

*Department of Insurance Act*

insurance Companies Act, the Trust Companies Act and the Loan Companies Act. As I explained in the statement made on September 22 prior to the first reading of the bill, the bill has two principal purposes. One is to expand the investment powers of federally incorporated insurance companies, trust companies and loan companies, and the other is to enact a measure designed to retain in Canada ownership and control of those federally incorporated life insurance companies, trust companies and loan companies that still remain in Canadian hands.

At the conclusion of this debate I intend to move that the bill be referred to the standing committee on banking and commerce. Opportunity will thus be provided for examining into the details of the bill to the extent that the members of the committee see fit. In these remarks I shall, therefore, not attempt to go into great detail but will deal rather with the main points involved.

Some of the changes in the investment powers were forecast in my budget speech earlier this year. These would expand the powers of insurance companies, trust companies and loan companies to invest in common shares and would broaden the range of shares eligible for investment.

Insurance companies are now limited to a maximum investment in common shares of 15 per cent of their total assets; the bill would raise this limit to 25 per cent. At present common shares are eligible investments if they have a seven year dividend record of a prescribed amount. The amendments would reduce the seven year requirement to five years and, in addition, would make common shares eligible investments if the issuing corporation has an earnings record over a period of five years that would have permitted it to pay a dividend at the prescribed rate whether the dividend was in fact paid or not.

This new earnings test is of particular significance for shares of wholly owned Canadian subsidiaries of foreign corporations. If the parent corporation decides, as I hope many will, to make some of the shares of the Canadian subsidiaries available for investment by Canadians, this test will make the shares eligible investments for insurance companies if the subsidiary has an adequate earnings record regardless of whether it has been paying dividends to the parent company or not. Hon. members will appreciate, of course, that this would qualify the shares of Union Carbide of Canada for such investment.

In addition to these specific changes in the eligibility requirements for common shares,

companies would be given additional freedom to invest in assets of their choice regardless of the specific eligibility provisions in the act. At present this freedom is limited to a total investment of 5 per cent of the company's assets. This limit would be raised to 7 per cent. This additional freedom would also enable companies to invest in a broader range of common shares should they wish to do so.

To remove another possible deterrent to investment in common shares, the rules for valuing common shares, and also other assets not now permitted to be valued on an amortized basis, would be changed in such a way as to permit a life insurance company to absorb the impact of a drop in market values over a period of three years, rather than requiring the company to absorb the full impact in the year in which the drop occurs. This plan would ensure that the values used for annual statement purposes bear some close relation to current market values, but at the same time would relieve companies from the pressures that might otherwise be placed upon them by sharp fluctuations in the security markets.

It is not the intention of the government to force insurance companies or other financial institutions to invest their funds in common shares or in any other specific type of investment. The principle is recognized that the management of these companies must be free to exercise their own judgment within the established investment rules in the best interests of their policyholders and shareholders. It is hoped, however, that by removing some of the restrictions that now apply with respect to investment in common shares, companies will be encouraged to use the pools of investment funds available to them to increase the degree of Canadian ownership in Canadian enterprises.

Although, as indicated, the broadening of investment powers relating to common shares was the primary interest of the government in putting forward these amendments to investment powers, the life insurance industry has made certain requests for other amendments to expand these powers. It is believed to be in the Canadian public interest to expand the investment powers of insurance companies wherever this can safely be done, so that the management can have as much discretion as is reasonably possible in promoting the best interests of policyholders and shareholders of the companies concerned. Therefore, where it was felt that the safety of policyholders would not be endangered by the requested