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RBC and the Microfit program

Mark Arnison wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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At the end of October 2010, Randy Camp, national manager, Business & Professional Service Clients at RBC Financial Group (commonly known as the Royal Bank of Canada or RBC), began hearing rumours that the implementation of an innovative new lending strategy was running into trouble. RBC, a Toronto-headquartered company committed to environmental responsibility, had spent considerable time and energy developing a loan program to support clients who wished to install solar panels as part of a clean-energy initiative sponsored by the Ontario government. The reports coming back to Camp were that RBC clients who happened to be customers of both the banking and insurance units at RBC were signing up for the solar panel loans and then reporting that their insurance coverage was being denied or cancelled as a result. Camp was concerned and, through a conversation with Heather MacLean, a product manager for home insurance at RBC Insurance, he was able to confirm the customers’ stories. MacLean described the situation as “a very big disconnect from a branding perspective.” Camp set about trying to determine why this situation had occurred and what had to be done to protect the interests of both the customers and the company as the loan program was implemented.

RBC Background Information

RBC began as the Merchants Bank in Halifax, Nova Scotia in 1864. Throughout the late 1800s, the company expanded, first to Montreal and eventually to provinces in Western Canada as well. It also established operations in the Caribbean to support sea trade along the East Coast of North America. In the early 1900s, the firm changed its name to Royal Bank of Canada and opened branches in New York, Western Europe, and even Russia. Within Canada, the bank pursued an acquisition strategy, buying market share and customers through the purchase of other banks. This expansion began to slow in the 1960s when the bank started to offer a broader suite of products for its customers. The Royal Bank of Canada introduced its first automated banking machine in 1972. In the 1980s, the banking industry in Canada faced deregulation through changes in the Bank Act, which allowed the company to diversify into the securities and trust businesses. As part of the move to becoming a broader-based financial services organization, the bank established insurance operations by purchasing several insurance companies. In 2001, the company launched its global master brand: RBC (see Exhibit 1).[[1]](#footnote-1)

By 2010, RBC operated five lines of business and one support area (see Exhibit 2):

* Canadian banking: Personal and business banking services were provided to roughly 10 million clients through physical branches, automated banking machines, online services, and call centres.
* Wealth management: This segment of RBC assisted wealthy clients to grow and manage their assets, and had a worldwide reach.
* International banking: RBC operated banking operations in the United States and in the Caribbean.
* Capital markets: This business unit provided financial advice and products to large corporate, government, and institutional organizations.
* Insurance: Insurance services were offered to both business and individual customers in a variety of areas, including health and life, home and auto, travel, and creditor insurance.
* Corporate support: This unit provided support services, such as human resources, technology support, risk management, and corporate treasury.

RBC’s Environmental Strategy

RBC first developed a corporate environmental policy in 1992 when it established a suite of environmental risk management policies to assess the credit risks for transactions with environmental issues. In 2007, the RBC Environmental Blueprint (Blueprint) was published. The intention, as noted by Sandra Odendahl, RBC’s director of Corporate Environmental Affairs, was to become a leader in “identifying, managing, and championing environmental issues, helping make RBC the first choice for clients, shareholders, and employees.”[[2]](#footnote-2) She noted that the Blueprint refocused corporate environmental policy with the priorities of reducing the corporate environmental footprint, managing risk, and developing responsible lending practices in environmental areas by offering environmentally focused products and services and engaging the community on environmental issues.

As a result of the Blueprint, RBC embarked on a program to reduce power consumption, introduce “green purchasing” (environmentally friendly purchasing practices), offset carbon dioxide emissions, open green-powered bank branches (using solar and wind-generated power), and develop employee environmental stewardship guidelines. The company published lender guides for green buildings and “Leadership in Energy and Environmental Design” certification. RBC updated and expanded its environmental risk management policies to cover more business areas, including capital markets. New products were developed, such as “Energy Saver” mortgages, financing for solar panel installation, greenhouse gas emissions trading, and renewable power investment banking. The company also sponsored and participated in events with stakeholders, government, industry associations, and non-governmental organizations to promote discussion around environmental issues. On the philanthropic side, RBC developed the Blue Water Project to help fund watershed protection and provide access to clean drinking water.

These efforts were largely successful and RBC published its “2010 Corporate Responsibility Report and Public Accountability Statement” demonstrating its performance using a wide variety of key performance indicators.[[3]](#footnote-3) In 2010, the company received numerous awards, including listings in “Global 100: Most Sustainable Corporations in the World” (World Economic Forum), “Canada’s Greenest Employers” (Mediacorp), and the GLOBE Award for Environmental Excellence.

The MicroFIT Program

Established by the Ontario provincial government in 2009, the Micro Feed-In Tariff Program (microFIT)[[4]](#footnote-4) was administered by the Ontario Power Authority (OPA) and designed to encourage the generation of electrical power from renewable sources. The concept was to encourage certain people and groups to invest in and operate small power generation projects (i.e., those generating fewer than 10 kilowatts), which would sell power at pre-set rates into the electrical power grid. The government hoped that the program would spur job creation and industry growth.

The program targeted four types of power projects:

* Solar photovoltaic panels (turning the sun’s energy into electricity)
* Wind turbines (using wind to turn electrical generators)
* Water (using moving water in streams and rivers to turn small generators)
* Bioenergy (burning biological solid or gas waste from forestry, farms, landfills, and other operations to power electrical generators)

Participation in the program was restricted. The list of people and groups eligible to apply for the program included individuals, farmers, co-operatives, municipalities, schools, hospitals, and aboriginal communities, among others. The OPA instituted a multi-step application process that required significant time and effort from the applicant. Approval depended to some extent on how much power the OPA needed to purchase. Participants were responsible for developing all aspects of their generation projects, including design, installation, permitting, financing, safety inspection, and insurance. Upon completion of construction and all associated paperwork, participants would be contracted to provide power in return for a fixed fee for either 20 or 40 years, depending on the type of project. For both ground- and roof-mounted solar photovoltaic power installations, the payment was CA$0.802 per kilowatt hour (kWh).[[5]](#footnote-5) The cost of developing these projects, for both home and commercial installations, was estimated to be in the range of $30,000, with an expected payback of 12 years.[[6]](#footnote-6)

Interest in the program was high. In August 2010, a commentary in the *Toronto Sun* reported that, by the beginning of July 2010, the program had received over 16,000 applications, most of which were for ground- or roof-mounted solar photovoltaic installations.[[7]](#footnote-7) As Camp described it, “This [the influx of applications] caused a flurry of activity in the first 18 months of the program. Businesses started sprouting to sell and service solar panels.” However, this interest also overwhelmed the system. The OPA had underestimated the number of applications for the microFIT program, and, at the beginning of July, 10,000 of the 16,000 applications were still unprocessed. Additionally, there were also technical problems getting applicants connected to the power grid because in some locations, the electrical infrastructure was not capable of accepting the new power sources.

In July 2010, the Ontario government announced that it would be reducing the rates paid for power from ground-mounted solar panel installations to $0.588 per kWh. The government had also decided that this rate would apply to all unprocessed applications. This reduction caused significant backlash. Applicants felt that they had applied in good faith, that they had already waited an unreasonable amount of time for approvals, and that they were now victims of government policy change. The sudden fee reduction caused many applicants to cancel their applications, which resulted in solar power equipment suppliers and installers losing a great deal of business. The combination of unprocessed applications, technical problems, and the abrupt rate change left an unstable climate in this new industry.

RBC Solar Energy Lending Program: Development and Implementation

In 2009, the business banking unit at RBC started investigating several possibilities relating to new products and services to support the firm’s environmental strategy. Camp led a team that looked at opportunities in renewable energy, clean technology, green building development retrofits, carbon trading, and water and waste management. Team members represented a variety of areas within the business banking unit and RBC corporate offices: risk management, product management (lending), marketing strategy, client strategy, and corporate environmental affairs.

The rapidly expanding microFIT initiative attracted the team’s attention, and the team developed the loan program to support it. The project started with consultations with bank stakeholders and with energy industry experts. By 2010, the team developed the loan product and created supporting documentation, other tools for staff to use (such as a “How to Lend to” guide), and marketing materials. Because this project represented a specialized and highly technical area, the bank created a focused internal education program to help reduce the intimidation account managers might feel when assessing risk and selling the product. The whole development process took a substantial amount of time.

Tom Larivee, manager of Environmental Solutions at RBC, described the bank’s targeted approach to product development as a competitive advantage. He commented that banks were typically conservative in nature, preferring to develop a significant knowledge base before moving into new product areas. He noted that RBC was willing to move more quickly than competitors: “We are a bank that is used to getting things done.” Because of this culture, RBC was able to develop the new focused solar panel loan program in advance of other banks. Competitors were still relying on more general line-of-credit products, which were focused on shorter-term lending. In this case, RBC felt the long-term steady cash flow of the solar panel projects was attractive and worth creating a targeted financial product.

The RBC Insurance Issue

MacLean explained the lack of connection between the banking and insurance units of RBC in two ways: the first had to do with the organizational structure and operating procedures required by legislation in the Bank Act, and the second had to do with the issues faced by insurers upon the introduction of a new type of product.

In Canada, the federal Bank Act (the Act) required financial institutions, for the most part, to separate banking activities from insurance activities. The intent behind this was to protect customers from coercive cross-marketing of services and products. The Act restricted the sharing of customer information between a financial institution’s banking and insurance units, and also required the two lines of business to operate in locations that were physically separate. The Act did authorize a banking unit to sell insurance closely related to the lending business of the bank, such as credit card insurance and mortgage insurance (see Exhibit 3). MacLean noted that the Act did not restrict banking and insurance employees from talking to one another but restricted only the content of the communication: “[T]he bank employee[s] cannot share their client information with the insurance employees[s].” The flow of client information in the other direction (i.e., from the insurance unit to the banking unit) was allowed under the Act, subject to customers’ consent.

In order to maintain the required separation, each unit at RBC had compliance procedures and protocols in place to help employees deal with the inevitable customer inquiries about the other unit. The focus was on education, providing employees with guidelines, training, and coaching when dealing with questions about the other unit. Banking employees, when dealing with a customer’s general request for information about insurance, would provide a list of providers (which included RBC Insurance), but would give no specific referral to RBC Insurance. Customers who specifically asked about RBC Insurance products were given a card with a 1-800 telephone number for RBC Insurance but provided with no other guidance.

The result of the legal requirement was that RBC’s banking and insurance units were operated as relatively separate entities with limited knowledge of the products developed in the other unit. MacLean noted that because of this, “We don’t tend to have discussions across products.” As such, RBC Insurance was not involved in the development of the solar panel loan project.

In terms of insuring properties with solar panel installations, MacLean indicated that RBC Insurance made the decision to deny coverage because it was a new type of risk profile in an uncertain market. This type of product was not “off-the-shelf,” and would most likely require significant time (perhaps four to six months) to research, plan, and price. She explained that insurance pricing was usually based on careful analysis of historical data and that, in this case, that data was not yet available. The company had concerns about the high risk potential due to weather-related causes like wind, heavy rain, and hail. The risk was increased by potential liability issues for lost income because these solar power installations were designed to generate revenue. The insurance industry was famously risk averse, with the most successful insurers spending a great deal of time and energy to fully understand the markets they entered.

From MacLean’s perspective, the market potential for insuring properties with solar panel installations was unclear, and perhaps small, because this was seen as a regionally restricted market—Ontario only (see Exhibits 4 and 5). She admitted: “We didn’t understand what the volume would be.” She also commented that because the sharing of client information between business units was restricted, RBC did not know how many microFIT program loan clients might also be insurance clients or potential insurance clients.

One thing that was clear was that competitors were also cancelling or denying coverage. A 2010 member circular from the Insurance Bureau of Canada provided anecdotal evidence, noting that one person had contacted 10 different companies and found only one that was willing to provide insurance. That person had also complained that the cost of insurance was prohibitive (in the range of $300 per year in addition to other policy premiums). The insurance industry appeared not to have been widely consulted by the developers of the microFIT program, and insurers were taken by surprise when clients began looking for coverage.

MacLean’s overall assessment of the situation was that, “It was a little bit of a scramble to understand.” She also reported that, “There was confusion” among clients who identified themselves as common to both the bank and the insurance units of RBC.

What to Do Now?

Camp was faced with a complicated and daunting situation. The target industry of the loan program was in flux with the government changing the rules in the middle of the game. MicroFIT participants were unhappy with this change and did not need further aggravation. From the customers’ perspective, the actions of two RBC business units were not meshing. Although each unit’s business decisions made sense independently, the outcome of these decisions for some RBC customers was unexpected. The challenges might only continue to grow if left unattended, especially if the OPA moved quickly to clear the backlog of 10,000 applications for solar panel installations. Camp considered the many questions before him: Was this the end of the microFIT program? How should RBC handle this difficult situation? How could the company prevent similar problems with future program implementations?

Exhibit 1: RBC’s Vision, Values, and Strategic Goals

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| **Vision**   * Always earning the right to be our clients' first choice | **Values**   * Excellent service to clients and each other [fellow employees] * Working together to succeed * Personal responsibility for high performance * Diversity for growth and innovation * Trust through integrity in everything we do |
| **Strategic Goals**   * In Canada, to be the undisputed leader in financial services in Canada. * Globally, to be a leading provider of capital markets and wealth management solutions. * In targeted markets, to be a leading provider of select financial services complementary to our core strengths. |

Source: Royal Bank of Canada, Royal Bank of Canada 2010 Annual Report, 2, 2011, accessed September 28, 2012, www.rbc.com/investorrelations/pdf/ar\_2010\_e.pdf.

Exhibit 2: RBC’s Business Segment Structure

Notes: All currency amounts are in CA$ millions; Rev = revenue; NI = net income.

Source: Prepared by the author based on information from Royal Bank of Canada, Royal Bank of Canada 2010 Annual Report, 2011, accessed May 5, 2013, www.rbc.com/investorrelations/pdf/ar\_2010\_e.pdf.

Exhibit 3: Excerpts from “Banking on Insurance: Bank Retailing of Insurance Products”

Current Regulatory Context

The *Bank Act* and accompanying regulations contain specific rules pertaining to chartered banks and their involvement in the insurance business in Canada. The *Insurance Business (Banks and Bank Holding Companies) Regulations,* pursuant to section 416 of the Act, authorize banks to sell certain insurance products closely related to their lending businesses in their branches, including credit or charge card-related insurance, creditors’ disability insurance, creditors’ life insurance, creditors’ loss of employment insurance, creditors’ vehicle inventory insurance, export credit insurance, mortgage insurance and travel insurance. Banks may also sell other types of insurance through subsidiary companies, subject to certain restrictions. Table 1 compares the permissible sales and promotional activities for authorized versus other types of insurance.

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| **Table 1: Bank Sales and Promotion of Authorized versus Other Types of Insurance** | | |
| **Activity** | **Authorized Types of Insurance** | **Other Types of Insurance** |
| **Sales** | Can be sold in bank branches. | Can be sold through insurance subsidiaries of banks, but not bank branches. |
| **Advice/Referrals** | Can provide advice on an authorized type of insurance or a service in respect of an authorized type of insurance. | Can provide advice that is general in nature and not related to a specific risk, insurance policy or service, insurance company, agent or broker.  Cannot refer customers to particular insurance companies, agents or brokers. |
| **Promotion** | Can promote policies of authorized types of insurance, as well as companies, agents and brokers that deal only in authorized types of insurance. | Can promote these types of insurance to all customers or credit or charge card holders who receive regularly mailed statements of account or to the general public, outside of bank branches.  Cannot “target-market” customers; that is, cannot segment the customer base and promote specific types of insurance to selected customers.  The same restrictions apply to bank promotion of companies, agents and brokers that sell these types of insurance. |
| Note: Authorized types of insurance are listed in section 2 of the Insurance Business (Banks and Bank Holding Companies) Regulations.  Source: Insurance Business (Banks and Bank Holding Companies) Regulations. | | |

Moreover, sections 8 through 10 of the Regulations prohibit banks from conducting other activities in the area of insurance, including:

* sharing customer information with insurance companies (subsidiary or otherwise), agents or brokers;
* providing telecommunications devices (e.g., telephones and computers) to customers for the purpose of linking customers with an insurance company, agent or broker; and
* conducting business in a location that is adjacent to an office of an insurance company, agent or broker, unless the bank clearly indicates to its customers that the two premises are “separate and distinct.”

In addition to rules explicitly related to the insurance activities of banks, the Act contains a provision to protect consumers from coercive tied selling of all products and services. Section 459.1(1) of the Act reads: “A bank shall not impose undue pressure on, or coerce, a person to obtain a product or service from a particular person, including the bank and any of its affiliates, as a condition for obtaining another product or service from the bank.”

Source: Used with permission from Sheena Starky, “Banking on Insurance: Bank Retailing of Insurance Products,” Library of Parliament (Catalogue No. PRB 05-105E), 1–3, June 19, 2006, accessed September 28, 2017, www.parl.gc.ca/Content/LOP/ResearchPublications/prb05105-e.pdf.

Exhibit 4: 2010 Loan Data for Canada’s “Big Eight” Banks

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| **Bank** | **Average Loans Outstanding** |
| RBC | 327,007 |
| Scotiabank | 286,607 |
| TD Financial Group | 286,147 |
| CIBC | 200,115 |
| BMO Financial Group | 185,001 |
| National Bank of Canada | 63,458 |
| Laurentian Bank of Canada | 17,223 |
| Canadian Western Bank | 10,136 |
| Total | 1,375,694 |

Notes: All currency amounts are in CA$ millions; the “big eight” banks comprise approximately 92% of the market in Canada.

Source: Canadian Bankers Association, “Database of Domestic Banks' Financial Results: Fiscal Year-End 2006–2015,” 2, accessed May 27, 2014, https://www.cba.ca/Assets/CBA/Files/Article%20Category/PDF/stat\_banksann\_db251\_en.pdf.

Exhibit 5: Premiums Paid to Canada’s Top 20 Private Insurers

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| **Rank** | **Company** | **% of Direct Written Premiums in Canada\*** |
| 1 | Intact Group | 15.86 |
| 2 | Aviva Group | 7.89 |
| 3 | RSA Group | 6.60 |
| 4 | TD Insurance Group | 6.02 |
| 5 | Wawanesa Mutual Insurance Company | 5.51 |
| 6 | Co-operators Group | 4.86 |
| 7 | Desjardins Group | 4.40 |
| 8 | State Farm Group | 4.11 |
| 9 | Economical Group | 4.02 |
| 10 | Lloyd’s Underwriters | 3.90 |
| 11 | Dominion of Canada General Insurance Company | 2.82 |
| 12 | Northbridge Group | 2.64 |
| 13 | Allstate Group | 2.34 |
| 14 | AIG Insurance Company of Canada | 2.14 |
| 15 | RBC Group | 2.05 |
| 16 | Zurich Insurance Company Ltd. | 2.05 |
| 17 | La Capitale Financial Group | 1.68 |
| 18 | Chubb Group | 1.49 |
| 19 | Genworth Financial Mortgage Insurance Company Canada | 1.24 |
| 20 | FM Global Group | 1.02 |
|  |  |  |
|  | Total | 82.64 |

\*Direct written premiums are the fees charged for insurance coverage.

Source: “2014: Facts of the Property & Casualty Insurance Industry,” IBC: Insurance Bureau of Canada, 6, accessed May 28, 2014, http://assets.ibc.ca/Documents/Facts%20Book/Facts\_Book/2014/IBC\_2014\_Factbook\_English.pdf.

1. “History,” RBC, accessed September 27, 2012, www.rbc.com/history/index.html. [↑](#footnote-ref-1)
2. Sandra Odendahl, “Greening Your Business: What’s Right for Your Company?” Supply Chain & Logistics Conference, May 2010, Powerpoint presentation, http://www.rbc.com/environment/pdf/2010-Greening-Your-Business.pdf. [↑](#footnote-ref-2)
3. Royal Bank of Canada, 2010 Corporate Responsibility Report and Public Accountability Statement, 2011, accessed September 28, 2012, www.rbc.com/responsibility/pdf/RBC-CRR-Report-2010-e.pdf. [↑](#footnote-ref-3)
4. “News and Overview: MicroFIT Program,” IESO: Connecting Today Powering Tomorrow, accessed September 28, 2012, http://www.ieso.ca/get-involved/microfit/news-overview. [↑](#footnote-ref-4)
5. All currency amounts are in CA$ unless otherwise specified. [↑](#footnote-ref-5)
6. OPA: Ontario Power Authority, “Generate Power and Money” [Brochure], Toronto, Ontario, www.cwhydro.ca/pdfs/microfit/microFIT\_pamphlet.pdf. [↑](#footnote-ref-6)
7. Mike Schreiner, “MicroFIT Major Issue for Liberals,” Toronto Sun, August 10, 2010. [↑](#footnote-ref-7)