

## National Bank CEO believes government will allow banks to sell insurance

by Associate-Publisher

MONTREAL (CP) - The chief executive of National Bank of Canada (TSX:NA - news) believes banks will be allowed to sell insurance products in their branches as the federal Bank Act comes up for review this year. Real Raymond said Wednesday that Canada may be the only developed country that prevents banks from directly selling insurance to their customers, a vestige of previous legislation aimed at curbing the reach of banks.

"Politically, it looks more and more difficult for any government to resist this change," Raymond said after the bank's annual meeting.

Due to lobbying by consumer groups and independent insurance brokers, banks cannot sell insurance directly to clients in their branches, or even talk about it.

Banks, however, can own insurance companies, as National Bank does.

Earlier in his speech, Raymond described the restrictions to prevent banks from integrating their insurance businesses as "anachronistic and unjustified."

The Bank Act is reviewed every five years, and its current form expires in October.

The Canadian Bankers Association, in its proposal for the review, recommends that banks be allowed to hand out brochures and refer clients for insurance, but not to sell to clients in house.

The Quebec-based bank, the smallest of the big six banks, achieved a return of 25.1 per cent in 2005. The National Bank says its shareholder returns were better than those of its five larger competitors during the past five years.

But an analyst said Wednesday the bank's performance will diminish this year.

In a note to clients, RBC Dominion Securities analyst James Keating lowered his 12-month stock target price to \$66 from \$71 because he believes the outlook for gains in operating profit has levelled off.

Keating expects the bank to spend more than average on technology for at least the rest of this year, and said National has not been generating as much revenue growth.

Raymond agreed that the bank may not do as well this year, but should still meet its objective of earnings per share growth of five to 10 per cent.

The bank has far exceeded this same target in the past several years, which Raymond attributed partly to the booming real estate market.

"I think it's going to slow down now," he said.

He agreed that Quebec's economy is more dependent on the manufacturing sector, hurting from the higher Canadian dollar, but added that the bank compensates with a large lending portfolio in the energy sector in Western Canada.

He said the bank's three main growth areas are wealth management, white label products sold through partner companies like Investors Group, and insurance.

Despite the restrictions on insurance, the annual report noted that National Bank General Insurance wrote up 23 per cent more premiums in 2005, and "continues to garner growing recognition."

National Bank shares were off 55 cents at \$62.85 on the Toronto Stock Exchange.

Raymond also repeated his call for bank mergers in Canada, which he said would allow National to expand by buying redundant branches in Ontario made available by a merger of any two of its competitors.

He said the five big banks account for 90 per cent of market share in Ontario, where National is not present.

"If there were mergers we could be a player there," he said.

Shareholders of the country's sixth largest bank roundly rejected four recommendations by shareholder activists that would have obliged the bank, for example, to disclose the financial statements of its subsidiaries in tax havens.

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