

the insurance industry would suffer the same fate at the hands of the banks as did the securities sector.

The Quebec Model

The Committee now focuses on some of the more significant developments at the provincial level. The most far-reaching of these was the Quebec blueprint for financial-sector reform introduced in 1987. Among the guiding principles were: a) the ability to integrate across the system via subsidiaries; b) the acceptance of commercial links and narrowly held positions; c) the encouragement of self-regulation; and d) the introduction of "financial links" (the ability of the financial sector to buy the commercial sector). Mr. Pierre Fortier, who was the Minister responsible for the 1987 financial-institution regulatory blueprint in Quebec, noted in his appearance before us that the model for much of this reform was the 1986 Report. Madame Louise Robic, the current Quebec Minister Responsible for Financial Institutions, recently signalled her intention to complete the reform of the Quebec financial services sector.

- *Prudent Portfolio Approach*

Quebec, and presumably other provinces as well, have introduced the prudent portfolio approach for the asset-side powers of financial institutions. This replaces the former quantitative approach for various asset categories and the "legal for life insurance" approach for the asset portfolios of insurance companies. There is no neat and tidy definition of a prudent portfolio. The Quebec legislation on trust and savings companies (1987) utilizes the following wording: "Every company shall, in exercising its loan and investment powers, act as a prudent and reasonable person would act in similar circumstances, honestly and faithfully and in the best interests of the shareholders, the depositors and, as the case may be, the beneficiaries." Among other things, what is prudent will obviously depend upon the term structure of the institution's liabilities. In any event, the Committee not only welcomes these initiatives but will later recommend that the prudent portfolio approach be applied to all financial institutions.

- *Networking Insurance*

More intriguing is Quebec's decision to allow the Caisses populaires Desjardins to network insurance in their branches. The insurance salespersons must be regulated by the insurance pillar and, in the case of the Caisses populaires, must be employees of the insurance subsidiary, not of the caisses. This provides an interesting and valuable experiment, particularly since the federal Blue Paper and, later, the 1987 federal draft legislation for loan and trust companies opted to ban the networking of insurance through bank and trust branches.

However, it "unlevels" the playing field along provincial lines. For example, whereas all banks that appeared before us want to network insurance, the concern is most urgent for the National Bank which competes head-on with the Mouvement Desjardins. The Committee will tackle this issue later in the report.

- *Downstream Commercial Links*

The final area where Quebec is innovating is in terms of embracing an integration of finance and commerce. In particular, Quebec has taken steps to permit the financial sector to establish links with the commercial sector. At the federal level, the major policy debate has been centred around upstream links—who can own financial institutions and in particular deposit-taking institutions. The Quebec legislation already accepts that financial institutions can be both narrowly held and commercially linked and it is now proposing that, downstream, the financial sector ought to be able to own the commercial sector. This issue will also be addressed later in the report.