a national provider with a focus in both urban and rural markets. If we can sit back to reflect for a moment, as a third mortgage provider coming into the market with two very well-established competitors—one, we estimate, CMHC, having about a 70% market share, and Genworth having about a 30% market share—clearly our challenge is to make sure we have a value proposition for all markets. Common business sense would say we need to be innovative in our product design to compete aggressively against two well-entrenched competitors.

So to answer your question specifically, Mr. McCallum, there's not a market in Canada where we don't want to be, and we will be in all markets.

• (1550)

The Chair: Thank you.

To participate in response to that first question, we'll hear Mr. Tonnesen.

Mr. Mark Tonnesen: I just would like to say categorically that it is our intention to service all communities in Canada and to work with the banks as such.

Thank you.

The Chair: Mr. Vukanovich, would you like to reply to the first and/or second question, sir?

Mr. Peter Vukanovich: I'll take Mr. McCallum's second question, which is with regard to my relationship with Mr. Turner. It is, I can assure you, strictly one of knowing each other for a couple of years. When I saw Garth was elected in the riding that borders right next to where our office is.... In fact, we weren't sure whether we were in Garth's riding or in the one south of us, so we went and just said hello. He wrote later in his blog, and I was actually flattered that he considered me a friend.

The Chair: We'll have the balance of the questions to deal with the substance of the issue.

Are you finished, Mr. McCallum?

Hon. John McCallum: Yes.

The Chair: Thank you.

Mr. Loubier, please proceed, for seven minutes, sir.

[Translation]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman.

When I was listening to Mr. Vukanovich, I had the feeling I was listening to Bell Canada executives a few years ago, when they appeared before the CRTC on the issues of a decompartmentalization project and a long-distance deregulation project. Bell Canada stated that this would spell its demise and that it should not be allowed, that competition in the telephone industry was not a good thing. I have the impression I was hearing the exact same statements from Mr. Vukanovich.

I'm wondering why companies like Genworth and the CMHC should be the only two players. Why shouldn't there be other players? Why are you asking questions about such basic issues as having rules that apply to everybody? I don't think that the bill would result in new competitors being treated differently than Genworth is, or in Genworth being treated any differently from new competitors. It strikes me that competition is a good thing for consumers.

Mr. Roy, how can we avoid the type of anti-selection that you mentioned through regulation? It seems to me that is a fairly simple issue to regulate. It's easy to do an analysis. Competition is always a good thing for the market. Obviously, companies who have held certain privileges for many years — in a duopoly or, of even greater concern, in a monopoly — would want to complicate that type of legislative process. Mr. Vukanovich, one can't be for and against competition at the same time.

[English]

Mr. Peter Vukanovich: I'd like to answer that question.

We're totally for competition, as I said in my comments, as well as I think it's very reasonable that, as a general economic principle, more competition should lead to better things for homebuyers.

The current issue, though, is that there's nothing in the regulatory framework to ensure that adverse selection not be happening, to ensure that there's competition that will benefit homebuyers.

What we're saying is that you really need to look at other markets and how they've operated when there's a financial intermediary in the process, and that means that this is different from just having a direct consumer relationship, because, after all, it's the government's intent to provide benefits to homebuyers and consumers.

So again, I think it's more the regulatory framework that's not set up. It's certainly nothing that we can see to ensure that what we're talking about as being positive would be there. But we're clearly pro-competition.

[Translation]

Mr. Yvan Loubier: Then what could be done in order to avoid, for example, adverse selection? That is what I am most concerned about. In terms of the rest, I can't really imagine a system where you would be treated any differently from your competitors. We live in a country where regulations, especially with respect to financial markets, are a fundamental component. What are your fears with respect to this issue?

• (1555)

[English]

Mr. Peter Vukanovich: Well, it's not clear to us as to who has the responsibility for market conduct and regulatory compliance in that area when it comes to our situation and our industry. Again, if, for

instance, we had a complaint against what we just described as being adverse selection, perhaps something could be put into the guarantee requiring that this adverse selection not be a part of the way competition is.

At the same time, when you have a compliance violation, how is that dealt with? It's not clear to us.

[Translation]

Mr. Yvan Loubier: How could we avoid adverse selection? That's the question. Do the other witnesses have any suggestions?

Mr. Noël Roy: I could give you Desjardins's example. We are present throughout Quebec, including in the rural regions. The CMHC used to ensure all our loans. In 2000, when we signed an agreement with Genworth, we required that they ensure the loans in all of Quebec's regions, and we made sure that that condition was met. The lender can control that and you could include a clause in the bill providing for that. If Genworth had started practising adverse selection, then we would have stopped doing business with them. That was one of our conditions, and to date they have met that condition.

Mr. Yvan Loubier: Do you think that including such a condition in the legislation would give it more teeth?

Mr. Noël Roy: It would give it more teeth.

Mr. Yvan Loubier: Fine. Thank you, Mr. Chairman.

[English]

The Chair: Thank you.

Mr. Turner, seven minutes, sir.

Hon. Garth Turner (Halton, CPC): Thank you.

Welcome.

First, I'm really delighted that John McCallum reads my blog. I think this is real progress, absolutely.

And on that note, just while we're on relationships, Andy, how long have we known each other?

Mr. Andy Charles: Seven to eight years.

Hon. Garth Turner: Seven to eight years. So a professional relationship. We've dealt quite a bit in the past.

Mr. Andy Charles: Yes, sir.

• (1600)

Hon. Garth Turner: Okay, so I just want to make it clear that two of the witnesses at least I know very well. And Jim, I think we've been acquainted as well, so we certainly have dealt professionally in the past.

Now, one of the reasons we're here.... Mr. McCallum has suggested that maybe it's because of my relationship with some of the witnesses. I'd like to just point this out. I think we're here because today, with the real estate market where we are in this country, and with real estate prices hitting the highest ever.... And now with 50% of all the people taking out mortgages in this country having to take out high-ratio mortgages, they are involved in the necessity to get mortgage insurance. That's probably 90% of the people in my riding right now who are buying new homes. They are probably requiring mortgage insurance. Because the Government of Canada, by law, requires that all these people with high-ratio mortgages have to take mortgage insurance, this is an important issue.

That's why I'm here and that's why I tried to get this committee to understand that, and they did in a heartbeat.

So you're here because of these issues. These issues go to the matter of the consumers. And that's what I really want to focus on—not their side and our side, or where the government is at; I just truly want to try to drill down right now to what's going to be in the best interests of consumers.

Certainly Mr. Charles and Mr. Vukanovich have different views of this, and Mr. Murphy, you're somewhat in the middle of it.

I would ask you specifically, Mr. Charles, to address a couple of the concerns, and then Mr. Vukanovich the other way around.

Mr. Charles, let's talk about these two concerns that Mr. Vukanovich is raising. First, are we going to see U.S.-style inducements if we allow more competition into the industry? In other words, will there be kickbacks or premiums of some kind paid back to the financial institution for giving you the insurance business?

And secondly, what stops you from just going after those high-income people in my riding, as opposed to the poor folks in some other poorer community? Can you answer that first for me, please?

Mr. Andy Charles: Mr. Turner, in terms of the first question, as a Canadian with 15 years of experience in the Canadian mortgage market, leading a Canadian team, hiring Canadians across the country, and having some degree of expertise in the Canadian market, we will operate with the highest ethical standards and we'll operate right across this country by providing value to consumers.

Inasmuch as increased competition puts pressure on things like price and premiums, that will certainly be part of our toolbox to help more Canadians realize the dream of home ownership.

So this is a Canadian business, run by Canadians. The answer is no.

Hon. Garth Turner: And how about those people who may be a poor credit risk or who are in rural areas where home values are not escalating as rapidly as they have been in other parts of the country? How do you deal with those criticisms?

Mr. Andy Charles: Mr. Turner, as a third player coming into the marketplace, we need to look at where our competition is not. We need to be a full service provider coast to coast, operating right across this country.

We've looked at a number of market opportunities in addition to being a full service provider, competing head to head with our competitors, but we're going to look also at the new immigrant market, we're going to look at the self-employed market. We're also going to be able to develop innovative programs for Canadians who can afford a home but for some reason in their past may have had a credit impairment that they have now clearly overcome. So we want to run the full spectrum of service.

Hon. Garth Turner: All right, Mr. Vukanovich, you've heard what Mr. Charles has to say. Now, how do you counter that? On this last point, are these parts of the market that you guys are now ignoring?

Mr. Peter Vukanovich: Mr. Turner, we have introduced the products in 2006 to address exactly the segments of the marketplace that Mr. Charles just mentioned, whether it's people new to Canada, whether it's people with less than perfect credit, or whether it's people in business for themselves. Those are all products that we've launched.

I think there are always opportunities to make a broader, better product.

I think also there is a level of agreement here—that is, if there is to be no adverse selection and there is to be a 100% level playing field and there are to be safeguards in place to prevent inducements, then let's just make sure they're there.

If Mr. Charles and his company and other competitors are willing to compete on that basis, all I'm saying is make sure that's in the legislation before they enter the marketplace.

Hon. Garth Turner: On the issue of stability in the marketplace, once again, half of all buyers today are forced to take mortgage insurance. Many would argue that people are over-extending themselves to buy new homes today, and we've never seen the level of mortgage debt in Canada approach what we see today. We've never seen so much consumer debt as exists right now. Some people say it's a time bomb.

I want to hear from both of you. In allowing more competition in the marketplace, is there any danger here of destabilizing what is now a stable marketplace?

The Chair: Mr. Charles, I'll ask you to answer in about 40 seconds, if you can do that.

Mr. Andy Charles: Introducing another well-capitalized mortgage insurer into a marketplace that is the size of Canada, the second-largest mortgage default market in the world, does not represent a disruption at all.

As a case in point, our current competitors, Genworth and CMHC, each have a market share of at least 30% and 70% respectively. Our market share objectives are very modest. We're going to have to fight, work hard, and be innovative to gain any traction against two well-established competitors.

Mr. Peter Vukanovich: Mr. Turner, on your question about whether the housing market is a calamity about to happen, we don't subscribe to that at all. We don't think this about a new competitor coming in as long as it's capitalized properly, which is a very important thing that OSFI would need to look after. But at the same time, it needs to be studied.

The safeguards I mentioned earlier and the level playing field will make sure we have a viable, long-term, and competitive marketplace that benefits homebuyers.

The Chair: Thank you very much, sir.

Madam Wasylycia-Leis is next, please, for seven minutes.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

First I want to thank John McCallum for reminding us why we're here—that is, the Conservatives are just trying to emulate the Liberals every chance they get. It's increasingly hard to tell the difference. I also think it's worth while to try to put this in context.

When did this whole area get opened up by the Liberals? If I'm not mistaken, it was in 1995. Nobody knows why exactly, except that Paul Martin was Minister of Finance at the time and decided it would be important to give some business to the private sector that wasn't otherwise in their hands. I think Genworth was the lucky recipient. Maybe the question that should be asked today is what do Paul Martin and Peter Vukanovich have in common?

I'm interested in this whole question of how this is going to open up competition. I'm surprised that Yvon Loubier is getting caught up in this as well. If we all look back and see what has happened in areas where deregulation has occurred, and how consumers were going to benefit from all this competition, I don't think we have to look any further than Air Canada. If anyone can tell me how we're better off today with all this competition, please let me know. We're now down to no meals and very poor service, in many cases. I'm just not sure what the benefits are on that front.

I'd like all of you to explain to me what's going to happen to consumers who are at the low end of the income scale to begin with, because we're looking at those who don't have the down payments and need mortgage insurance. I haven't heard of any study that says there is some problem with thousands and thousands of Canadians not being able to access mortgage insurance. I haven't heard people say this is too expensive and out of reach.

I need to hear what studies exist that show that consumers are not being served now. I'd like to know from each one of you—all of those people who want a piece of the pie—how much cheaper you're going to offer mortgage insurance than is the case now, and who you're going to cover who isn't covered now.

• (1605)

The Chair: Who would like to start off and respond to that?

Mr. Vukanovich.

Mr. Peter Vukanovich: Thank you very much for your questions.

I'd like to give you a little bit of background on the origins of our company. We started in 1995, but the private sector has been a player in the mortgage insurance market since the early 1960s. Four companies got into the competition, which included CMHC at the time, and they all consolidated by the end of the 1960s, early 1970s, into one company called the Mortgage Insurance Company of Canada. As a result of the competition that had gone on and the volatile real estate cycles, the marketplace was not large enough to support more than the two companies.

In the early 1990s, the Mortgage Insurance Company of Canada exited the marketplace and left CMHC as the monopoly player. So when GE Genworth, now Genworth, came into the marketplace, it was because the government wanted to have more competition.

Ms. Judy Wasylycia-Leis: What happened, Mr. Vukanovich? What happened? Did it get better? Did something happen where Canadians who weren't able to access it were now able to access mortgage insurance?

Mr. Peter Vukanovich: Yes, absolutely, Canadians were able to benefit from having another player. There was product innovation, there was technology innovation, and there was service innovation that provided faster approvals on mortgages.

Again, I think that you have to look at it. Mr. Turner accurately quoted earlier that half of the mortgage market is now an insured market. That is significantly beyond where we were. I think that makes it very interesting.

Ms. Judy Wasylycia-Leis: You think that your entering the field made for more competition, but anyone else entering the field now wouldn't have the same effect.

Mr. Peter Vukanovich: No, I'm not saying that.

I'm saying that a lot has happened since 1995, a lot has happened. There have been very high switching costs and very high start-up costs, and the relationships that we currently have in place are very deep. For these folks to change those relationships with lenders, they're going to have to work very hard to come up with something new. I'm interested, as you are, to hear what that would be.

At the same time, we believe the Canadian marketplace in general has been very well served. We want to make sure that we don't end up in a destructive type of environment, where new players start coming in and creating an environment that's not positive for homebuyers. That's why we're requesting the legislation.

Ms. Judy Wasylycia-Leis: Perhaps I could see if others could answer that question.

If you entered this area, how would consumers benefit? How much cheaper would the rates be?

Mr. Andy Charles: Thank you for the question.

By definition, when coming into an established marketplace, one needs to compete on a number of different factors of product, innovation, and price. While I'm not in a position, with my competitors being in the room, to say the price is going to change by x percent, I can give you a very comfortable level, being on the public record today. Price is going to be something that is going to be decreasing, and we will compete on price to some degree.

To your second question, on how this will help Canadians, we've spoken a little about the immigrant market, the self-employed market, and people who may have had a credit impairment in the past. The lending process in this country, and I've been on the lending side for the last 15 years, still requires a lot of due diligence; due diligence is done by the lender, and due diligence is done by the insurer. We think there are opportunities to increase home ownership and the rate of home ownership in Canada.

•(1610)

Ms. Judy Wasylycia-Leis: Well, I know there are problems in terms of people accessing mortgages. There are problems at the lending level. I don't understand how your getting into this business in terms of mortgage insurance is going to have any bearing on the lending scene.

I keep hearing this jargon around product. I don't know what "product" means. I've had this discussion with many others.

If the problem is in fact with the lender, we should fix the problem at that end. I don't see how your coming onto the scene is actually going to put pressure on the banks to suddenly lend to an immigrant family that doesn't believe in using credit cards and therefore has no credit record and can't get a mortgage. They'd like to give straight upfront cash and could probably do the whole house, or most of it, in straight-up cash, but they don't get to deal with the banks. How are you going to make that—

The Chair: Thank you.

Ms. Judy Wasylycia-Leis: Could I get an answer to that?

The Chair: No. Thank you, Madam Wasylycia-Leis.

Mr. Savage, you have five minutes. It's your turn, sir.

Mr. Michael Savage (Dartmouth—Cole Harbour, Lib.): Thank you, Mr. Chairman.

I might actually come back to Ms. Wasylycia-Leis' question, not the socialistic rant part, but what I thought was a reasonable question at the end.

The first question is this. On the off chance that there might be a Canadian out there who doesn't make study of mortgage insurance his or her life mission, Mr. Vukanovich, can you tell me how mortgage insurance is chosen? It's the lender who chooses it, not the consumer. Is that correct?

Mr. Peter Vukanovich: Yes.

Mr. Michael Savage: Could you take me through the process?

Mr. Peter Vukanovich: Well, the process is this. A consumer would come into the bank and ask for a mortgage on a home. The lender would ask how much of a down payment the consumer has. If it's less than 25%, it would require that the information not only be taken by the lenders to be put in their system, but they would also purchase insurance so that if there's a default on that loan, our company would have the reserves to pay back the bank or the lender.

Mr. Michael Savage: The homeowner, the buyer, actually has no say in that.

Mr. Peter Vukanovich: Well, I would say no or little say.

Mr. Michael Savage: Okay. Let me come to the sensible question that my colleague asked, which is the question on potential competitors.

I'm interested in what your value proposition would be in the marketplace. Keeping in mind the sensitivities around competition and things like that, can you give me a sense of what the benefit to Canadian consumers will be if this goes ahead? If you can't specifically tell me to your business, which I would like to hear about, what would the benefit to consumers be in general?

Mr. Andy Charles: If I may, AIG United Guaranty, coming into the market as a mortgage insurer, may provide comfort to those lenders that in the past may not have wanted to participate in a certain segment of the Canadian consumer marketplace. By virtue of providing insurance, they may recognize now that the new immigrants coming into Canada may provide an opportunity wherein they can compete more aggressively. They may say, upon reflection, that although someone may have had a credit impairment in their past, with mortgage insurance they would now be in a position to be a little more aggressive in that field and help more Canadians realize the dream of home ownership. So we would be providing comfort to the lender to go into a certain market segment.

The Chair: Mr. Tonnesen, would you like to respond?

Mr. Mark Tonnesen: Thank you.

We start with the mission of our company: the way we think about it is that we provide solutions for those who are trying to make home ownership a reality. In this country, that would be the financial institutions, the credit unions, the caisses, etc. Our view is that we should focus on the things we focused on for the last 18 years—that is, prudent risk management, making sure that the people who do get mortgages can afford the mortgages they have taken on; product innovation, to make sure that the greatest variety of payment plans could be supported by the banks; and superior customer service, in making access to these products easier for all Canadians. We believe this provides the type of value the committee is searching for.

•(1615)

The Chair: Mr. Savage, you have a couple of minutes.

Mr. Michael Savage: Mr. Turner asked a question of Mr. Vukanovich, I think, and it seems to me I'm getting two points of view here. Would Canadian consumers, perhaps those with a spotted credit history, immigrants, self-employed people, be better off in an open market, or would they be better off under the system we have now? I would like to hear from Mr. Vukanovich first.

Mr. Peter Vukanovich: I think we have an open market today, Mr. Savage.

Mr. Michael Savage: But with more competitors.

Mr. Peter Vukanovich: Yes, if new entrants came in and decided they had more risk tolerance than is currently in place, then you could argue that more people would get into a home. We believe, though, that we pretty much reached that breach with the existing competitive situation.

Mr. Turner was talking a little bit about people getting into too much debt. There's a market in the U.S. called the sub-prime market, which is slowly but surely growing in Canada. The sub-prime market is one that is currently not served by the mortgage insurance industry here in Canada. It's about 5% of the total originations in Canada. It's been fraught with a lot of issues in the United States. So if that's what we're going to be getting into with regard to a publicly guaranteed company, I think we really ought to study that and make sure it's going to be a positive for both those consumers and homebuyers as well as the government.

Mr. Michael Savage: Thank you.

I wonder if Mr. Charles or Mr. Tonnesen would answer that same question.

Mr. Andy Charles: I think any time you introduce more competition into the market, Mr. Savage, you are going to see that we need to compete on a platform. The platform on which we are going to compete, as I said earlier, is both urban and rural, right across the country, on the majority, up and down the street, for Canadian consumers.

In addition, we think there are niches that we can add value to that will increase the level of home ownership. I'd also keep in mind that this is a very heavily regulated industry, and nothing replaces that heavy regulatory oversight, nothing replaces the due diligence by the lender and the due diligence done by the insurer.

The Chair: Thank you.

You're out of time, Mr. Savage.

[Translation]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): The main concern with respect to competition is about prices. You have talked a lot about products but it all strikes me as being rather theoretical. I know people who recently bought a house and I'm thinking of doing the same thing myself. We have talked about many things such as which bank to deal with and where to buy. However, in terms of mortgage insurance, nobody has spoken to us about after sales service, etc.

The most important point... [technical difficulties] ... allowing new competitors could truly change the selection process and give more people access. Is it not the banks and the credit unions that are mainly responsible for selection? Thus, once a borrower has made it through that stage, he almost automatically find an insurer to guarantee the mortgage.

[English]

The Chair: We're redirecting the question to Mr. St-Cyr.

[Translation]

Mr. Thierry St-Cyr: I would like to hear Mr. Vukanovich's opinion as well as that of other people interested in coming on to the market. I also have a question for Mr. Roy.

The Chair: Thank you, sir.

[English]

Mr. Vukanovich, would you care to respond?

Mr. Peter Vukanovich: Mr. St-Cyr, I want to make sure I understand your question. Is it about whether or not new entrants could make a difference, or is it more specifically that you don't think consumers will necessarily benefit? I'm not a hundred percent sure, I apologize.

Mr. Thierry St-Cyr: Will a new competitor really make a difference on the ability of people to have a mortgage?

Mr. Peter Vukanovich: I think there's been tremendous competition going on in the marketplace today between us and the existing player. We're in 16 countries around the world and we're very familiar with the mortgage products. That's where we get our ideas from, and we bring them to Canada. I'm not saying we have a lock on all of the ideas, but I don't think... I mean, we've talked a little bit about Canada's home-ownership rate. We are the second-highest country for home ownership in the world, next to the United States, and that is in the absence of \$92 billion of tax incentives, of mortgage deductibility, in the United States.

So we're doing pretty darn good here with regard to people owning a home in Canada.

• (1620)

Mr. Mark Tonnesen: Perhaps I could just outline a few of these items as we see them.

Number one is that we think cost structures for mortgage insurance can be customized better than they are today for borrowers—for instance, standard annual premiums that would allow larger amounts to be paid by the borrowers; single premiums; monthly premiums; deferred monthly premiums; lender-paid mortgage insurance; lender-paid singles. These are the types of products that could become available. One of the things we would have to do in order to do that is work with the financial institutions to try to broaden their product lines, and that would be our intention.

We think making home ownership a greater reality for more Canadians is still possible despite the facts that have just been laid out for both lower- and middle-income earners. We think there's the opportunity for increased loan-to-value options, expanded term options, and loan-type options.

Finally, we believe the consumers can also benefit by increased convenience in service. InterBase mortgage insurance applications can be improved in Canada, as well as the information that's provided to consumers through the Internet or other sources about the type of coverage that these products provide.

So we think that as we begin to work with the lenders and consumers in Canada, we will find ways to compete. Absent that, it is our complete understanding that we will not be competitive and therefore not be able to participate in the Canadian market.

[Translation]

Mr. Thierry St-Cyr: Thank you.

Mr. Roy, in your presentation, you stated the following:

All participants from the private sector offering mortgage insurance must be subject to the same rules and conditions and must be only allowed to intervene in this particular market.

What exactly do you mean?

Mr. Noël Roy: We want to make sure that participants offering mortgage insurance on the market not become lenders at a later stage.

Mr. Thierry St-Cyr: Fine. You don't want them to compete with you?

Mr. Noël Roy: More or less. In reality, when we insure loans, we provide all our information on the borrowers to the insurers. They are therefore privy to confidential information and if they started providing loans, then there would not be fair competition.

Mr. Thierry St-Cyr: They do participate in other insurance markets, but you do not want them to compete with you for loans.

Mr. Noël Roy: I would have something to add.

The Chair: I'm sorry, sir.

[English]

We have time for a very brief response, and then we'll go to our next question.

[Translation]

Mr. Noël Roy: I have several questions about the benefit to consumers.

Let's take two products as an example. The CMHC currently provides the insurance for the rental market whereas Genworth doesn't. From the lenders perspective, the CMHC ensures the rental market, and the borrowers get a better rate if they are insured. However, the CMHC did not want to develop a shared-risk product. Genworth did, and borrowers benefited from a 40 per cent decrease in their premiums. Some lenders have used those initiatives and it is the consumers who have benefited from them in the end.

Mr. Thierry St-Cyr: That is a good example.

[English]

The Chair: Mr. Dykstra, for five minutes.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Mr. Chair.

I'm going to certainly thank the gentlemen for being here today and jump right into some questions.

Mr. Vukanovich, one of the things you spoke to fairly well is the process that you were involved in or the system upon which you entered into the market. You seem to be concerned about moving forward with respect to regulations and how the system would work now.

Could you clarify for me, if the system the minister implemented were to be different from the one that you came in under... I'm assuming you thought the one you came in under was a pretty rigorous and fulsome regulatory process.

Mr. Peter Vukanovich: Yes.

Mr. Rick Dykstra: If we were to use that same process to advance—of course we're not going back in time, we're moving forward—that's the type of rigorous process you're talking about implementing.

Mr. Peter Vukanovich: That would be part of it. As I mentioned earlier, a lot has changed since 1995. We've seen a lot of other markets grow and expand but also run into some issues with regard to the way competition has occurred and been dealt with.

To doubly repeat, we're not saying that we don't believe in more competition. I think that when you have a government employer, and then you have one private sector player come in, you have one kind of conduct. But having three or four or six private sector players come in is a significant change in the way lenders would be purchasing a product. Again, there needs to be some market conduct, some ability to ensure compliance with rules. Right now, those rules are just not there.

• (1625)

Mr. Rick Dykstra: Okay.

To pick up on that, actually, Mr. Charles, you make a couple of points. In the second-last paragraph of your presentation you say, "We ask for the same opportunity". I just wanted to relate that to the second page, and this picks up on Mr. Vukanovich's point about the "rigorous examination process" you point to. Could you take me through that a little bit? I'm not sure of the process that any of you would be going through at the present time.

Mr. Andy Charles: Mr. Dykstra, I will elaborate on the process. To give you some sense of the timeframe that's involved, we first looked at Canada in 2003. That was the first time we said, in a very serious manner, that this is a great market opportunity. It is a huge market served by only two players, and we think there's an opportunity to add value. From that point on, we have undertaken to follow the OSFI process, and that's inclusive of a business plan to OSFI, that's inclusive of a fairly rigorous examination of our documents and our capitalization. OSFI also requires us to have upfront capitalization. They do very thorough research on AIG overall, and in fact on any new player that wishes to come into Canada.

I can assure you, Mr. Dykstra, that this is not the type of market and this process is not the type of process where you decide on a Friday that you're going to come into this marketplace and on a Monday you're ready to go. For us it's been, as I said, since 2003 that we first undertook to give serious consideration to the Canadian marketplace.

Mr. Rick Dykstra: Thank you.

I have a further question for Mr. Roy, actually. I'm not going to say that you're all here for a biased reason, but as a lender, you're here, obviously, for a different purpose in terms of expanding in the market. One of the things you commented on in your remarks is that the market would promote greater housing accessibility at more competitive costs. Could you expand on that a little bit in terms of...?

I know that Ms. Wasylycia-Leis spoke about the fact that a number of citizens may be served already. I would assume that as a lender—an unbiased lender—you're here today to speak to what is good for the folks who come in to your bank and do business with you.

The Chair: You have approximately thirty seconds, Mr. Roy, to promote your services to the Canadian people.

[Translation]

Mr. Noël Roy: The more players there are on the market, the more the lenders will be able to develop products that will have to be offered at competitive prices and that is something consumers will benefit from.

I gave you the example of a shared-risk product that we developed with Genworth and that led to the consumer benefiting from in terms of a 40 per cent premium reduction. Our involvement with the CMHC is mainly confined to the rental market, and it gives us the opportunity of offering better interest rates to those borrowers who have insurance.

If there were a third or a fourth entrant on the market, then perhaps we could develop other products. The problem is that when there are only two insurers, the same product is offered by both at the same prices and under the same conditions. This situation limits us as lenders in terms of the number of products we can develop.

[English]

The Chair: Merci, Monsieur.

To conclude, we'll have Mr. Pacetti.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair.

We should have done this for the pre-budget consultation and limited the witnesses to two-and-a-half-minute presentations. I think we would have survived the last session much more easily.

Mr. Vukanovich, just for the record, your company is a profit-generating company, is it not?

Mr. Peter Vukanovich: Yes, it is.

Mr. Massimo Pacetti: Okay. Is it public?

Mr. Peter Vukanovich: We're a public company on the New York Stock Exchange, and the company in Canada is a subsidiary of that company.

Mr. Massimo Pacetti: Mortgage insurance does generate some profits, does it not? It's a profit-generating business. It's not....

Mr. Peter Vukanovich: Yes, it does, hopefully.

• (1630)

Mr. Massimo Pacetti: I'm not going to ask how much.

You spoke about regulation. Is your company now being regulated? If there were other entrants into the market, wouldn't they be regulated as well?

Mr. Peter Vukanovich: Yes, they would be regulated by OSFI, but our issue...what we're talking about here is what I would call market conduct rules. OSFI does not really regulate market conduct; it regulates financial stability.

Mr. Massimo Pacetti: Are you being regulated right now by market conduct rules?

Mr. Peter Vukanovich: In terms of market conduct, no—other than through the existing Competition Bureau.

Mr. Massimo Pacetti: So even if the others were not allowed to enter the market, rules should be put in place to conduct your market?

Mr. Peter Vukanovich: I think that up until now, from 1995 until 2006, there has been us and there has been CMHC. Again, if there are going to be five or six players coming in, then...if that's the case, some regulations need to be put in place to ensure that homebuyers benefit.

Mr. Massimo Pacetti: I can ask you the next question as well.

You were saying that right now it's not the consumers who decide, but the lenders who decide. How is giving more choices going to help consumers? It would still be the lenders. I guess it's a two- or three-pronged question. How can we be assured that the lender doesn't pocket the savings, if there are going to be any savings? Will the lender have more than one supplier?

Perhaps you can answer that quickly, and then I'll ask Mr. Charles the question.

Mr. Peter Vukanovich: Are you asking me first?

Mr. Massimo Pacetti: Yes.

Mr. Peter Vukanovich: The lender is our partner. They would obviously select the partner they think would best benefit them and homebuyers. There could be two. There could be all six. This is all new ground.

Again, we went to four players in the 1970s. We went back to two, and we've had two since 1995.

Mr. Massimo Pacetti: Mr. Charles, I'll get you to answer, and then I have a question for Monsieur Roy.

Mr. Andy Charles: The mortgage marketplace in Canada, based on my last 15 years, is incredibly competitive. You may recall that at one time, if you had a mortgage, you may have been paying a posted-rate type of mortgage, whereas now you look at its being heavily discounted. To that end, lenders are going to be looking for business partners who can help them explore new markets.

Mr. Massimo Pacetti: Will they have more than one business partner?

Mr. Andy Charles: Yes.

Mr. Massimo Pacetti: And will they carry the savings along to the consumers?

Mr. Andy Charles: Yes, by virtue of creating a market advantage. Currently I'm not a lender, but to create a market advantage in the market—

Mr. Massimo Pacetti: Consumers are not sophisticated. Are they going to shop around for the insurance?

Mr. Andy Charles: From the perspective of how it works, some lenders control the decisions centrally, sir; for other lenders, it's decentralized. It could be a branch manager, it could be a mortgage specialist, or it could be a mortgage broker. Whoever puts out the product that makes sense for that particular clientele is where the value proposition would be.

If I may, an earlier question came up about the value of additional competition. If we go back in history, at one time CMHC would have had 100% of the market; by virtue of competition, Genworth is now at 30%.

Speaking for AIG United Guaranty, it's our belief that new players will need to work hard and will need to be innovative, but at the end of the day we expect to be successful.

Mr. Massimo Pacetti: Thank you, Mr. Charles.

[*Translation*]

Mr. Roy, are you here as a lender or an insurer? Do you support this as a lender or as an insurer?

Mr. Noël Roy: We support this as a lender.

Mr. Massimo Pacetti: Do you have a branch or a division that ensures mortgages?

Mr. Noël Roy: No. Desjardins does not ensure mortgages. We provide general fire insurance.

Mr. Massimo Pacetti: Not mortgage insurance.

[*English*]

Thank you, Mr. Chair.

The Chair: Thank you very much to our witnesses.

We'll take a minute for the second panel members to come forward now. We invite you to come forward to continue your testimony.

Hon. Garth Turner: I have a point of order, Mr. Chair. There are more questions on this side of the table. Are we going to get an opportunity to ask them?

The Chair: Mr. Turner, you will. All the people who have registered here today are also planning to testify before the committee later this week in regard to the budget's implementation bill, so you'll get another chance at that point as well.

• (1635)

Hon. Garth Turner: Is that confirmed with all the witnesses?

The Chair: Yes, I believe so. Five of the witnesses who just testified are also going to be available to answer questions on this or other topics on Wednesday. That is five from the two panels today, so five of—

Hon. Garth Turner: Which ones are and which ones aren't?

The Chair: We'll hand out the list of those who have registered.

Hon. Garth Turner: But if they're not coming back, I'd like to extend this session to those witnesses who are not going to appear again, if there are more questions.

The Chair: That's not going to happen.

Hon. Garth Turner: What do you mean, it's not going to happen?

The Chair: We invited these witnesses to come forward at this point, and now—

Hon. Garth Turner: Surely the committee is the master of its own destiny, though.

The Chair: Yes. The committee gave clearance as to how this panel would be conducted, and it's being conducted that way. So unless we would like to add some other—

Hon. Garth Turner: If we have more questions of these witnesses.... I don't know which witnesses are coming back and which are not.

The Chair: In response to your earlier comments, sir, we're handing out a list of those who have registered. We'll just hand out the list of who is coming back. Five of the ten who are testifying today are also here on Wednesday.

Hon. Garth Turner: Right, but can I wait until I see this list?

The Chair: Sure.

Welcome to our second panellists. Thank you for making yourselves available today.

We'll begin with Madam Kinsley of Canada Mortgage and Housing Corporation, with just a couple of minutes of introductory comments, please.

You've seen the format already. I apologize for the rapidity of it, but I invite you to make your comments. Thank you.

Ms. Karen Kinsley (President, Canada Mortgage and Housing Corporation): Thank you, Mr. Chairman and committee members.

I am Karen Kinsley from the Canada Mortgage and Housing Corporation. CMHC, as it's most commonly known, was as many of you know founded sixty years ago and has a public policy mandate to improve housing and living conditions for all Canadians.

In the area of mortgage insurance, our public policy objective was and remains to facilitate access to mortgage insurance for all Canadians, regardless of where they live and at the lowest possible cost.

In 1996 we were asked to deliver this public mandate in a commercial manner, and I'm pleased to report that in terms of public policy benefits, over one-third of CHMC's mortgage insurance approvals each year are in areas that are not served, or not well served, by the private sector. We have also led the industry in reducing costs and in product innovation. In terms of our commercial performance we are now profitable and have been able to meet our target for capital reserves. The industry is also flourishing and is now drawing the interest of new entrants into the marketplace.

I'm here to address your questions on vote 10 specifically with respect to the government guarantee of private mortgage insurers. I thought perhaps some context would be useful in your deliberations.

As part of the process of levelling the playing field between public and private mortgage insurers, the government took two significant steps, in our view. The first was, as I mentioned, to require CMHC to follow commercial practices in the operation of its mortgage insurance program. The second was to give the private sector a government guarantee equal to CMHC's, with a 10% adjustment to reflect the fact that CMHC accepts risks in areas and at levels not borne by the private sector.

In closing, Mr. Chairman, we believe in the value of competition where it improves access and affordability for Canadians through both good and bad economic cycles. Healthy competition amongst all suppliers, together with a public sector insurer that also makes sure the gaps left by the private sector are addressed has, I believe, made the Canadian housing system the envy of the world.

Thank you.

[*Translation*]

I would be happy to answer any questions you may have.

[*English*]

The Chair: Merci, Madame.

The next presenter, from the Canadian Home Builders' Association, is Mr. Kenward.

Mr. John Kenward (Chief Operating Officer, Canadian Home Builders' Association): Thank you very much, Mr. Chairman and committee members. I'm here to represent the views of the Canadian Home Builders' Association.

Canada has one of the best mortgage systems in the world, if not the best, as evidenced by the high rate of home ownership and high levels of ownership affordability and accessibility enjoyed by Canadians. Mortgage insurance is a critical foundation for the mortgage market in Canada. This is recognized by the federal government. The federal government's guarantee for mortgage insurers reflects its commitment to a mortgage insurance system that supports affordability and accessibility for all Canadians. In effect, the guarantee recognizes that mortgage insurance supports important public policy objectives with respect to home ownership.

The mortgage insurance environment is highly competitive, with both Canada Mortgage and Housing Corporation and Genworth Financial Canada in competition. This competition has benefited housing consumers, lending institutions, and the housing industry by facilitating the creation of a wide range of new products, including low down payment mortgages, portability of mortgages and mortgage insurance, reductions in mortgage insurance premiums, and so on. In short, our present competitive mortgage insurance environment works extremely well for Canadian home buyers in all parts of Canada. The Canadian Home Builders' Association wants to see the continuation of this environment, one that is innovative and produces benefits for home buyers. To this end, the entry of new mortgage insurance providers into the mortgage insurance market is a welcome prospect, as is the extension of the federal government's guarantee to these entrants.

In order to ensure that home buyers benefit from an expanded mortgage insurance market, the Canadian Home Builders' Association strongly recommends that the following conditions be laid down by the government. First, the level of guarantee should depend on the extent to which the insurer provides the same coverage and premium to all home buyers across Canada. Second, the public mortgage insurer, CMHC, should meet the same corporate governance rules for transparency and accountability and follow the same operating principles that apply to private commercial enterprise. Third, competition in the mortgage insurance market should be based on the mortgage insurance product and not on allowances, rebates, or other similar incentives to the mortgage lender.

Thank you very much, Mr. Chairman.

• (1640)

The Chair: Thank you, Mr. Kenward.

We'll proceed with the representative from the Canadian Real Estate Association, Mr. Ripplinger.

Mr. Dale Ripplinger (Director - Chair, Federal Affairs Committee, Canadian Real Estate Association): Thank you, Mr. Chair.

Thank you to all the committee members for inviting the Canadian Real Estate Association to appear before you today.

As you know, our membership is composed of more than 85,000 realtors who represent and advise Canadians on the purchase and sale of real estate. Last year our members sold more than 483,000 homes across the country.

Realtors believe that the Canadian market is generally well served by the presence of two mortgage insurers. Our association believes that both CMHC and Genworth do an excellent job of serving the needs of Canadian homebuyers, particularly first-time buyers and those individuals in the secondary market who would otherwise find difficulty in obtaining mortgage financing. I am also pleased to report that our industry has an excellent working relationship with both insurers and continues to work collaboratively with them to serve the needs of our customers.

As a whole, realtors believe that the current premiums are price competitive and feel it is critically important that all geographic markets and income strata continue to be served. This being said, we

understand the task before you today is to gather more information to help assess whether the federal government should proceed in altering the existing system by allowing new insurers to enter the Canadian market.

Realtors fully support competition and believe that new entrants will undoubtedly bring benefits to certain segments of our marketplace. As such, we would welcome new entrants into our mortgage insurance market. In addition to bringing price competitiveness to lower-risk customers in the high-ratio market, our membership expects that new players would provide product and service innovations where gaps currently exist. For example, we will be looking to four firms to make mortgage insurance more accessible for investment and commercial transactions.

We also believe that if a policy decision is taken to permit market access, this should be done as quickly as possible and without any undue delays. At the same time, we also have some concerns. We believe that any decision taken must never weaken the soundness of our system nor make it more difficult for mortgage insurance to be obtained, irrespective of region or income strata.

Observers often point to the U.S. experience as an example of success. This is undoubtedly true. However, there are also some problems with their system. We feel it is important for market entrants to serve as many Canadian homebuyers as possible, not just the wealthiest or those living in urban centres.

The issue of government guarantee has also been raised. Realtors understand that the public mandate of CMHC is to provide an affordable and competitive mortgage insurance product for those Canadians who need it, particularly to markets that are not necessarily the most attractive or profitable. Realtors strongly believe that affordable home ownership is a public good and that the federal government must not withdraw from the housing policy arena. For this reason, we believe that the crown corporation must continue to receive a full 100% guarantee.

We also recognize that private sector firms operate under different constraints and should be treated accordingly. For this reason, we feel that the current 90% guarantee is reasonable and should be available to new market entrants as well.

Thank you again for the opportunity to speak before you. I will be happy to answer any questions you might have.

• (1645)

The Chair: Thank you, Mr. Ripplinger.

Now, from the PMI Group, Mr. Liu.

Mr. David Liu (Vice-President, International Markets, PMI Group, Inc.): Good afternoon and bonjour, Mr. Chair, members of the committee.

I am David Liu, vice-president of international markets of the PMI Group Inc. Founded in 1972, and based in California, the PMI Group Inc., through its operating subsidiaries, is one of the largest providers of mortgage insurance, reinsurance, and related credit enhancement products in the United States, Australia, New Zealand, Hong Kong, and throughout the European Union.

PMI has filed an application with the Office of the Superintendent of Financial Institutions, OSFI, for a licence to write mortgage insurance in Canada. Upon receiving regulatory approval, we plan to establish a mortgage insurance subsidiary in Canada. We believe our experience in the United States and worldwide qualifies us to speak to the merits of the government's proposal.

Mortgage insurance increases borrower reach by enabling approval of customers who might not typically qualify for a mortgage. Key consumer segments touched by improved lender reach in particular include first-time homebuyers, the self-employed, new immigrants, and consumers with credit blemishes. Increasing borrower reach is especially important given the affordability challenges that today's housing markets present to aspiring homeowners in Canada.

Mortgage insurance can also provide multiple benefits to financial institutions. These benefits include risk transfer, regulatory compliance and capital relief, market expansion, underwriting review, and capital markets access. These lender benefits typically extend to smaller regional lenders and credit unions, as well as to the traditional banking institutions.

As a result of these benefits, mortgage lenders can improve their ability to compete and deliver more innovative and attractive mortgage products to borrowers. Further study or delay regarding this issue, we believe, will only delay the realization of these benefits to consumers.

I would also like to make it clear that PMI supports the role of OSFI to ensure that any company wishing to receive a licence to issue mortgage insurance in Canada meets the requirements that OSFI has established for financial strength, risk management, management experience, and sound governance. Additional competition will diversify the risk that the Canadian government and taxpayers bear through the government guarantee of private mortgage insurance.

In conclusion, increased mortgage insurance competition will indeed benefit consumers and create a win-win situation for borrowers and lenders. PMI's experience from around the world clearly demonstrates that increased mortgage insurance competition will make affordable home ownership a reality for more Canadians.

Thank you. I'll be pleased to answer questions.

The Chair: Thank you, Mr. Liu.

And now, from the RBC Financial Group, Madam Adams, would you like to proceed?

Mrs. Catherine Adams (Vice-President, Home Equity Financing, RBC Royal Bank, RBC Financial Group): Thank you, Mr. Chair.

I would like to thank the committee for providing the opportunity for RBC to comment on the issue of allowing new competition into

the mortgage insurance market. As the largest mortgage provider in Canada, and thus a large consumer of mortgage insurance, we clearly have a keen interest in this matter. From the outset, I would like to emphasize that we are strong supporters of government initiatives to reduce the overall regulatory burden and to promote competition in the financial services sector.

On the issue of mortgage insurance, it is our view that our clients would be better served if the committee were to support the government's proposal to ease the existing barriers to new competition in the mortgage insurance market. Economic analysis consistently shows that eliminating barriers to competition ultimately enhances the interest of consumers in terms of improved pricing, product innovation, and greater access and choice.

The regulatory barriers to competition under the current system effectively result in only two mortgage insurers' supplying of the market. This means that only two sets of relatively similar products are available at relatively similar prices. In other jurisdictions where broader competition is permitted, there have been more extensive product innovations and improved pricing, to the ultimate benefit of consumers. We believe that the same would occur in Canada if the government's proposals to promote competition were permitted to proceed.

In our view, the proposals you have heard to justify either further study or the need for additional regulation in the marketplace do not stand up to review. The conclusion that eliminating barriers to competition and allowing new entrants into the market would somehow increase prices and decrease access for consumers flies in the face of the most basic tenets of economic theory and practice, which hold that precisely the opposite is true. This has been repeatedly demonstrated in the financial services sector where banks' entry into mutual fund and mortgage markets has significantly improved competition in these markets.

We would also note that in the case of the financial services market there is already a vast array of financial regulation and oversight to ensure that any potential concerns with new entry can be addressed. There are quite literally hundreds of legislative and regulatory rules, OSFI prudential oversight, and extensive frameworks at both the federal and provincial levels to ensure that consumers are protected.

Beyond that, periodic parliamentary reviews are possible, such as the current review by the Senate, which is looking back on the last round of consumer reforms to see if they achieved their objective.

Based on all this, our strong view is that the starting point for the committee should be the one proposed by the government. Let the market work for the benefit of consumers and then assess down the road whether isolated concerns are raised, and respond with a targeted regulation to address those concerns.

As one of the largest consumers of mortgage insurance, we strongly believe that our customers will only stand to benefit from better pricing, new product options, and even greater access and entry into the housing market if the government's proposal proceeds. We believe that the committee should follow the government's proposal to open this market up to competition.

I thank the committee for its time.

• (1650)

The Chair: Thank you, Madam Adams.

Would you like to proceed, Mr. McCallum, for seven minutes?

Hon. John McCallum: Thank you, and if I'm short perhaps Mr. Savage can take over.

I hesitate to say this because my friend Mr. Loubier might refer to some sort of collusion, but I must say that I think Ms. Adams of the Royal Bank put it very well. I refer to my previous employment with that institution. I was going to say something similar.

I heard nothing to suggest that the government should not proceed in this way. I think the onus has to be on those who would restrict competition. I think three or four or five competitors will do better for consumers than two. If there is a problem of adverse selection—anti-selection—I haven't heard evidence to say that we need studies. It's not really an answer. Why would one expect that to occur? I haven't heard answers to that. And I think that the Department of Finance doesn't proceed lightly on these matters. OSFI is a very heavy regulator in these areas. There are all sorts of other rules and regulations in effect. So I really see no reason not to proceed.

I guess my only question is whether I'm missing something, or whether anybody among the five witnesses would like to sound a note of caution that I have missed something.

The Chair: Who'd like to respond to that?

Yes, Madam Kinsley.

Ms. Karen Kinsley: Thank you.

Perhaps this is not a direct response, but I will offer these two observations.

In my opening remarks I did point out as a public insurer that over one-third of what we do today we can directly attribute to service to Canadians in areas that are not served by the private sector. There are gaps in the marketplace the private sector doesn't serve, but as we concluded, we believe the combination of our public mandate and our competitive head-to-head competition, the combination of those two, actually serves Canadians quite well.

So I did want to point out that there are some gaps, but we believe the model today actually addresses them fairly efficiently and we don't see any reason going forward why other competitors would pick or choose any differently than the current competitor has. But there are some areas that aren't served.

The second point I might raise around any thoughts of caution, and I'm not sure it's been discussed in the previous panel, is really on the long-term interest the committee might want to have as new entrants enter the market. We've talked previously of having at one point three private sector insurers, and we did; then the 1980s came

and they were particularly troublesome in terms of economic times and they no longer stayed. So I guess the question on reflection I would think about or caution is there's lots of interest in good times, but will that interest be there and sustained in Canada in poor economic times?

• (1655)

The Chair: Would any other person care to respond to Mr. McCallum's question?

Yes, Mr. Liu.

Mr. David Liu: I'd like to respond to the point about a long-term commitment to the marketplace. I think you know that PMI is a participant in the Australian, New Zealand, Hong Kong, and European markets, and we don't take those decisions lightly to enter new markets. It's a significant investment in terms of capital, in terms of human resources, and in terms of management attention. We view these commitments to new markets as permanent because of the nature of the business. Mortgages and home ownership are not something that you turn on and off like a light switch, but it's a long-term proposition. So when we enter new markets we're very committed.

Additionally, because of the prudential standards, the high ratings requirements that capital markets expect from mortgage insurers, we have the highest degree of financial strength. That, additionally, supports the level of financial commitment we bring to the marketplace, and that's further reinforced by parental and group support that we would envision for our Canadian financial subsidiary here.

The Chair: Thank you, sir.

Mr. McCallum.

Hon. John McCallum: If I could follow up, I would assume that Mr. Liu answered, in a sense, the second concern. But in regard to the first concern, about gaps, yes, there are gaps, but I did not hear you say that those gaps would be worse as a consequence of new entrants, or did you say that?

A voice: [*Inaudible—Editor*].

Hon. John McCallum: Okay.

Mrs. Catherine Adams: If I could add to that too, from a lender perspective, we're looking for suppliers who basically go where we're going. If we had a supplier who said they only want to do the urban markets, we're not likely to invite them to join with us. So it's quite important. We are a national lender. We're looking for suppliers who are going to support us nationally, because ultimately we are the ones insured.

Hon. John McCallum: Thank you.

That's it for me.

The Chair: Mr. Savage, do you want to continue? There's about a minute and a half to go.

Mr. Michael Savage: You're very generous, Mr. McCallum, thank you very much.

I'd like to ask Mr. Ripplinger and Mr. Kenward a question. I know both organizations from my own province of Nova Scotia, and people like Paul Pettipas, from the Nova Scotia Home Builders' Association, are strong and fearsome advocates for their industry.

You both have indicated that you support the idea for more competition, but you both indicated.... I think Mr. Kenward strongly recommended some conditions and Mr. Ripplinger in the same way. We have to vote today on vote 10. Do you think we should do that?

Mr. Dale Ripplinger: Yes, I think on balance we're more supportive than not, absolutely. There are always some reservations. We don't know what this is going to bring to the marketplace. It's all speculation as to whether ultimately this is going to undermine the system. No, we don't think so. We think there might be some problems that have to be addressed, but to be honest with you, I feel a lot more comfortable having heard some of the responses from people like Mr. Liu and others this afternoon.

Unfortunately, we didn't have a lot of time to poll all our members before making the presentation, but I think the vast majority of our members would say that more competition on balance is going to be better for the industry, and that's what we'll support.

The Chair: A brief question, if you would, Mr. Savage.

Mr. Michael Savage: I'd like to hear from Mr. Kenward, who'll use up the last of my 90 seconds.

The Chair: Mr. Kenward.

Mr. John Kenward: Thank you, Mr. Chairman.

Yes, the Canadian Home Builders' Association is not in favour of delay. We have set out what we believe are conditions that should be focused on very carefully. We're hearing today very strongly from at least one member that he believes those conditions, one way or another, are covered off effectively: the Department of Finance, OSFI, and so on. As long as we're on record that these conditions concern us and that they will have a focus as time goes on, then we will not sit here making any recommendations to cause a delay.

The Chair: Thank you, Mr. Kenward.

We'll proceed with Monsieur St-Cyr's round now. You have seven minutes, sir.

[*Translation*]

Mr. Thierry St-Cyr: We have spoken at length with you — and with other previous witnesses — about competition and its benefits in terms of services and prices for borrowers. When we were in school, competition meant natural selection. In this case, we see competition at work when less successful businesses disappear because they've gone bankrupt, having been unable to compete.

Do you think that the possibility of there being more bankruptcies in the mortgage industry represents a financial risk for the government who, is ultimately responsible for guaranteeing these loans? Do you think the government might end up paying for competition in the marketplace?

• (1700)

[*English*]

Mr. David Liu: I'd like to address that question. If I understand correctly, could new competition increase the level of risk in the

marketplace, and will that increase the level of risk the government has to pay out on its guarantee?

Clearly, there are many safeguards in the current system today. The degree of oversight from OSFI and the requirements to establish a company to compete, to maintain capital and to maintain operating standards, are very high, as established by OSFI. We clearly envision complying with and exceeding all those requirements, as we do in all the countries in which we compete. So ultimately, even though there is this government guarantee mechanism, it is viewed only as a backstop, as a contingency, and not something that would ever be called upon in reality.

The Chair: Madam Kinsley.

Ms. Karen Kinsley: I have a slightly different answer. I see two risks to the government with respect to the guarantee as a result of new entrants. First, depending on the nature of competition, if the competition either doesn't serve all markets equally or tends to serve those that are perhaps more profitable, either geographically or in terms of borrower risk, there is a very good chance that, as a public mortgage insurer who has a mandate to serve all Canadians, we may end up having a slightly riskier portfolio. That, in turn, may cause a cost to government, as a crown corporation.

The second area where cost could come into play is in a down cycle. While we wouldn't actually see them being bankrupt, given the strength of these entities as they've described it, there is a possibility, notwithstanding the investments they will make in Canada, that they may decide to leave and go back to other markets. Again, in that case, because we're a public mortgage insurer and Canadian, we would remain and be one or perhaps one of two insurers in particularly bad economic cycles—and we've seen that happen. That, again, may adversely affect the government's risk.

It's a little bit different from the question you posed, but in the area of risk there are some possibilities.

[*Translation*]

Mr. Yvan Loubier: I have a supplementary question, Ms. Kinsley.

Let us assume that ten businesses enter into the marketplace and compete with Genworth Financial Canada and the Canada Mortgage and Housing Corporation. Let us then suppose that three of those ten new competitors go bankrupt or decide to leave the market after two or three years. In that case, those businesses would sell their client list to other competitors. The Canada Mortgage and Housing Corporation would not be on its own and the government would not have to pick up any pieces, under those types of circumstances.

What then are the risks of allowing new players into the marketplace, including from the consumers perspective?

You say that you would have to shoulder the greatest risks, but if those other risks were shared between Genworth and other competitors, then it strikes me that consumers would be much better served than they are now. In fact, on the one hand you shoulder the greatest risk and on the other, Genworth, besides being alone in the marketplace, only shoulders the smallest risks.

[English]

Ms. Karen Kinsley: To answer your question, as I mentioned earlier, one-third of our business is not served at the current time by the private sector, almost 25% of that in rural and remote areas of the country. That area of our business has a claim rate about 45% higher than in urban centres. That is the natural process of selection today between the private sector and the public sector.

With more private sector entrants coming into the marketplace, if they followed a similar pattern we wouldn't expect to see any different results. If, however—and there is no guarantee—new entrants were to select even the better portion of the market, somebody is going to have to be able to serve all Canadians everywhere they exist. We don't have evidence—

• (1705)

[Translation]

Mr. Yvan Loubier: That is why I mentioned this. CMHC's situation has not changed and regardless, it has a social mandate, that is, for example, to assist those families who have a harder time in saving enough money for a down payment. You require a lower percentage of the mortgage than Genworth does. The situation wouldn't change for you but it would certainly be fairer for those wishing to enter into the market place and compete with Genworth, and even offer more innovative products than those currently being offered, with premiums going down over time, for example. What does the fact that other businesses would like to have access to a share of the market change for CMHC? It changes absolutely nothing. It would, however, improve the chances of making a profit for those businesses which, too, would like to benefit from the same treatment Genworth benefits from. Furthermore, there may be more interesting products and better rates for those markets that you are not currently involved with. Is my analysis correct?

[English]

The Chair: There is time for only a brief response, Madam Kinsley.

Ms. Karen Kinsley: I think the risk we would see is that where we compete for more profitable business, this pool would be diminished, and we need that pool in order to be able to pay for the one-third the private sector doesn't support. So the issue isn't that our situation would change, but that our ability to cross-subsidize good markets and bad would diminish; that would be all.

But we still believe competition is the right answer.

The Chair: Thank you, Mr. Loubier.

Ms. Ablonczy.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Just to finish up on that one issue, Ms. Kinsley, I understand in the 1980s in the U. S. there were 14 mortgage insurance companies. There were high interest rates. Eight of those companies actually exited the industry, but the risk was spread across the 14 participants at the time, so there was no call on the insurance.

When the same thing happened in Canada, there were four participants, and they felt it too. How much did the government have to kick in to make up for any losses in that time?

Ms. Karen Kinsley: CMHC was obligated to go to the Government of Canada, and in fact the Government of Canada, because of our large deficit situation, was obliged to put in over \$200 million to bring the fund back up to an even slate. So there was a substantial investment.

Ms. Diane Ablonczy: If there had been more participants, that risk would have been spread among a greater capital base of all the participants. Is that correct?

Ms. Karen Kinsley: Under the current regime, all of those participants would be government-guaranteed, so presumably it would at the end of the day add up to pretty much the same, although with a difference in government guarantee levels.

Ms. Diane Ablonczy: I understand from a number of the witnesses here that there are concerns that there be proper regulation of a number of issues, including adverse selection and splitting up the market. From your experience with OSFI, which is at arm's length from government—it's the Office of the Superintendent of Financial Institutions—do you have any reason to suppose that OSFI would not be on top of these kinds of issues to adequately regulate them? Are you suggesting the committee make recommendations to OSFI because you're not sure they're going to be able to deal with the issues that would come up if there were further competition?

Ms. Karen Kinsley: I think, as mentioned in the previous panel, it really wouldn't be OSFI that would deal with competitive issues. They look at the financial stability of the entity entering the market place and the robustness of their business plan. They're really not a body that's going to intervene depending on market conduct, as has been mentioned before.

Ms. Diane Ablonczy: Are you suggesting that financial stability issues are not tied into the competition factor?

Ms. Karen Kinsley: I think they're two different issues. Financial stability is well managed by OSFI. The nature of competition today is probably going to be more regulated by the marketplace than any current body that exists. I would certainly pick up on the point made by my colleague from the Royal Bank. It's very true that if you don't serve the customer in all areas in which the customer requires service, you're going to be at a disadvantage.

So again, we don't believe that heavy regulation is required in this environment. The marketplace will dictate where we have to go, and the government will have the further benefit of a public insurer to pick up in those areas where they don't.

• (1710)

Ms. Diane Ablonczy: Mr. Kenward, you mentioned that a number of new products have come on the market. Can you briefly tell us what they are?

Mr. John Kenward: The more recent ones are the low down-payment mortgages, portability of mortgages and mortgage insurance, coverage for the self-employed, speedy approval processes for potential borrowers, longer amortization periods, and reductions in mortgage insurance premiums. There are others, as the other panel members mentioned, all of which we attribute to having a pretty healthy competitive environment between the public insurer and the private insurer.

On this question of regulation, the Canadian Home Builders Association is not advocating heavy regulation here. We've referred to conditions and the fact that there needs to be a focus on these matters. With a government guarantee that has a public purpose, the CHBA doesn't think it wise to simply leave the field. There should be some oversight somewhere in government.

You've heard about cherry-picking. You've heard about kickbacks, or whatever people are concerned about, to the lender in respect of the mortgage insured. You've heard about the questions of the level playing field. We say those are not concerns that should be taken lightly. They don't necessarily lead to heavy regulations, but as another member mentioned, they should be looked after, monitored, and have a focus somewhere in government if government is going to have a guarantee, for public purposes, for mortgage insurance.

Ms. Diane Ablonczy: If all these new products are already coming on the market, why do we need more entrants into the industry to provide new products? They're already coming in with the players we have.

Mr. John Kenward: We believe that this vigorous competition has got us this far. Others who are entering the business have said they have new products, ideas, and so on that they can introduce to Canada and its mortgage insurance system. We believe that should be allowed to happen. Let there be more competition.

Ms. Diane Ablonczy: Do you think some of the new products have been brought onstream against the backdrop of apprehension that there will be more competitors coming into the industry?

Mr. John Kenward: I don't know that for sure. It certainly has been suggested, and if that suggestion has any viability at all, it shows that competition does work.

Ms. Diane Ablonczy: Mr. Liu, I have a question for you. You mentioned in your brief that your research shows that more products could be brought onstream that would assist first-time homebuyers, particularly those who are self-employed, and particularly new immigrants. I don't know if you know this, but I worked in the immigration portfolio for a while, and this is a problem for a lot of newcomers to Canada because they don't have the Canadian credit rating history that others might have.

Could you expand on that a little bit for the committee? How do you believe that new immigrants and some of the under-served part of the market could benefit from the entry of a company such as your own?

Mr. David Liu: Sure. This really addresses that cherry-picking issue as well. We think there is an opportunity to better serve these additional segments of the consumer marketplace, in particular first-time homebuyers who are self-employed, new immigrants, or those who may have some credit blemishes they're recovering from.

Mortgage insurers internationally, and particularly in the United States, have a great deal of experience in working with these customer segments. They can be served effectively by working in strategic partnerships with lenders to design appropriate products that can support sustained home ownership for these segments. These are people who may have very good asset bases, good jobs, and the willingness to pay. They may have had an unfortunate incident at some point along the way.

So we have a great deal of experience, as do some of our new potential competitors here in the Canadian marketplace, in working in these sectors, and we believe we can ultimately add real value for consumers here in those segments.

• (1715)

The Chair: Thank you.

Madam Wasylycia-Leis, it's your round for seven minutes.

Ms. Judy Wasylycia-Leis: Thank you very much.

I'd like to begin by asking Karen Kinsley about her estimate of what market share the CMHC might lose if this goes through.

Ms. Karen Kinsley: We don't actually have an estimate of that. We very much believe it's dependent on how many competitors and the type of competition they come in with. Are they going to come in, as some might have suggested, with more niche products or more mainstream, or a combination of both? We don't know at this stage.

Ms. Judy Wasylycia-Leis: Is it your understanding that there will be a set market share for CMHC, or is it left that this is a wide-open proposition, so there's no guarantee that you'll be left with 50% of the market or not?

Ms. Karen Kinsley: No, there's no—

Ms. Judy Wasylycia-Leis: So it's really wide open. Anything could happen. This is being recommended without any kind of oversight body in terms of problems in terms of the competition.

To follow up on Diane Ablonczy's questions to Mr. Ripplinger, you have made strong recommendations that there be some sort of criteria, but you have said if that doesn't happen you're going to let it be. You don't care then if there are any safeguards put in place to prevent someone who might enter the field and decide to just take advantage of the marketplace when it's on a high and abandon it when it's on a low. You're not worried at all about the impact on the consumer and public policy.

Mr. Dale Ripplinger: First of all, it's not in our brief; we did not recommend, you're absolutely correct, that safeguards be put in place, but we do have some reservations, absolutely.

Ms. Judy Wasylycia-Leis: I'm referring to page 3, where you actually talk about making sure a decision is not taken if there's any possibility of weakening the soundness of our system, and you make another recommendation.

Mr. Dale Ripplinger: Yes, absolutely.

Ms. Judy Wasylycia-Leis: Those were important contributions, but now it seems that you're prepared to just let them go. We've had similar recommendations from Desjardins. Again we're here today with no recommendations to do anything but give a holus-bolus blanket approval to something for which there are no safeguards.

Mr. Dale Ripplinger: No. I think when I answered Mr. McCallum's question, I said on balance, if we had to decide one way or another, we would say that we prefer competition. That's not to say that we would say there shouldn't be—

Ms. Judy Wasylycia-Leis: Okay, but we're left with this choice today, so that's why it's important, and that's why your answer is important. We could be giving approval today without any safeguards in place or any protections for consumers.

• (1720)

Mr. Dale Ripplinger: That's up to you.

Ms. Judy Wasylcia-Leis: You're right, and it's a tough decision, and it's something that I don't accept.

I want to ask Catherine Adams a question, since she suggested in fact that the lenders will just automatically take care of this, protect the marketplace, protect consumers, and protect us from any mortgage insurers who might want to be selective in their approach or take advantage of consumers.

It's a pretty hard thing for us to sit and accept when in fact the lenders themselves and the banks, like the Royal Bank, have chosen to abandon certain communities holus-bolus as it is. In fact, it rings very hollow to hear that kind of assurance, for our committee to suddenly go ahead and give this blanket approval, when the Royal Bank can pull out of a community like Winnipeg's north end—every single one of its branches—and not have any kind of care or concern when a whole community is abandoned, making a mockery out of this whole session, because in fact there are no lenders. This is a low-income community. And you are going to suggest that this community is going to be suddenly served?

Mr. Liu, you're going to suddenly serve the 20% of aboriginals in my community who are low income and would like to own a home? Are you going to put some money on the line? Are you going to do what CMHC does and ignore the premiums if they can't afford them or if there are certain segments of the population not served?

Mr. Kenward, are you going to ensure that there are still some protections in the system? Who is going to do that? If we open this up, nothing is left. Have you an answer to that?

Ms. Kinsley, why isn't CMHC taking a tougher line on this? Why are you sitting back and letting it happen? Through the mortgage insurance you're able to actually get some money that you can plough back into the system to meet the objectives of affordable housing. We're prepared to throw that to the wind. Is someone telling you that you have to do this? There does not seem to be any rational basis for any of this. We have no studies. The finance department has given this committee not a single study. The CMHC didn't even come with a written brief today. There has been no documentation about the need for competition in this area, no evidence that consumers are now not being served.

We know that in fact the CMHC increased its mortgage insurance by 15% in one year. It's doing a fairly significant business. No one has told me that they're not able to do the job.

So I would like to know what is really behind all of this. Is it that mortgage insurance is trying to get into the lending field by the back door? Is it some attempt for the financial corporate sector to control it even more and wipe out services to more communities like Winnipeg north? What gives here?

The Chair: There are, by my count, nine questions. Who would like to take those on?

Mr. Ripplinger.

Mr. Dale Ripplinger: Just to respond in general, I think you can also look at the argument that premiums for lower-income Canadians

may be reduced. This may in fact increase competition, may in fact make it easier for people to buy houses.

Ms. Judy Wasylcia-Leis: Did you mean to say some of the mortgage insurers will actually forgive premiums—

Mr. Dale Ripplinger: Oh, not at all. Of course not.

Ms. Judy Wasylcia-Leis: —like CMHC does when there's a real need? Will they?

So who's going to do that, then, when we're meeting dire needs in certain communities, communities that are remote or inner-city communities that desperately need affordable housing? Who's going to make that happen?

Mr. Dale Ripplinger: You're looking at the extreme—

The Chair: Perhaps you could give the panellist a chance to respond at this point, Madam Wasylcia-Leis.

Ms. Judy Wasylcia-Leis: Sorry.

The Chair: Mr. Ripplinger, finish your response, and then we have about a minute left for someone else.

Mr. Dale Ripplinger: Competition may lead to reduced premiums. That's simply stated. What about increased...?

We've talked about product diversification and new products into the market. What about high-ratio financing for construction of new low-income housing, money that might be available to provide low-income housing for people? That part of the market is not being met today because there's no incentive for the private investor to invest in low-income housing.

If high-ratio financing is available for me to build an apartment building in the northern part of Winnipeg, maybe I'll do it. Maybe that competition stimulates those kinds of results. We can't look at it as competition always being the result of the greedy corporate money-hungry person coming in to grab the money. There are some spinoffs that might be quite positive for the kind of people you're looking to help.

Ms. Judy Wasylcia-Leis: And I'm asking you to give us the proof and the evidence. We should buy a pig in a poke, should we? Nobody is giving us evidence.

The Chair: Madam Wasylcia-Leis, order, please.

The next questioner is Mr. Pacetti.

Proceed, sir. You have five minutes.

Mr. Massimo Pacetti: Thank you, Mr. Chair.

Quickly, the first question is for Ms. Adams, from the RBC.

I asked this question before, but in terms of the RBC being a lender—you're here as a lender, right?—right now you do business with two institutions. Are you going to do business with more than two, or are you just going to pick one? How will it work if we do open up the markets?

Mrs. Catherine Adams: I think I'm going to have to wait and see what they have to offer. It's a fair bit of work to hook up a new supplier—to put it that way—and roll that out. There has certainly been a lot of interest and a lot of interesting ideas on the innovation they can bring to the marketplace.

But the reason I'm here is to be pro-competition, to at least give them a chance and not to delay that, because I think it will be better for consumers in the long run.

I have looked at the mortgage insurance business in the U.S., the different types of premium structures that exist, and those are interesting and I think they would be very good for consumers to investigate. So I'm in the listing mode, because they're trying to get here.

Mr. Massimo Pacetti: But ultimately, you will be the decider of whether you'll have more than one insurer or various insurers, or for what sectors would the—

Mrs. Catherine Adams: The difference, why the lender decides, is because it's the lender who is insured and who makes the claims. It's a very fundamental difference.

Mr. Massimo Pacetti: So if there is going to be any savings in pricing, will the consumer see any of it?

Mrs. Catherine Adams: They'll see all of it. It's so competitive.

First of all, it's very transparent. They pay exactly the premium. It's not like the lender puts anything overtop of that or around that. They pay purely the premium that's charged.

They're very savvy. They're not unsophisticated at all. They comparison-shop—ruthlessly, I might add.

Mr. Massimo Pacetti: So the consumer will see it. It won't be factored into the mortgage price. The consumer will be billed separately for the service.

Mrs. Catherine Adams: That's how it's done today, yes.

Mr. Massimo Pacetti: Okay, and it would continue to be so.

Mrs. Catherine Adams: I expect so. That's what I do.

● (1725)

Mr. Massimo Pacetti: Good.

Ms. Kinsley, again, I'm not clear. Maybe I missed it, but is the CMHC in favour of opening up the insurance market, or is it not?

Ms. Karen Kinsley: We believe in healthy competition if it serves Canadians and that competition is committed for the long haul.

Mr. Massimo Pacetti: Okay, thank you.

Mr. Ripplinger, just to clear it up, on page 4 of your brief—if I can find it—you spoke about 100% of mortgage insurance, and then in the next paragraph you spoke about a 90% guarantee. Could you explain that to me?

It says, “For this reason, we believe that the Crown Corporation must continue to receive a full 100% guarantee.” It goes on to say, “For this reason, we feel that the current 90% guarantee is reasonable”.

Mr. Dale Ripplinger: My understanding is that currently CMHC has 100% financial backing from the Government of Canada, whereas the private insurer's limit is 90%.

Mr. Massimo Pacetti: Is that true, Ms. Kinsley? Is there a difference?

Ms. Karen Kinsley: Yes, it is true. The difference of 10% recognizes the public policy benefits and costs associated with our mandate that the private sector does not have.

Mr. Massimo Pacetti: I guess, Mr. Liu, you're the magic person to whom I can ask the next question. How do we make sure that the uninsurable are insured?

Mr. David Liu: How do we make sure that the uninsurable...?

Mr. Massimo Pacetti: Yes, the people who can't get insurance otherwise, that the private sector will be interested in times when the market is going to go down. I understand you're in for the long haul, but your company, I'm sure, generates profits, and the rate of return is going to be important whether you're going to insure someone or not. So how do we make sure that you continue to insure people in the down market and also insure people who may not have the capacity to pay or who you feel do not have the capacity to pay?

Mr. David Liu: We have a focus on the long term for the business, as well as the individual borrower and the lending community.

Mr. Massimo Pacetti: All that is based on a return. You want to make sure that you—

Mr. David Liu: That is one factor in the equation, of course. But we have a commitment to serve communities, home buyers, across all segments of the marketplace.

To circle back to Ms. Wasylycia-Leis's earlier comments, I'd like to point out that PMI has a pretty extensive record of serving underserved communities in the United States, as well as other countries, where we are long established.

Mr. Massimo Pacetti: Sorry to interrupt, but the time is limited. Are you obligated in those markets, or do you do it on your own initiative or free will?

Mr. David Liu: No. We serve markets because we want to serve markets. That includes the native American markets as well. You'll see that we have extensive experience in serving the native American population with creative and innovative products. I expect that we could find ways to help in Canada as well.

Mr. Massimo Pacetti: Thank you.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Pacetti.

Mr. Loubier, you asked for a little time.

[*Translation*]

Mr. Yvan Loubier: Thank you, Mr. Chairman.

I would like to put a question to Ms. Kinsley, but others may answer as well. I've noticed that the mortgage insurance market is extremely profitable. Genworth's net profit for the year 2004 was \$200 million. CMHC, despite the fact that it has to shoulder more risk than Genworth does, made \$513 million in profit in 2002, \$602 million in 2003, \$875 million in 2004, and accumulated a surplus of \$4.5 billion for its overall operations.

If you simply look at the \$875 million in profits for the CMHC in 2004, minus the government's guarantee, and you compare that to the \$200 million in profits for Genworth, you can see that approximately 70 per cent of the profits in that sector belong to the CMHC. Despite the risks that the CMHC shoulders year after year, its profits are comparable to those of Genworth's. That means \$200 million in profits for Genworth and \$875 million in profits for the CMHC in 2004. That is very profitable! There is a rule in micro-economics whereby where there are profits to be made in a particular sector, there are other businesses willing to participate. I think that despite all the risks that this sector involves, it is still extremely lucrative, even for the CMHC.

Why would the fact that other competitors want to enter the market place and compete with Genworth — that makes \$200 million in profits per year — and the CMHC, be a problem? This Crown corporation made \$875 million in profit when the products for this market should normally be supplied by the private sector, especially given the fact that the \$4.5 billion surplus will never go back to the corporation. In fact, that money has often been claimed for funding social housing. It should be the private sector's role to invest that money back into this sector so that everyone democratically benefits from the profits. Ms. Wasylycia-Leis should be aware of this democratic issue. Why should the only two players get all the billion dollars in profits every year, when those profits could be shared amongst various players who might offer much better products? I'm asking the question. Why not let other players compete? If you take into account efficiency, service to consumers, and democracy — that is so dear to the NDP — it might be worth having other players to better serve consumers and better spread the profits.

• (1730)

[English]

The Chair: And to whom did you wish to direct that question, Mr. Loubier?

[Translation]

Mr. Yvan Loubier: That was a comment; I wanted to tell our guests about this analysis. I see Mr. Kenward smiling broadly. Perhaps he would care to make a comment.

[English]

The Chair: Mr. Kenward, I don't wish to put you on the spot, sir.

Mr. John Kenward: Mr. Chairman, I think I'm going to avoid this. I must say I found it interesting thinking. I would like to just take a brief moment. One of the members did mention the concern about prior analysis and consultations on this entire matter, and that is something that has concerned the Canadian Home Builders' Association. There really ought to have been more analysis and consultation on this subject.

Though we're certainly not suggesting that this decision be delayed, we do believe that sufficiently serious issues have been placed before this committee, and that they should remain on the table for further analysis to ensure that they are addressed by the government, as I put it, over time. This should not just be left alone.

Thank you, Mr. Chairman.

The Chair: Thank you.

Mr. Del Mastro, it is your time, sir, for a final brief round of questioning.

Mr. Dean Del Mastro (Peterborough, CPC): Certainly. Thank you, and thank you to everyone for the presentations today.

We've heard a little bit about gaps in the marketplace and areas that aren't currently serviced or may be less serviced than others. I have two specific questions, one pertaining to small business and the acquisition of commercial property and whether some private companies would be interested in making mortgage insurance commitments in that area, and the other pertaining to agricultural property where currently CMHC has some very strict guidelines. I believe it's a house and six acres which they will consider for mortgage insurance.

I'm wondering if private insurers would actually ensure that the banks could consider the entire property in the case of agriculture, or whether anybody has packages like that. Mr. Liu, I'd like to hear particularly from you on that.

Mr. David Liu: Sure. Our business is focused on the residential aspect of mortgage insurance. Where there are aspects of mixed use properties that can be attributed to residential value, we clearly look for those opportunities, and within the Canadian marketplace we will also be looking for those types of opportunities.

Mr. Dean Del Mastro: Thank you.

Ms. Adams, I have a question for you. You've indicated that you would pass savings along to the consumer if there were savings on rates. Is part of the reason you would be behind more competition in the market that you believe there would be some room for these fees to be reduced?

Mrs. Catherine Adams: Yes, I do. I think when you have this much interest in this marketplace, the implication is that there is some room for rates to move down, and that more competition will improve pricing. I can't guarantee it, but that would be my suspicion.

Mr. Dean Del Mastro: I have a question for Mr. Kenward.

You've indicated that you're very concerned that there could be kickbacks between the mortgage insurers and the banks, and that you would be fully opposed to that. I'm just curious, because I know the home builders do receive referral fees from the banks when they send mortgages to the bank. It's a fairly seamless process. In fact, most of the home builders turn the referral into interest rate savings for the consumer. What they do is offer a preferential rate to the consumer by donating their bank referral towards the purchaser's mortgage.

I'm curious. Seeing as it exists in that area and it's invisible to the customer, why would you have a problem with it in the other area? I'm not advocating on behalf of the banks. I'm just suggesting that I find it's a double standard, and I'm wondering why you're advocating that.

Mr. John Kenward: Mr. Chairman, our concern is that the benefits of the mortgage insurance system continue to go to home purchasers. I think the first panel clearly said that the relationship is between the mortgage insurer and the lender. We just don't want to see what we call rebates, allowances, and so on going to lenders—

• (1735)

Mr. Dean Del Mastro: But you don't have a problem with them going to home builders?

Mr. John Kenward: As long as they go through to the home purchaser in the mortgage insurance system, that's fine by us. We just want to make sure that this system continues to do what it's been successful in doing, and that's benefiting homebuyers, particularly given that there's a government guarantee at stake. So we also assume that the government would be most interested in seeing that—

Mr. Dean Del Mastro: I'm not suggesting that we're in favour of it. I just found it kind of interesting that you would advocate specifically against it, when in fact home builders do receive referrals.

Ms. Adams, would you like to comment?

Mrs. Catherine Adams: Yes, I would like to clear that up. As I said, we are the insured. We are the ones making the claims. The rules on insurance and the insured are pretty clear. They can't make inducements to us. It's illegal. So I don't think there'd be any kickbacks.

Mr. Dean Del Mastro: Good. Thank you.

I have nothing further.

The Chair: Ladies and gentlemen, that concludes our questions for the panel.

Thank you very much, panellists, for your responses and presentations today.

We'll give you a minute to make your way before the committee continues with its business today.

The Chair: Proceeding to number two on your agenda, pursuant to Standing Order 81(4), main estimates 2006-07 referred to the committee Tuesday, April 25, 2006, shall vote 1 under Canada Revenue Agency carry?

CANADA REVENUE AGENCY

Canada Revenue Agency

Vote 1—Program expenditures and recoverable expenditures on behalf of the *Canada Pension Plan* and the *Employment Insurance Act*.....
\$2,551,607,000

(Vote 1 agreed to)

The Chair: Shall votes 1, 5, 10, L15 under Finance carry?

Ms. Judy Wasylycia-Leis: Point of order.

The Chair: Point of order, Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: You've lumped vote 10 in with this vote. We've just had two hours of briefs. Surely we're going to discuss this at some point. What was the purpose of this unless we were going to actually see if it has any bearing in terms of how we proceed?

There also is a motion from Mr. Turner. I would hope that we're going to give some thought to how we proceed; otherwise this was just a big joke.

The Chair: Well, I doubt that, but as you wish, Madam Wasylycia-Leis, I'll proceed to break them off individually if that's all right with committee members.

FINANCE

Department

Vote 1—Operating expenditures.....\$93,135,000

Vote 5—Finance—Grants and contributions.....\$404,200,000

Vote L15—Finance—Issuance and payment of demand notes to the International Development Association.....

(Votes 1, 5, and L15 agreed to)

The Chair: I'll save vote 10 for the last vote and then we'll move to it.

Shall vote 25 under Canadian International Trade Tribunal carry?

Mr. Pacetti, point of order.

Mr. Massimo Pacetti: I don't want to get too technical, but I asked for a rough estimate or a budget from the Canadian International Trade Tribunal. I'm not sure if we got anything.

The Chair: I don't believe we have yet, no.

Mr. Massimo Pacetti: I don't want to hold up the vote, but I do ask, Mr. Chairman, that you at least send them a letter to ask them to send us something.

Thank you.

The Chair: Very good. I assure you, Mr. Pacetti, I will follow up on the information that was assured to us by CITT.

Back, then, to vote 25.

FINANCE

Canadian International Trade Tribunal

Vote 25—Program expenditures—\$8,609,000

(Vote 25 agreed to on division)

Financial Transactions and Reports Analysis Centre of Canada

Vote 30—Program expenditures.....\$28,110,000

(Vote 30 agreed to on division)

Office of the Superintendent of Financial Institutions

Vote 35—Program expenditures.....\$768,000

(Vote 35 agreed to on division)

The Chair: Shall vote 10 under Finance carry?

Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Mr. Chairperson, I would argue that we hold in abeyance the decision on this vote until we have some of the questions answered that were raised at our two hours of deliberations. It was a very useful discussion. I don't think all of the questions were answered and I would hope that we would have an opportunity to at least weigh the evidence, read the testimony and make a serious decision.

It would seem to me, Mr. Chairperson, that there were a number of issues raised that many of the witnesses supported, such as some qualifiers placed upon this decision to open up CMHC mortgage insurance for competition. And I would hope that we'd have a chance to at least present some of those ideas and look at a more balanced, reasoned approach to this whole issue.

So if it's possible, I'd like to suggest—I'm not sure what the proper terminology is—we hold it over until we've had a chance to discuss it further.

• (1740)

The Chair: You were wanting to suggest we defer it until what point in time?

Hon. Garth Turner: Mr. Chairman, I thought we were coming back to this issue under Bill C-13, part 9.

The Chair: Yes, we may. I'm trying to get an answer from Madam Wasylycia-Leis first. I'll go to you right after, Mr. Turner.

Sorry, what were you suggesting?

Ms. Judy Wasylycia-Leis: We deal with it between now and the end of the session.

The Chair: So you're suggesting to defer vote 10 until the end of the session?

Ms. Judy Wasylycia-Leis: Any time over the next couple of weeks.

The Chair: I'm sorry, just for clarification....

Ms. Judy Wasylycia-Leis: I would suggest that at the next opportunity, which would not be tomorrow, since the minister is coming, and I assume Wednesday is already set in terms of witnesses on Bill C-13. I suggest that the following Monday be designated as a time to discuss this issue and see if we're ready for a vote.

The Chair: I'm instructed that we don't need a motion, so we'll just continue with the discussion on this and see if we can arrive at a consensus on it.

Mr. Turner, you wanted to make a comment.

Hon. Garth Turner: Well, I tried to make the point earlier that I had more questions for the witnesses that you dismissed. Your response was that they're coming back, but actually Triad is not coming back, Desjardins is not coming back, CMHC is not coming back, Canadian Home Builders' aren't coming back, PMI is not coming back, and RBC isn't coming back. So I have more questions.

The Chair: Mr. McCallum.

Hon. John McCallum: I think I speak for the Liberals, but I may not, in thinking that we've heard what we need to hear on this business, and I'm certainly prepared to vote immediately for number 10.

We asked the question, what was wrong with it, and nobody came up with any good answer that I could discern. So speaking for myself, and possibly for all of us, I would like to proceed to a vote very quickly, as quickly as we can, on number 10.

The Chair: Mr. Loubier, your comments.

[*Translation*]

Mr. Yvan Loubier: Like our colleague, Mr. McCallum — and it does not happen often that we agree — we have heard what we wanted to hear and understood what we needed to understand. We are ready to move to the vote.

[*English*]

The Chair: Thank you.

Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you.

I appreciate John's feelings that this issue is a fait accompli, or his perception that there were no concerns raised at all, but that was certainly not my read of discussions. We've had a number of presenters indicating that they felt it would be important to attach some sort of conditions to the motion.

We had very clear wording presented to us from the Desjardins group, and we also had some suggested wording from the Real Estate Association, and others felt that it was important to ensure safeguards were put in place around this proposal.

This is not a cut and dried issue; it is not one in which there is absolute unanimity. There were all kinds of concerns raised, and it's not appropriate to simply hear a number of witnesses, as we've done all afternoon, and then simply have no discussion as a committee. How are we going to handle these concerns? Is there a way we could present some amendments? Are there some qualifiers we could attach? Should we invite Finance officials to answer some questions about what studies they've done? Should we ask for a brief in terms of the impact of this on potential access by consumers all across Canada for mortgage insurance? Are there any studies to show that there's a problem now? Are there certain areas of the population now not benefiting from mortgage insurance at CMHC? Is it out of reach for some? What's the general lay of the land? Surely to goodness, we would want to give this some thought. Why did we go through this?

• (1745)

The Chair: Madam Ablonczy, and then Mr. Savage.

Ms. Diane Ablonczy: As I understand it, Mr. Chair, the vote would be to consider opening up the industry to further competition, subject to the background checks by OSFI and subject to the minister's discretion.

None of the witnesses here today said we should not do that. Every single one of them said they favour competition, and a number of them said this decision should not be put off any further.

I can't quite see what the issues are. If the issues are how OSFI should be regulating this, then that's not part of this vote, as I understand it. We could certainly pursue that matter later, but this vote is simply to, in principle, open up the industry to further competition, and I think that's a fairly simple issue. We don't really need a lot more study there.

The Chair: I'll just interject. We have other speakers, Madam Wasylycia-Leis, so I'll just go to them first.

I'm instructed that this issue can be a study of the committee. However what's before us today is the estimates, and we have a choice either to vote for or against the estimates today.

Mr. Savage, I'm sorry, you were next.

Mr. Michael Savage: I agree with what Ms. Ablonczy just said. There were a couple of organizations that I asked...further to their indicating that they had some concerns. But they indicated that we should go ahead and vote for vote 10, so that satisfies me.

We have had finance department officials before us. Mr. Turner I think brought up vote 10 before with finance department officials.

In my view, we have spent some time on this and it's time to have the vote.

The Chair: Thank you, sir.

I would again make it clear, though, that voting for this particular estimate item today does not preclude a further study by the committee. That would be up to the committee.

Mr. Dykstra.

Mr. Rick Dykstra: On that note, Mr. Chairman, perhaps there is an opportunity—after implementation of let's say six months—that the Department of Finance has a chance to report and perhaps respond to a couple of these points.

The Chair: Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): The problem with this is that it's a straight-up, straight-down vote.

I wouldn't disagree with Diane, that the competition should be enhanced. I think she's right, that pretty well all witnesses supported that. It's subject to the OSFI review and the Minister of Finance's discretion, etc.

However, we have not explored the perverse consequences of competition. The perverse consequences, as some witnesses have suggested, are that there may actually be less insurance available to some segments of the market. We heard that as a concern, rather than as evidence. We didn't deal with whether the threshold should be raised from 75%, because frankly 75% to 80% is just freebie insurance. For any insurer, that's just cream money. Why that will continue to cost consumers a lot of money, I don't really know. And I don't know why CMHC should have a 100% guarantee, but not all the other competitors. Those are concerns—legitimate concerns.

I'm going to favour the notion of opening up competition. But I do feel that without some serious undertaking on the part of the government to support a committee inquiry into concerns, such as the 75% threshold and CMHC having the 100% guarantee, it makes it very difficult to support vote 10 and ultimately, I guess, Bill C-13—though I'm not clear how Bill C-13 interacts with the amendments process.

Those are the reactions I have. If the parliamentary secretary could give some assurance to the committee about making all officials, elected and otherwise, available to the committee for this issue so that the study will actually be meaningful and will actually have impact, then I think I could, in conscience, support the vote. If in fact it's just something for gathering dust—a cute little study by a cute little committee—well, we missed our opportunity.

• (1750)

The Chair: Madam Wasylycia-Leis, you had your hand up earlier. Would you like to speak?

Ms. Judy Wasylycia-Leis: I would love to speak again. Thank you.

First of all, with respect to our deadline for estimates, I think we need to review that for a moment. There is really no obligation for us, other than the agenda of you, Mr. Chair, or the Conservative

government, to necessarily push this through at the present time. As I understand it, we have until November before the main estimates are deemed to have been approved, unless we say otherwise. So there is no deadline that it has to be this June.

It's quite separate and apart from the budget and Bill C-13, for which there are certain deadlines you are interested in, as we've heard on numerous occasions. But with the estimates, we have the opportunity to actually do a thorough review on clause 10 before approving it. If we can't do it all this spring, we can always come back to it in the fall. You may not like that schedule, but there is nothing that requires us to pass the estimates right now.

I want to say two more things. One, we had some very specific suggestions from a couple of presenters about how we could put some guarantees in place that would actually make it possible for some protections against the possible negative implications that some of us foresee around opening up this competition.

Second, Mr. Chair, you'll have to agree with me when I say that I think we've only heard one side of the story. I know time was of the essence when this was set up. We may not have had everybody at the table that we should have. But I did make a suggestion that Michael Shapcott, who is well known in the field of housing, appear. He couldn't meet the timetable. However, he did send a brief that he asked to be circulated to the whole committee. I don't believe that has happened yet. I think in fact that we owe it—

The Chair: On behalf of Madam Wasylycia-Leis, I should point out that the brief is in translation and will be distributed. I urge committee members to have a look at it.

Ms. Judy Wasylycia-Leis: Right, which I appreciate.

I would hope that at least we delay a decision on vote 10 until we've had a chance to look at another viewpoint. There are other viewpoints out there. Today we heard mainly from the business community, the financial world. We heard from mortgage insurers, bankers, lenders, home builders, and real estate operators. We didn't hear from the cooperative section. We didn't hear from the housing coalition and from all those people who struggle to find affordable housing for people and who deal with a very critical situation today. So I think we should allow for at least one other view to be considered before making a final decision.

The Chair: Mr. Turner.

Hon. Garth Turner: Thank you.

The reason I flagged this issue initially was what I tried to outline in my first remarks: the stakes of the marketplace. I believe that the marketplace has developed in a certain fashion, in that the stakes of mortgage insurance are a lot higher than many of us think.

Competition is good. I have nothing against competition. I think every witness we heard basically mouthed those words. What I'm concerned about are the unintended consequences of competition, and there may be consequences that are not immediately apparent from the witnesses we had. I am concerned that people with poor credit risk will have less credit extended to them by way of insurance. I am concerned about the American experience, in which \$750 million in premiums were paid by homeowners that went into the pockets of insurers without resulting in lower insurance premiums for buyers. I'm concerned that the benefit to homebuyers has been overstated. I don't know the answer to those questions because—and I agree with you, Judy—I don't believe we've had all sides of the question presented to us.

I've also heard from a number of people I respect at the table who say they view the situation as being important and in need of some kind of regulation and oversight in going forward. I agree with that.

I agree with my colleague, Mr. Dykstra. I believe that if we're able to have some assurance—a problem that perhaps your secretary can help us with as well—that we can come back and have a look at how this marketplace is performing down the road, then I'm prepared to support it.

But I am concerned about unintended consequences. I want to get it on the record to make sure that if we're making this kind of change—to an environment I truly believe is more important than we give credit—that we have a mechanism that allows us to come back and ask if it's working.

• (1755)

The Chair: Thank you.

Mr. Loubier, to conclude.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, I think that we are confusing the issues here. I just listened to Mr. Turner talking about debt load of families, people who have poor credit rating, those who could be left out and so on.

We are experiencing this situation at the moment. When the risks are greater, the Canada Mortgage and Housing Corporation assumes them, and when they are less significant, it may be Genworth that assumes the risks. However, as the Desjardins representative said earlier, we are forcing a company like Genworth to accept even the risks that are not necessarily the best ones.

Consequently, we cannot deal with the financial situation of families here, under this vote or with a bill. At the moment, we are talking about increasing competition in a duopoly, a market where 70 per cent is covered by a Crown corporation and 30 per cent by a private company, the only one for which the government provides a guarantee.

With respect to oversight, if there is a financial sector in the world where there is oversight and even too much oversight, by the Office of the Superintendent of Financial Institutions, for example, that sector is definitely in Canada. So let us stop confusing the issues. If we want to talk about social housing, we can debate that and try to get the \$4.5 billion surplus at CMHC or try to encourage the government to invest in this area. But let us not try to deal with the

entire problem facing households that want to purchase their first home and with the whole problem of oversight, when we already have some very commendable institutions that oversee all areas of financial activity.

That said, I think we should move to the vote. I would mention in passing that we were supposed to end at 5:45 p.m. I would call for the vote, Mr. Chairman.

[*English*]

The Chair: On a point of order, Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Yes. I think Mr. Loubier needs to consider, when he talks about others mixing apples and oranges, that —

The Chair: I'm sorry, Madam Wasylycia-Leis, you don't have a point of order.

Ms. Judy Wasylycia-Leis: I do. You haven't heard my point, Mr. Chairperson.

The Chair: No, you're engaging in debate.

Ms. Judy Wasylycia-Leis: I'm not engaging in debate. I think it's important for this committee to note—

The Chair: What is the point of order, Madam?

Ms. Judy Wasylycia-Leis: The point of order is that it was a good number of the presenters who actually tried to sell this issue on the basis that they would then play a role in opening up credit to a whole lot of groups who now do not have credit or may be poor credit risks. It was not committee members who raised that point; it was the witnesses who made that point. And that is what has provoked some of the concerns that committee members are raising now.

So let's just be clear in terms of who's mixing apples and oranges.

The Chair: Thank you, Madam.

You may have a point. That's not a point of order.

Now, with respect to the suggestions, I've endeavoured to listen to each of the arguments, and I ascertain that some would like to proceed with the vote now, and some not, and that others would like to see further research done, conditional on its satisfying their desires once they see it.

That being said, I'd like to ascertain the degree of support for the idea of deferring the vote until next Monday, as Madam Wasylycia-Leis had suggested initially. Do I need a motion from the committee for that, or can we just proceed to a show of hands?

Because we have vote 10 before us on the agenda, I'll just ask for a show of hands on that. Which committee members would like to see us defer the vote until Monday?

Hon. Garth Turner: Well, what's happening between now and Monday?

The Chair: A variety of things.

• (1800)

Ms. Judy Wasylycia-Leis: I threw out Monday only because we're booked Tuesday and Wednesday, and we could start discussing a new issue like this one on Monday. We can start it. I didn't suggest we hold the vote over until Monday; I said we can begin the discussion on Monday.

The Chair: All right. Just for clarification then, not seeing strong support for that suggestion, I'll suggest this. If there are committee members who wish to defer the vote, then the remedy is relatively simple—you simply vote against the resolution that is before us now.

So I'll call for the vote—

Ms. Judy Wasylycia-Leis: Could we not have a vote on putting the question on vote 10, as simple as that?

The Chair: Well, it has the same effect. If I call for vote 10—

Ms. Judy Wasylycia-Leis: No, because you could have some who would like to hold it over and still support it, and some who would like to hold it over and might oppose it. I think it's a two-stage process that makes sense.

Could I move that we actually put the question?

The Chair: Moving that the question be deferred or put is out of order, because the motion is before the committee now. You simply vote for it, if you wish to support it; against it, if you wish to defer or to oppose, either way.

So I'll call for the vote.

FINANCE

Department

Vote 10—Pursuant to Section 29 of the *Financial Administration Act*, to authorize the Minister on behalf of Her Majesty in Right of Canada to guarantee payment to the holders of mortgages insured by private insurers approved by the Superintendent of Financial Institutions to sell mortgage insurance in Canada of not more than 90% of the net claims of the holders of the insured mortgages in the event of the insolvency or liquidation of the private insurer, subject to the limitation that the aggregate outstanding principal amount of all mortgages covered by the guarantee shall not exceed \$100,000,000,000 at any time; and to repeal Vote 16b, *Appropriation Act No. 4, 2003–2004*

Ms. Judy Wasylycia-Leis: I'd like a recorded vote.

The Chair: We'll have a recorded vote, if you wish, certainly.

(Vote 10 agreed to) [See *Minutes of Proceedings*]

The Chair: Shall the chair report the main estimates 2006-07 to the House?

Ms. Judy Wasylycia-Leis: No.

The Chair: On division?

Ms. Judy Wasylycia-Leis: On division.

The Chair: You have a point of order, Madam Ablonczy?

Ms. Diane Ablonczy: I'm reluctant to say anything, and I didn't want to say anything before the vote, because I didn't want this to be construed as an inducement for any kind of vote. But I do think that the committee is master of its own destiny. If we want to make further study about issues relating to this particular matter, I invite the committee to do that. I have no difficulty in saying that the officials would be very happy to appear and to assist us in any way possible.

I don't think this matter is off the table in any particular way; we're simply passing these estimates. But this matter will continue to be something the committee is seized of.

The Chair: Thank you, Madam Ablonczy.

Moving on, then, to the witness list, which has been circulated, this is not, I should point out, a witness list; it is a list of suggested or possible witnesses. I would invite input from committee members—as we have asked in the past—for other witnesses you would like to bring forward.

I would make the point that you come forward if you have any other witnesses that you would like to have invited.

Mr. Turner, you had referenced that some of the people who had given testimony today were not on this list. You are more than welcome to suggest they come here, if you wish.

So please, any committee members who wanted to add to this list, I'd invite them to do so.

Mr. Savage, sir.

Mr. Michael Savage: Can we, then, make those recommendations now for Wednesday?

The Chair: I'd encourage you to go through the clerk's office as you wish, yes, and of course as soon as possible, so that, given the nature of the time, we can give the witnesses time.

Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr: You talked about additions, but is it possible to withdraw the name of those who have already appeared before us today? The idea would be to make room for other individuals who could put forward new viewpoints, rather than meeting again with those who already appeared today. There are five such people.

[*English*]

The Chair: I'm not sure how that procedure would work, Mr. St-Cyr. But if it were the wish of the committee not to invite certain witnesses, I suppose it could be discussed.

Mr. Pacetti, would you like to give some clarification to committee members on the normal process you followed as chair? Would that be all right?

• (1805)

Mr. Massimo Pacetti: Yes, what we tried to do is.... The committee does try to represent the voice of the people, so it's hard to say that witnesses who want to appear are not allowed to appear. In the past, if members requested that certain witnesses appear, we'd just allow them to appear, and we sat extra time. I think that's the normal procedure.

In this case, you may just want to advise the witnesses, if they choose to reappear, that we did accept vote number 10. You may sometimes, in speaking to the witnesses, have to discourage them from appearing. I guess that would be the observation.

The Chair: I appreciate your comments, Mr. Pacetti. I will make the comment, though, that some of the committee members had earlier represented a desire to see certain people come forward, and I want to make sure that all committee members feel welcome to make those suggestions.

Mr. Loubier, I'm sorry, you've had your hand up, sir.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, contrary to what my colleague, Mr. Pacetti, said, I think that if we hear from the same witnesses on the same subjects, we will be wasting our time. In my opinion, if we remove the names of these five or six individuals, we could hear from other witnesses on other aspects of Bill C-13. In this way, we would not have to stay here to listen to the same arguments and analyses twice.

I would therefore ask for the committee's authorization to remove the names of the five or six witnesses who appeared before us today and who are scheduled to appear again on Wednesday on exactly the same subject. If other colleagues wish to put forward the name of other witnesses, they could take the place of those whose arguments we already heard today.

[*English*]

The Chair: Thank you, Mr. Loubier.

I would make the observation, however, that this is a different process, on Bill C-13, although we all understand there is an overlap in terms of some of the topics—the one in discussion today, as an example. Nonetheless, I don't believe it would be without precedent, but it would be a restrictive motion for us as a committee if we were to wish to exclude people from appearing on Bill C-13, which is the budget implementation bill.

Yes, Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier: We are not talking about introducing an unusual procedure, Mr. Chairman. We are talking about showing some intelligence and managing our time effectively. In the near future, there will be a great deal of legislation before us and we will not know which way to turn, because this committee has a great deal of work. Believe me, I have 13 years of experience on this committee, and I think we must manage our work effectively. If some witnesses who have appeared today have to come back to talk about exactly the same aspects of the bill, with the same analyses, I think we should rather allow others to come forward who might have a different view about other aspects of Bill C-13.

So this is not about establishing something unusual or displeasing people or in any way diminishing this democratic exercise. All we are trying to do is to manage our time properly.

[*English*]

The Chair: Madam Ablonczy.

Ms. Diane Ablonczy: I just wanted to remind the committee, Mr. Chair, that the minister will be here tomorrow, and also the officials. So with respect to some of the issues we heard today, I'm sure there'll be questions of the minister and the officials on these matters as well, which may provide the committee with additional clarification.

I don't know whether there would still be a desire to deal with the same issues on Wednesday, as Mr. Loubier said. I don't have strong feelings; I'm happy to hear from anybody. But we have to make sure we cover the waterfront, so to speak.

The Chair: Thank you, Madam.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chair.

Perhaps in compromise, these are witnesses that members submitted.

The Chair: That's correct.

What you have in front of you, for clarification, is actually a proposed panel only and represents all the suggestions we received from committee members.

Mr. Massimo Pacetti: Perhaps speak to the member who submitted the names of those people who appeared today and see if it's still useful to have those members appear. I'm still very uncomfortable not asking people to come before the committee who should be before the committee. Everybody has things to do; it's not just the parliamentarians. These people are also businessmen and people who have things to do. I would imagine they wouldn't be coming or requesting to come before committee if they had no reason to come before the committee.

• (1810)

The Chair: Thank you, Mr. Pacetti.

Mr. Turner.

Hon. Garth Turner: I think we've dealt effectively with vote 10 and perhaps we can come back and look at this in a review process sometime.

I certainly think there's no point wasting the time of some witnesses who have been here today. I would suggest that Mr. Murphy, Mr. Vukanovich, and Mr. Charles, from my point of view, be excused from coming back. I think we gave them a good going over today.

They are busy people, I agree, Mr. Pacetti, and I think that unless they had something pressing they wanted to say that they haven't said here today, they should probably be excused.

The Chair: It's not a question of excusing; they haven't been contacted yet. Of course, each witness who is called and invited to appear and make a presentation would have that option to decide not to. Unless the committee has anything further to add to this discussion, apart from, and I'll re-emphasize this, any other suggestions you may have on other people that you feel should be making a presentation....

Yes, Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier: I have a suggestion about how to proceed, Mr. Chairman. Tomorrow, before the minister appears, could we come in 15 minutes before the start of the meeting, hold a steering committee meeting, look at the list, and then suggest a new list of witnesses to committee members? I think that at that time we will have a better work atmosphere.

[English]

The Chair: Actually, the problem, of course, is the shortness of time in contacting people to come, to invite. From the perspective of someone who is receiving an invitation to come to speak before the committee, I think any delay might just make that a more difficult process.

[Translation]

Mr. Yvan Loubier: Yes, but we manage our list. When you say that these people have not yet even been invited to appear on Bill C-13, that means that it is up to us to manage this list. If we think that what we heard today is exactly what we would hear for certain parts of Bill C-13, it is not necessary to call people back again to waste their time and ours as well. I think it is up to us to manage this list.

[English]

The Chair: Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Since this is a list of suggestions, there's nothing wrong at this point with having this kind of discussion and making a decision not to repeat what we just went through today. There's no point in that.

My major concern is that since this is a list of proposals, there are a number of suggestions I made that did not appear on the list. Mr. Chair, there are a number of names I suggested that are not on the list and I'm curious to know why they aren't on the list.

I would like, in fact, to remind you that I suggested we invite the Canadian Labour Congress. I only made four suggestions, assuming these were fairly broad-based consultations. I also suggested a couple of finance ministers. That was all part of a list. We sent the memo. We can certainly give you the documentation.

Finally, I would also suggest that since Michael Shapcott couldn't attend today that he be transferred over to this list and added to our budget consultations.

The Chair: Thank you. I appreciate that, but I'll ask that any other suggestions come to the clerk's office directly following this meeting so we don't use the committee's time in that way.

I'm told—and Mr. Turner, could you verify this?—that the folks who are in the duplicative position are people you had asked to be put on the list. I take from your comments that you wouldn't be uncomfortable with those particular individuals who would be testifying a second time not being put on it.

Hon. Garth Turner: I have no problem with them not being asked; however, the two main proponents are in the room still and I don't know if they want to say more or if they want to come back and make any points. I have nothing further to ask at this point.

Since they're here, Mr. Chairman, why don't you ask them?

The Chair: Mr. Turner, why don't you ask them?

Mr. Charles, are you satisfied with today?

Mr. Andy Charles: I think we've had a very good review of the issues. If there's a need to come back, I'll make myself available.

The Chair: Mr. Vukanovich.

Mr. Peter Vukanovich: I was on the first panel, as you know, and I heard a number of points. But given that this committee understands that there is more study to be done, there should be plenty of time to work that through. I will be sitting in the session tomorrow with the minister to hear the questions that are asked of him.

• (1815)

The Chair: We will leave that item as it is and wait for other suggestions from committee members.

Mr. Loubier.

[Translation]

Mr. Yvan Loubier: I have seen a lot in 13 years, but this is the first time I have seen a request that witnesses manage the committee's work. There is a limit here. It is up to us to manage our work. Next time, I will demand that the list you will be putting forward or that all members will be putting forward to you be studied in camera, that we prepare our work schedule and that we do not leave it up to witnesses to decide whether or not they are going to appear before the committee.

I have never seen such a thing in 13 years; it makes no sense. I am putting that down to your lack of experience, Mr. Chairman; however, next time, I will insist that we work on these matters in camera.

[English]

The Chair: Thank you, Mr. Loubier. I appreciate that.

Ms. Judy Wasylycia-Leis: On a point of order.

The Chair: Let's hope this is a point of order.

Ms. Judy Wasylycia-Leis: I submitted names. Two of them are on the list and three are not. Maybe I could have an explanation of whether you decided to eliminate them, or what.

The Chair: I have information that your list was not received. Perhaps there was some administrative error, I don't know. I've already communicated to the committee members that witnesses they wish to suggest as soon as possible will certainly be added to the list. So you have an open invitation to do that.

We have to adopt the steering committee report. Members of the committee have copies of the Second Report of the Subcommittee on Agenda and Procedure of the Standing Committee on Finance.

The Chair: Do you have a point of order, Madam?

Mr. Dean Del Mastro: I so move.

(Motion agreed to)

The Chair: Mr. Loubier.

Ms. Judy Wasylycia-Leis: Since I can't get an answer any other way, I'll raise it as a point of order, which is—

[Translation]

Mr. Yvan Loubier: Is Thursday's meeting in the morning or in the afternoon?

[English]

The Chair: It will be at 1:30, and at 3:30 thereafter as necessary.

Thank you, committee members, for your cooperation. We look forward to seeing you tomorrow. The meeting is adjourned.

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