



# ONTARIO MUTUAL INSURANCE ASSOCIATION

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March 21, 2006

Ms. Carol Shevlin  
Policy Manager (A)  
CCIR Secretariat  
5160 Yonge Street, Box 85  
Toronto, ON M2N 6L9

Dear Ms. Shevlin:

**re: Managing Conflicts of Interest:  
A Consultation Paper on Enhancing and Harmonizing Best Practices**

Thank you for the opportunity to supply input on the CCIR/CISRO paper “Managing Conflicts of Interest: A Consultation Paper on Enhancing and Harmonizing Best Practices”.

Generally, we are in agreement with the approach that has been taken, given your goal of enhancing and harmonizing best practices in the management of actual or potential conflicts of interest in the insurance industry across Canada.

Given the results of your research, the three stated principles are a practical approach that should serve to reinforce the requirements that are already in place. Those principles being:

1. Priority of the client’s interest: An intermediary must place the interest of the policyholders and prospective purchasers of insurance ahead of his or her own.
2. Disclosure of conflict of interest or potential conflict of interest: Consumers must receive disclosure of any actual or potential conflict of interest that is associated with a transaction or recommendation.
3. Product suitability: The recommended product must be suitable for the needs of the consumer.

Also, as you point out, further steps can be taken if necessary. This sort of approach makes sense, given that the issue has arisen because of a fairly recent occurrence in the U.S.A., the Canadian insurance industry took quick, voluntary action to enhance public

confidence, and your comprehensive review of the issue did not reveal any illegal activity.

With respect to the specific questions:

**1. Do you think that the principles or outcomes outlined in this paper reflect appropriate best practices in managing potential conflicts of interest?**

While your recommended three principles do reflect appropriate best practices in managing potential conflicts of interest and should achieve your goals, we still offer the following points that were made in our July 2005 submission:

- Ontario is the only jurisdiction where OMIA's members do business. In our opinion, Ontario already has appropriate safeguards in place through RIBO and FSCO.
- Exclusive property casualty agents, under Ontario's laws, only have one market. Therefore, they will never be in the conflict of interest position of potentially directing a client to an inappropriate insurance market in the interest of receiving a reward for doing so. That, as we understand it, was the situation in the USA that led to this study.

Nevertheless, in our opinion, your proposed principles are sound. They have long been inherent elements of our business practices. The most elementary of insurance courses for intermediaries stress that insurance is a fiduciary relationship.

**2. Are there practical problems associated with the implementation of the recommendations outlined in the consultation paper?**

- a) We would prefer to see some flexibility added to principle #2 and principle #3 as follows:

#2 – Disclosure of conflict or potential conflict of interest: Consumers must receive disclosure of any actual or potential conflict of interest that is associated with a transaction or recommendation *that the distributor or insurer is aware of or should have been aware of.*

#3 – Product suitability: The recommended product must be suitable for the needs of the consumer *in the judgment of the distributor and the insurer based on the information that was provided by the insured.*

The addition of this wording reflects the fact that there is a responsibility on the part of the client to provide pertinent information and to ask questions.

- b) We agree that transparency will enhance consumer confidence and that it therefore makes sense for a broker to divulge whether an insurer has a “financial interest” in the brokerage. However, to require the details of the financial

interest to be identified would be going too far. Also, if brokers must make their clients aware of financial arrangements with insurers, then there is nothing to be gained by the insurer repeating this information. We especially have a concern about requiring an insurer to disclose financial arrangements with brokers in any way that could allow the general public, other brokers, and in particular, competitors to access the information.

**3. What role could the industry associations play in supporting their membership in implementing these principles?**

In the case of OMIA, and probably other industry trade associations, we would see our key role being one of communication, education and guidance. In our case, this could be accomplished through our ongoing series of training sessions including management, conferences and agent training sessions. The OMIA website could also be used to publicize the three principles.

Thank you for the opportunity to provide input on this issue.

Very truly yours,

A handwritten signature in black ink, appearing to read "Glen Johnson", with a horizontal line extending to the right.

Glen Johnson, B.A., C.A.E.  
President