

June 15, 2005

Dear Stakeholder:

On behalf of the Canadian Council of Insurance Regulators (CCIR), I am writing to provide you with an update on the status of our project on referral arrangements.

As you are aware, on January 23, 2004, CCIR released a consultation paper entitled "Referral Arrangements" for review and comment by all interested parties. The paper was developed in response to stakeholders' concern that the full Life Licence Qualification Program (LLQP) should not apply to certain types of financial services intermediaries, as for example, securities registrants transacting segregated fund business.

Instead of pursuing the option of a special licence, some stakeholders suggested a preference for the ability to be paid for referrals, whether on a flat fee or commission-splitting basis. As a result, CCIR asked its Licence Considerations Committee to undertake a consultation on consumer protection measures that would be necessary if referral fees were more widely permitted. In particular, the paper sought comments on options regarding eligible parties to an arrangement, disclosure requirements, fee levels, and record keeping.

The consultation period ended on March 5, 2004. A total of 10 responses were received. Copies of all responses are available on the CCIR web site ([www.ccir-ccrra.org](http://www.ccir-ccrra.org)). The Committee reviewed the responses and prepared some initial recommendations. Since that time, however, CCIR has embarked on another project that could have some ramifications on the decisions that are eventually made regarding referral arrangements.

In October 2004, the Canadian Council of Insurance Regulators and the Canadian Insurance Services Regulatory Organizations established the Industry Practices Review Committee (IPRC) to examine relationships between insurance companies and their sales intermediaries. The main tool for that review consisted of a detailed market conduct questionnaire for insurers. The questionnaire examined various aspects of the relationship between insurers and intermediaries, including the payment of contingent commissions, sales incentives and ownership linkages. Copies of the questionnaire are available on the CCIR web site.

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The IPRC has reviewed the questionnaire responses received and has prepared a consultation paper entitled *Relationships Between Insurers and Sales Intermediaries*. This paper provides an overview of the questionnaire findings for both the P&C and L&H sectors and outlines a number of possible policy options.

On the basis of a recommendation made by the Licence Considerations Committee, CCIR has decided to defer a final resolution on the issue of referral arrangements until the work of the IPRC has been completed. CCIR approved this recommendation in order to ensure consistency in terms of the recommendations that are brought forward by each committee.

We will keep you apprised of any further developments in the area of referral arrangements. In the meantime, we encourage you to visit the CCIR web site and to download and review a copy of the IPRC's consultation paper ([http://www.ccir-ccrra.org/publications/index\\_en.htm](http://www.ccir-ccrra.org/publications/index_en.htm)). Your comments and suggestions on the issues outlined therein would be greatly appreciated.

Yours truly,

Original signed by

Doug Murphy  
Chair, CCIR Licence Considerations Committee

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