[Chairman: Mr. Schumacher] [8:37 a.m.]

MR. CHAIRMAN: Members of the committee, I see a quorum. With all the other commitments of members, I'd like to get under way and deal with these matters as expeditiously as possibly.

I'd like to welcome the proponents of Bills Pr. 25 and Pr. 26, and perhaps I could just outline the procedure of the committee before we begin. The first thing that is done is that Parliamentary Counsel gives a report on the proposed legislation before us. Then there's an opportunity for the proponents of the Bill to give a brief introduction of the Bill, as to its nature and the need for it but without giving the whole load. Then the witnesses who will be giving evidence will be sworn, the evidence will be received, and then the committee members will ask questions, as many as they feel are necessary. Then the matter will be taken under advisement by the committee to decide what it wishes to report to the Chamber with respect to the legislation.

So if we may go numerically, I'll call Bill Pr. 25 and ask Mr. Clegg to report on that Bill.

MR. M. CLEGG: Mr. Chairman, this is my report on Bill Pr. 25, Security Home Trust Company Act. The Bill conforms to the model Bill provided for in the regulations to the Trust Companies Act and contains no provisions which I consider to be unusual.

MR. CHAIRMAN: Now, Mr. Parken, would you like to briefly introduce the legislation to us and advise as to who will be giving evidence in the course of that?

MR. PARKEN: Yes, I will, Mr. Chairman. Members of the committee, thank you for allowing us to appear before you this morning. The matter that we're appearing on is a petition to the Assembly for a private Bill to incorporate Security Home Trust. The Act is required under the terms of the Trust Companies Act of Alberta in order to incorporate a trust company.

My name is Darold Parken. I am a provisional director of the company proposed in the draft legislation. In addition to being a director, I will be involved in the management of the company as well. I'm appearing as legal counsel to the corporate sponsors of the Bill, who are Security Home Financing and Security Home Mortgage Investment Corp. With me today are Jim Kalmacoff, Trish Cardell, and Russ Kalmacoff.

What I'd like to do is give you a bit of brief background on the corporate sponsors and the people who are here and, as well, to answer any questions you might have. In terms of the chronology, the place to start, I suppose, is with Security Home Financing, which is a private company involved in the mortgage origination and administration business. The company was first acquired by Mr. Kalmacoff in 1976, was based in Toronto at that time, and was moved in 1979 to Calgary, where it now has its head office. Since its acquisition the company has originated approximately $150 million in mortgage financing, involving about 3,200 multifamily residential units.

MR. CHAIRMAN: I think we're getting into some factual information now, and perhaps I'll ask Parliamentary Counsel to administer the oath. Considering you're part of this, maybe we'll treat you as a witness as well; that may make it easier.

[Messrs. Parken, J. Kalmacoff, and R. Kalmacoff, and Ms Cardell were sworn in]

MR. PARKEN: Would you like me to repeat some of those statements under oath?

MR. CHAIRMAN: No, I think that's fine. I think what you have said would be the same as if you were under oath; you'd adopt it. Just for our procedure, if you wish to stand you're certainly welcome to, but it's not required to stand while speaking here.

MR. PARKEN: I guess I finished my summary in terms of Security Home Financing, which was the first of the corporate sponsors which I mentioned. The main focus of that company now is to act as the adviser to Security Home Mortgage Investment Corp. Security Home Mortgage Investment Corp. is the other sponsor. Security Home Mortgage Investment Corp. is a loan company incorporated under the loan companies Act. The Act is administered by the director of trust and loan companies out of the office of the superintendent of financial institutions federally. Security Home Mortgage is a member of the Canada Deposit Insurance Corporation and is designated an approved lender under the National Housing Act.

Security Home Mortgage was originally based in Hamilton, Ontario, and in 1985 Russ Kalmacoff and a group of investors that he organized acquired the company and moved it to Calgary, where it now has its head office location. In addition to having an office in Calgary, the company has an office in Toronto and is engaged in the real estate market in that province. The company's grown quite successfully since Mr. Kalmacoff and his group took it over, and together with Security Home Financing it now administers approximately $60 million in mortgage loans. I guess a significant feature of the business of Security Home Mortgage is the fact that it has no loan losses on its books and there are no arrears with respect to any of its present mortgage portfolio.

That's a bit of a summary on the corporate people behind the Bill. With me, to my left, is Jim Kalmacoff. Jim is the petitioner in this matter and is also a provisional director of the proposed trust company. Jim is a chartered accountant practising with the partnership of Koehli Kalmacoff Ramsey in Edmonton, and Jim's carried on a general accounting practice since 1976 in Edmonton.

Also with me is Trish Cardell. Trish is the vice-president of mortgage administration with Security Home Mortgage and has approximately 10 years' experience in the financial management business, most recently with one of the largest mortgage banking organizations in Canada. In addition to her activities with Security Home Mortgage, Trish is a member of the board of directors of the Calgary Chamber of Commerce and the Calgary Home Builders Association.

Also with me, at the far end, is Russ Kalmacoff. I guess I gave you a bit of Russ's history in dealing with Security Home Financing and Security Home Mortgage. Russ is the president of both Security Home Financing and Security Home Mortgage and would assume a very active role in the senior management of the proposed trust company.

I'd like to ask Jim Kalmacoff now if he would to make a few remarks about the need for a trust company and the business plan that we've sort of put together for such a trust company if the Act were to be passed.

MR. J. KALMACOFF: Thank you, Mr. Chairman and Members of the Legislative Assembly. To begin, let me attempt a definition of the business of the trust company. As we see it, there are three general areas of activity: number one, mortgage and savings activities, including issuance of term deposit liabilities and making investments secured by mortgages and real property; number two, estate trust and agency services, including various services performed for fees, such as trusteeship of registered retirement savings and pension funds, corporate trusteeship, transfer agency and custodian services, receiverships, wills, estates, et cetera; number three, near banking. This would include issuance of checking accounts and demand deposits and consumer and corporate lending.

The need. The energy roller coaster of the past decade has been a difficult environment for the world banking system in general and particularly damaging to regional institutions lending in energy-based economies. Alberta must begin to rebuild its financial institutions in order to maintain healthy competition and ensure the delivery of financial services that meet the particular needs of Alberta. Canada's major chartered banks are looking to new areas. Greater international market share in commercial and investment banking appear to be of greater concern than meeting specific needs of Alberta. The major chartered banks hesitate to reinvest their deposits within Alberta dollar for dollar. The savings of Albertans are used to fund Wall Street takeovers and to fund high-rise condominiums in Toronto. The damage done to the Alberta economy by this inequity is manifold in terms of investment, employment, entrepreneurial spirit, and social fabric.

The plan. Upon passage of the Security Home Trust Company Act we would proceed immediately to capitalize the company from our personal resources, institutional investors, and the public. The company will join Canada Deposit Insurance Corporation. In the first phase of growth we will concentrate on the mortgage and savings business, which will be a natural extension of the existing operation and can be handled by the present staff. Within three years we expect to begin offering such trust and agency services as trusteeship of self-directed RRSPs and management of pooled pension investment vehicles. By the fifth year we would expect to be engaged in certain areas of corporate energy and agricultural lending. In the long run, we see the company having several branches throughout the province, offering a full range of financial services to Albertans. As the company matures and achieves the necessary momentum and competitive edge, we expect it would expand nationally. We envisage new financial products, vehicles, and systems being developed here that could be offered nationally, with management decision-making and core administration remaining in Alberta.

We believe that Security Home Trust Company will make a significant contribution to the enhancement of the Alberta capital market, and we ask that you ensure a speedy passage of this Bill. Thank you.

MR. CHAIRMAN: Mr. Parken, did you have any other evidence that you wish to leave?

MR. PARKEN: No, we don't, Mr. Chairman.

MR. CHAIRMAN: Any question from any member of the committee?

MR. WRIGHT: One question was answered: were they going to join CDIC?

MR. CHAIRMAN: I see.

MR. GIBEAULT: Mr. Chairman, just one question. Did you indicate, Mr. Kalmacoff, in your remarks when you thought there might be an office of the company in Edmonton?

MR. PARKEN: I don't believe that was mentioned. However, it's certainly part of our plan to establish several offices in Alberta. I assume that Edmonton would be naturally the second office opened in Alberta.

MRS. KOPER: I just wondered about the percentage of your holdings that would be in Alberta, and the investments. Has a decision been made on that?

MR. PARKEN: Perhaps I could ask Russ to answer that question. He has the figures in terms of the existing balance and, I think, what's proposed as well.

MR. R. KALMACOFF: Yes. With Security Home Mortgage we're about 40 percent in Alberta presently and 45 percent in Ontario and the balance in British Columbia and Saskatchewan and the maritimes. I think that sort of portfolio diversification would probably be maintained.

There's another dimension of this business that we think is important, particularly to a smaller trust company, and that's the sharing of loans, where we have contact associations, a network with other smaller, well-run trust and loan operations, where we would originate and share loans with institutions in other parts of the country and vice versa. But I think in terms of net beneficial interest in loans, that sort of balance might continue.

MR. MUSGROVE: Are we to believe that Security Home Trust and Security Home Mortgage Company will be an amalgamation of these two companies, or will they be operated separately after?

MR. R. KALMACOFF: The intention is to operate them separately. They're quite distinct charters and complementary. The existing company, as a federal loan company and mortgage investment corp., is primarily residentially oriented. The mortgage investment corporation legislation was part of the Residential Mortgage Financing Act passed in the '70s, which was designed to stimulate investment in residential, and it would continue as such. It appeals to a particular type of equity investor as well because of the conduit tax treatment the company has corporately. We see it being owned by nontaxpaying accounts like RRSPs and pension funds, widely held by that sort of investor; whereas the trust company would be developed in the more conventional sense both with respect to ownership and investment.

MR. MUSGREAVE: Will both companies become part of the CDIC group?

MR. R. KALMACOFF: Yes, indeed. Security Home Mortgage is a member now, and CDIC are aware of our intention to apply with the trust company as soon as we have the licence to do business.

MR. MUSGREAVE: If you apply and they don't accept you, would it be your intent to stay in business?

MR. R. KALMACOFF: We would likely consider doing the agency type of trust business but not the mortgage and savings or near-banking business where the company would be issuing liabilities to the public.

MR. MUSGREAVE: But you haven't made that decision.

MR. R. KALMACOFF: We're, I guess, assuming that we will become CDIC members, and the initial response in preliminary discussions with them has given us no reason to think otherwise.

MR. WRIGHT: Do I gather you plan an offering of shares to the public? If so, when and where and in what form?

MR. R. KALMACOFF: These things, I guess, happen somewhat ad hoc or depending on market conditions. Initially we thought we'd fund the equity from internal resources and perhaps private placement from institutional investors that we deal with now in the syndication and administration of mortgages. Ultimately, a public offering would make sense. We've looked at the Alberta stock savings plan too, and it would apply here.

MR. CHAIRMAN: Any other questions from committee members? Everybody feels comfortable? Well, that being the case, I wish to thank the proponents of Bill Pr. 25. As I mentioned, our procedure is that we'll move on to the next piece, and we'll deal with all the matters that the committee has heard before deciding what recommendation we'll be making to the House.

I want to take this opportunity of thanking you for your presentation and hope that we will be able to accommodate your wishes. Thank you very much.

MR. PARKEN: Thank you.

MR. CHAIRMAN: If you wish to stay for the next, you may, but if you have other business . . .

Okay. Then I'll call Bill Pr. 26, Fair & Millikin Insurance Company Act, and ask Mr. Clegg for his report on that legislation.

MR. M. CLEGG: Mr. Chairman, this is my report on Bill Pr. 26, Fair & Millikin Insurance Company Act. This Bill complies with the model Bill provided for in Standing Orders and contains no provisions which I consider to be unusual.

MR. CHAIRMAN: Thank you. I'd like to welcome Cameron Millikin and Jim Fair. I imagine you'll both be giving evidence, so I'll ask Mr. Clegg to administer the oath. Then we'll proceed with the introduction and the evidence.

[Messrs. Millikin and Fair were sworn in]

MR. CHAIRMAN: Mr. Millikin, we're in your hands.

MR. MILLIKIN: Thank you very much, Mr. Chairman and members of the committee. We appreciate being allowed to present this Bill this morning. Briefly, my partner, Jim Fair, and I appear before you to beg permission to start a general insurance company which will handle initially a limited form of insurance; namely, directors' and officers' liability. Later, with your permission, Mr. Chairman, I'll elaborate.

Thank you.

MR. CHAIRMAN: Then I guess you could carry on with the evidence as to where it will be located.

MR. MILLIKIN: Thank you. As you're likely aware, it's been extremely difficult for Canadian companies, both large and small, in the past two years particularly, to insure officers and directors against liability suits. So with the assistance of Reed Stenhouse insurance brokers, my partner, Jim Fair, and I have prepared a proposal, of which you will receive a copy in summary, to serve the directors' and officers' liability market. We conducted extensive research on past claims. We assessed the risk, we consulted with syndicate leaders at Lloyd's of London, and we decided to go ahead. While the market has softened, in the past two years particularly, and more companies are now in the market offering directors' and officers' liability insurance, there's still a very definite need for this type of insurance, particularly among smaller companies. It's this market which we plan to serve. Both Jim Fair and I feel very strongly that our reputation is our most prized asset, and if we were given permission to launch an insurance company, the business would be conducted on prudent fiscal lines.

Let me just say a word about my partner and myself. Jim Fair received degrees from Princeton University, from Stanford University, and from Oxford. He's a member of the English Bar, and he's trained as a tax lawyer. He's a financial consultant, has been living in Calgary for the past nine years, being an investor and director of a number of companies, including Big Rock Brewery, with which he and I are involved as founding shareholders and directors. I'm an Irish immigrant, educated at school and college there and also with the University of Calgary and the University of London. I've been involved with a number of companies, none of which has ever gone bankrupt. At this stage, with your permission, I'd like to present my partner, James Fair, who will speak to the financial portion of our proposal.

MR. CHAIRMAN: Thank you, Mr. Millikin. Mr. Fair.

MR. FAIR: Mr. Chairman, members of the committee, thank you. Our purpose and strategy in general terms in creating this company is to offer specialty lines of insurance in areas where it's difficult or extremely expensive to obtain coverage. There is always some part of the market where there's a problem in that way. Often the high price for coverage or the difficulty of obtaining it is a result of perceptions by insurers that are based on experience in the United States or elsewhere in Canada, and those reasons for the tightening of the market don't really apply in this geographical area or to the industries that we have here or to the size of companies that we have here.

The first form of insurance that we plan to offer is an example of that strategy, the directors' and officers' liability insurance that Cameron mentioned. The premiums are very high, and availability is restricted because of some gigantic and unforeseeable losses that insurers have suffered in the United States, but here the losses that have been suffered have been very much smaller and very much less frequent. The reasons for that are that judges in Canada are less aggressive about changing the law than they are in the United States, damage awards are smaller, companies are smaller, and the merger mania didn't get going here to the extent that it did in the United States.

So really there's no reason why the coverage shouldn't be available to most of the companies that have their headquarters in Alberta, but it's a small segment of the market and only a small company can take the trouble and make it worth while to offer a product that's tailored specifically to that small segment of the market. The risks involved will be controlled and reduced to a minimum by the design of the product, by carrying appropriate reinsurance, and by taking a very conservative approach to leverage, by which I mean that we would write a small volume of business compared to the amount of our capital, because we want to be absolutely certain, as Cameron mentioned, not to run into any problems with this enterprise.

Our plans have been developed primarily on the basis of information from insurance brokers, Reed Stenhouse, primarily, and people in London, and we're responding to needs in the marketplace which clearly exist right now. These things change of course from time to time, and the need is somewhat less now than it was 12 months ago, but it's still serious. Because there's such a need, there's an opportunity for doing well by doing good, so to speak.

As far as the capitalization of the company, we had thought in terms of a common stock issue, partly privately and partly to the public, possibly under the Alberta stock savings plan, combined with an issue of convertible subordinated debentures to institutional investors. In the present state of the public market it probably would be impossible to do the public component right now, so we would raise all the money privately.

MR. CHAIRMAN: Thank you, Mr. Fair. Any questions?

MR. MUSGROVE: Mr. Chairman, I was wondering what kind of coverage they would give as far as liability to companies in respect to their employees. What would be your outstanding or largest coverage?

MR. FAIR: The employees covered would be directors and officers, and officers can include other key employees who may incur liability under their fiduciary obligations to the stockholders. The product that we've been asked to provide is insurance on a group basis with a $5 million group aggregate limit, so the claims paid to the entire group would total $5 million plus a $5 million reinstatement, as they call it, which means that if we had, say, a $1 million claim and we paid off on that, that would use up part of that $5 million limit. But that $5 million limit would be reinstated by adding $1 million in an additional premium paid for that extra million. So the potential maximum claims that we would face would be $10 million, and we would reinsure whatever portion of that $10 million would be in excess of our ability to pay off from our own resources. Reinsurance would probably be placed at Lloyd's of London.

MRS. HEWES: Mr. Fair and Mr. Millikin, you state that this company is being formed for a particular class or a particular type of insurance that you've demonstrated the need for. However, of course the Bill does not limit except as to life insurance. What other classes of insurance would be contemplated, or are there any, over the long haul?

MR. MILLIKIN: We might move to other areas of insurance, a couple of areas. We looked at the possibility of pollution control insurance for the oil fields in Alberta, because we met with the vice-chairman of Lloyd's, and that was an area. Since that meeting and because we had to wait to get permission to present the Bill, Lloyd's themselves have now gone ahead and are offering that type of insurance. I'm not suggesting for a moment as a result of bringing it to their attention or anything, but they have gone ahead, and they're now offering that. So that's one area in which there's a need and a very good market in this province, because the risks are very limited. A lot of the pollution spills here can be cleaned up with a backhoe for a couple of hundred dollars, and the vast majority are in that category. So that would be one area that we'd examine. Another might be the area of bonding. But there are narrow specialty areas like that which we might look at. But we have no intentions of going into car insurance or home insurance or anything like that. It's going to be narrow fields. We're working with brokers like Reed Stenhouse and working with Lloyd's, with whom we've a very good rapport. We would find narrow markets. As Jim Fair said, we've a capital of $5 million in terms of insurance liability.

MR. CHAIRMAN: Mr. Wright.

MR. WRIGHT: Yes. I take it you look around for areas in which people are having great difficulty getting economical insurance because of experience which on the face of it doesn't really apply all that much in Alberta. I was speaking to an architect the day before yesterday who just in a one-man practice pays $6,000 for liability insurance per annum, which is a big load for him. I'm sure it's based on experience which is not Alberta experience, and that sort of thing.

MR. FAIR That's the kind of thing that we would look into, yeah, and we rely on the brokers to tell us what's needed and kind of build our products from the customer up. We would of course have to do the research necessary to determine if that perception is accurate, that the premium levels are based on experience elsewhere, not here, but it's quite plausible.

MR. MILLIKIN: Mr. Chairman, if I might be allowed to add to that. Jim talked earlier about the risks in the United States, and in our opinion, having looked into this, Alberta's being victimized; that's the only word, and that's the correct word, to use -- being victimized. For example, in the area of pollution insurance, when a broker or a syndicate at Lloyd's looks at pollution insurance, they think of ships breaking up in midocean and oil being spilled here and there, and they assess the risks and the premium based on those kinds of risks. But as I said, when we talked to Sir Lindsey Alexander about this thing, he was unaware of the fact that the majority of these spills could be cleaned up with a backhoe, and he suddenly realized there was a tremendous market here for Lloyd's and couldn't understand why the syndicates weren't into it. As I say, they now are, because we have been slow to get off the mark, et cetera.

But there is a need in Alberta for this type of insurance, pollution insurance, which is now being catered to, as I say, by Lloyd's. But there was a need when we first started that, and a great need, because the major brokerage houses and syndicates are looking at massive disasters and basing their premiums on those, whereas we could get much lower premiums and fill this need. And we feel in the line of directors and officers liability, the same thing.

MR. WRIGHT: The only thing else I wish to say, Mr. Chairman, is that if the product of this proposed corporation is anything like as wholesome and attractive as that of the other company of which Mr. Fair's a director, namely Big Rock Brewery, then he has my vote.

MR. CHAIRMAN: I guess you wouldn't be looking into professional liability for lawyers, though.

MR. FAIR: I doubt it.

MR. CHAIRMAN: If I could ask a question or two. Would you gentlemen be managing this company, or would you be employing others to do this?

MR. FAIR: Well, I don't know the simple answer. We'd be directors and involved in the oversight, but I would not be managing the company myself. I believe Cameron has some interest in working on the marketing side.

MR. MILLIKIN: Right, but one of the conditions which the Lloyd's people laid down in their reinsuring or considering reinsuring would be that an expert insurance man or woman be employed as the manager of the company, someone with sufficient experience to assess risks themselves, so that only those risks which were reasonable would be passed on to them for consideration. That was a precondition of their being interested in it and a condition to which we agreed.

MR. CHAIRMAN: And do you look on Alberta as your only market? Would the company be able to operate outside the borders of Alberta?

MR. MILLIKIN: Well, we have a provincial licence initially. We would like to serve the prairie provinces because the risk factor is so low in these kinds of things. We don't want to be insuring Canadian Pacific, who have all kinds of risks at sea and everywhere else. We want to insure smaller companies which have limited risks and which are having difficulty getting insurance. God knows there's a great number of those here in this province.

MR. CHAIRMAN: Thank you. Any other questions or concerns by committee members? Mr. Musgrove.

MR. MUSGROVE: Mr. Chairman, I'm wondering: if the fact is that the capital stock of the company is $25 million, now does that mean that you will be only allowed to cover $25 million worth of liabilities?

MR. FAIR: No. There are guidelines established from time to time by the insurance commissioners, and our guidelines would be the ones with the Alberta insurance commissioner. The federal insurance commissioner currently has a rule that your net risk ratio, as they call it, should be less than three times your capital. That means that the amount of premiums you receive on business that you write shouldn't be more than three times your capital, which means in that case that the risk you insure would be 20 or 30 times your capital. We wouldn't go anywhere near that. In fact, in the financial projections that I prepared on the single line of insurance that we would start with, the directors and officers coverage, our net risk ratio would be less than .2. In other words, the premiums we would receive would be less than 20 percent of the amount of our capital.

When we only have that one line of insurance, we would retain potential risk of loss no greater than the amount of our capital so that we would be absolutely certain that a single loss wouldn't wipe us out, and we would reinsure the rest of the risk. We could write much more risk, but we would have to lay off the higher levels of risk, probably at Lloyd's. Most insurance companies don't operate that way, but when we have only one line of insurance, we think that we would have to, in order to be absolutely certain that we could pay off. I'm sorry, I . . .

MR. MUSGROVE: Mr. Chairman, they used to have terms about insurance companies -- maybe they still do -- about board insurance and non-board insurance. Now, I would assume that you would be covered under the board insurance type.

MR. FAIR: I haven't run into that term, so I don't know what it means.

MR. MUSGROVE: Well, I was partly involved in an insurance company one time. They used to write what they called board insurance, which was 100 percent guaranteed, and then there would be non-board insurance, which there was some risk with, and at generally a lower premium. So the non-board insurance would cover the outer risk -- if we could call it that -- at less premium. Now, you would be specifically under the 100 percent guaranteed part of the program.

MR. FAIR: Yeah, I believe so.

MR. CHAIRMAN: Any other questions or concerns? Would you like to make a final summary, Mr. Millikin?

MR. MILLIKIN: Yes, Mr. Chairman. That concludes our presentation. Jim Fair and I wish to thank both you and your committee for allowing us to present this private member's Bill. I hope that you'll see fit to recommend to the Legislature that it be passed. Thank you.

MR. CHAIRMAN: We would hope that if we do that, the Legislature will see fit to deal with our report on your behalf. Thank you very much, ladies and gentlemen.

I'll now entertain a motion to go in camera.

MR. WRIGHT: So move.

[At 9:15 a.m. the committee continued in camera]