



*Insurance Practices Review Committee*  
*Managing Conflicts of Interest Consultation Paper: Feb 2006*

*Comments submitted by Aviva Canada Inc.*  
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All enquiries regarding this submission should be submitted to:

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#### **About Aviva Canada Inc.**

Aviva Canada Inc. (Aviva) is one of Canada's largest property and casualty insurance groups.

Aviva wholly owns several major insurers in Canada including: Aviva Insurance Company, Pilot Insurance Company, Traders General Insurance Company, Elite Insurance Company and Scottish & York Insurance Company. Aviva companies operate in all provinces and territories within Canada and employ approximately 3,500 people.

This response to the consultation paper is written on behalf of all companies owned by Aviva Canada Inc. and Aviva strongly supports the goal of enhancing and harmonizing best practices around disclosure in our industry.



## **Executive Summary**

1. Aviva Canada Inc. (Aviva) is very supportive of the overall goals and direction of the Insurance Practices Review Committee (IPRC) consultation paper. We believe that where possible, the goals of the Committee should be achieved by industry associations and other stakeholders adopting agreed best practice rather than through new regulation. The risk of regulation is that flexibility to adjust to future circumstances and consumer needs becomes restricted.

Aviva also believe that consistency of application across all Canadian jurisdictions will generate benefits across the industry and for consumers.

2. All industry stakeholders have a primary responsibility to serve the needs of the consumer. Implementation should recognize however the need to avoid unnecessary costs that will ultimately be borne by the consumer. The IPRC needs to recognize the difference in both consumer need and industry business process when comparing a new policy purchase with an annual renewal purchase.

Establishing disclosure appropriate to the purchase decision, whilst minimizing unnecessary additional costs, must be the goal.

3. The nature of the required disclosure, prior to purchase at the point of sale must be simple for all advisors and their owners to implement – whilst still meeting the stated objectives. This will facilitate effective application and consistency.



**General observations:**

**Should there be a difference in application between commercial insurance buyers and personal lines consumers?**

The consultation paper does not make an explicit statement in this regard. Aviva believes that the recommended principles should be designed to be applicable equally to commercial buyers and personal consumers.

However, it is commonly accepted that there is greater onus, in every business sector, when dealing with the personal consumer to address potential inequities of knowledge and expertise.

**The differences in role of insurance company employed customer service representatives, direct agents (offering products from a single insurance company) and insurance brokers.**

The IPRC consultation paper makes little distinction identifying and describing the differences and responsibilities to the consumer of each of these groups. The capabilities of each are different – particularly in respect to the ability search a broad range of possible markets for a given customer.

However, consumer needs and interests should be paramount in the construction of any guidelines and protocols and guide all who give insurance advice to the consumer.



## **Recommendation 1: Priority of Client's interest**

**Principle: An intermediary must place the interests of policyholders and prospective purchasers of insurance ahead of his or her own interests.**

- Aviva agrees and supports the principle and believes that it is currently achieved effectively within current accepted codes and practices of the various industry associations.
- Aviva agrees with the examples stated – the emphasis being on the relationship between the advisor (agent or broker) with the consumer as part of the sales process (as opposed to the employer of the advisor). Whilst the employer is of course responsible for the actions of the employee – the focus of intent within any communication around this recommendation should be on the individual person actually offering the advice.
- It goes without saying that a broker or agent needs to act with honesty and integrity. Recognition however should continue to exist that agents in Ontario and Quebec for instance, because they may be employed by the insurer, could have a slightly different relationship, responsibility and disclosure requirement to the insured.
- We believe the distinction in the relationship is still appropriate as long as the agency relationship is clearly disclosed.



## **Recommendation 2: Disclosure of conflict or potential conflict of interest**

**Principle: Consumers must receive disclosure of any actual or potential conflict of interest that is associated with a transaction or recommendation.**

- We argue that disclosure as stated in advance of all renewal transactions is not practical and would increase costs significantly to the ultimate detriment of value for the consumer. All discussions about placements of new contracts should follow the guidelines but renewal continuations, where the majority of transactions are conducted by automated mail, need be less structured provided the communication includes comment on the options available to the consumer regarding requesting their advisor seek alternatives.
- We suggest more focused disclosure requirements when it comes to naming insurance companies a given advisor represents.  
The 'line of business' being discussed here is relevant.

For example – naming an aviation market, a specialist program underwriter and your one auto insurance market could create the impression of searching amongst 3 possible markets as opposed to the reality of just 1. Naming of relevant markets (or at minimum stating the number of relevant markets) would be our recommendation as many consumers have expectations that their advisor is searching amongst a significant portfolio of potential insurers.

However, it should be acknowledged that agents in certain provinces are not brokers and only represent certain companies. They will not canvass the market – but need to make this fact clear.

- Aviva does not believe upfront discussion of remuneration is relevant and will make the process unnecessarily complex. The agent / broker must be obligated to explain this if requested (and in documentation make this offer to explain clear).
- Loans, ownership and other financial ties should be directly stated before purchase, at the point of sale.  
In Appendix 1 we include a copy of an open letter to the insurance industry, published in trade press in October 2005, stating our views around disclosure. In Appendix 2, we include some examples of how this could be achieved, depending on the nature of the relationship being considered.
- Insurer website disclosure – we agree and currently comply with the direction. We argue that insurers should not be required to name brokers where there is a loan relationship. For existing loans it would potentially put an insurer in breach of confidentiality conditions and the effort required to generate permissions would not be justified by the benefits given the primary and most relevant onus for disclosing all financial ties sits with the advisor (agent / or broker).



### **Recommendation 3: Product suitability**

**Principle: The recommended product must be suitable for the needs of the consumer.**

- The P & C industry is a short term, typically one year, contract. The concepts of ensuring product suitability originate in the investment and pensions industry where commitments can be significantly longer. Aviva supports the underlying principle but argues the application needs to reflect the short term nature of the contract.
- We agree with this principle and the descriptions of how applied. We would have concerns if the advisor becomes obligated to recommend the lowest price because the assessment of suitability for a consumer varies along various dimensions.



## Appendix 1

### Let's Be Clear, About Disclosure

Let's face it, for most customers the insurance business is complex and the sales arena potentially confusing.

The Insurance Bureau of Canada and other stakeholders have all agreed that we need more disclosure in the sale of insurance.

So let's be clear about disclosure.

At Aviva Canada, we believe the customer deserves to be told by their sales advisor some basic facts about the choices they are presented with. They need to know:

- Who does the sales advisor work for?
- Do they have financial ties to an insurance company?
- How many companies are represented for the product they are buying?

Customers have the right to know these basic facts before they make up their minds.

#### Where do we stand?

At Aviva Canada we are committed to the independent broker channel as our primary means of distribution. While there are many sales intermediaries who are knowledgeable and provide advice, the winning proposition for customers who choose an intermediary comes from local brokers who demonstrate their independence and provide real choice.

Aviva Canada is a multi-distribution group committed to disclosure. Therefore, where the sales advisor is an employee of our group, full disclosure will be provided.

That's our position. We'd like to hear from you on where you stand.

Send your comments to [letsbeclear@avivacanada.com](mailto:letsbeclear@avivacanada.com).

For more details visit [www.avivacanada.com/letsbeclear](http://www.avivacanada.com/letsbeclear) to find out why we believe this issue is so important to our industry.

On behalf of the entire Aviva Canada team,

A handwritten signature in black ink, appearing to read "Igal Mayer".

Igal Mayer,  
President and CEO

Taking care of what's important to you  
[www.avivacanada.com](http://www.avivacanada.com)





## Appendix 2

### **Examples of potential constructions to support relevant and appropriate disclosure**

#### **1. Direct writer representative**

Thank you for calling XYZ Insurance Company. I am a licensed employee of XYZ and as such, am able to discuss and offer the products of XYZ.

Do you have any questions?

#### **2. Agents**

Thank you for calling XYZ. XYZ are an independent business that is an agent of ABC Insurance and as such I am able to discuss and offer the products of ABC.

Do you have any questions?

#### **3. Financially supported or insurer owned broker** (Applies to loans, other financial ties and ownership)

Thank you for calling XYZ Insurance brokers.

XYZ represents (insert number/ names of relevant) insurance companies - and receives financial support from ABC Insurance.

#### **Substitute:**

XYZ represents (insert number) insurance companies - and are wholly (partially) owned by ABC Insurance.

Do you have any questions?



#### **4. Pure Independent Broker**

Thank you for calling XYZ Insurance brokers. We are an independent business representing several (name relevant) insurance markets. As an independent broker we work for you - to find the best product at the price appropriate to your specific needs.

Do you have any questions?