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March 24, 2006

Ms. Carol Shevlin  
Policy Manager (A)  
CCIR Secretariat  
5160 Yonge Street, Box 85  
17<sup>th</sup> Floor  
Toronto, ON M2N 6L9

Dear Ms. Shevlin:

**RE: Consultation Document on Managing Conflicts of Interest**

On behalf of the Canadian Association of Direct Response Insurers (CADRI), I am pleased to provide comments in response to the Industry Practices Review Committee (IPRC) paper, *Managing Conflicts of Interest: A Consultation Document on Enhancing and Harmonizing Best Practices*.

CADRI members provide home and auto insurance to Canadians in all provinces and territories, utilizing call centers, the Internet and other direct-to-consumer methods to distribute insurance products directly to the public. CADRI is comprised of Canadian insurance companies at the forefront in applying technology to the insurance sales process, which benefits consumers through faster and more convenient service.

Overall, CADRI supports the approach to managing conflicts of interest that is set out in the consultation document, and we appreciate the efforts the IPRC has made to solicit and incorporate feedback from stakeholders throughout this consultation. We were pleased to meet with representatives of the IPRC on March 6<sup>th</sup> to discuss the issues in more detail and found that exchange of views helpful in formulating our response. Our specific comments follow.

- CADRI strongly supports the “progressive approach” to market conduct taken in this latest consultation paper. This is consistent with the earlier finding of no illegal

activity, and enables both the industry and regulatory bodies to make better use of their resources. More prescriptive rules should be developed only if it is later determined that they are needed. Principles-based rules that companies can implement according to their unique operational needs provide more flexibility and more room for innovation in the marketplace.

- CADRI believes that the three principles recommended for strengthening and harmonization are appropriate and accurately described. We agree that the principles (Priority of the client's interest; Disclosure of conflicts or potential conflicts of interest; and Product suitability) are necessary for consumer protection and to maintain confidence in the insurance marketplace.
- In particular, we support the interpretive descriptions that state: "disclosure should be brief and relevant to the purchase decision . . ." and "Disclosure formats should be flexible and tailored to different products and distribution channels." These aspects of disclosure are critical to successfully disseminating information to clients.
- The sales process for intermediaries or agents employed by insurers (who are not, in fact, intermediaries) distributing the products of one insurer is free of the conflicts under discussion in the consultation. Therefore, we do not believe that special disclosures are required. We reiterate our understanding that it will be sufficient for such intermediaries or employees to state, in a positive way, the insurer that they represent.
- CADRI's continuing concern is that in the process of implementation by individual jurisdictions, the guidance and interpretation on these high-level principles will vary, with different degrees of intervention, such as scripted disclosures. The IPRC's focus on uniformity in understanding and application of the principles, and a risk-based, progressive approach to regulation, must be maintained.
- The consultation document poses questions relating to actions that individual companies and industry associations might take to promote best practices in the marketplace with respect to adherence to the principles. CADRI is willing to play an active role in helping its members share best practices and disseminating information to consumers.
- For example, CADRI would undertake to ensure that its Code of Conduct is harmonized with wordings adopted by CCIR/CISRO with respect to the principles. At present the Code does not address the priority of consumer interests specifically, so this would require some updating of the Code.
- It is important to note that many companies, including CADRI members, have already rolled out the Ontario 2005 voluntary P&C industry disclosures nationally. Thus, CADRI members have already extended certain best practices, helping to address the gaps identified in the November Summary paper released by the IPRC

regarding varying rules in effect in different jurisdictions. We would continue to monitor this by sharing best practices during regular association meetings.

- Finally, CADRI would be willing to use its web site to post consumer information that would assist consumers in better understanding direct-response methods of distribution..

Consultation Questions:

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

*Yes. In particular, they reflect the recent initiatives undertaken by the industry to improve disclosure to consumers.*

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

*We have not identified any serious issues with implementation, although this will depend to a large extent on how individual jurisdictions adopt the principles. It will be necessary to ensure that harmonized language is used in our own code and company communications, in accordance with the principles as described in this paper.*

3. What role could industry associations play in supporting their members in implementing these principles?

*Ensuring consistent provisions in the code of conduct. Using our association web site to disseminate information to consumers. Periodically reviewing company sites and sharing best practices via regular association meetings.*

Thank you for giving CADRI the opportunity to provide our views on the issues relating to conflicts of interest in the insurance sales process. If you wish to discuss these comments or need more information, please do not hesitate to contact me.

Sincerely,

Richard Evans

Richard Evans  
President