



**Allstate**<sup>®</sup>  
You're in good hands.

**Michael J. Donoghue**  
President &  
Chief Executive Officer

Tel: (905) 475-4477  
Fax: (905) 475-4991

July 29, 2005

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

Dear Ms. Shevlin;

I would like to take this opportunity to respond directly to the Canadian Council of Insurance Regulators (CCIR) consultation paper, *Relationships between Insurers and Sales Intermediaries*.

By way of background, The Allstate Canada Group of Companies (ACG) includes Allstate Insurance Company of Canada, Pembroke Insurance Company and Pafco Insurance Company. Allstate Canada Group is a multi-channel producer and distributor of home and auto insurance products, accessible through our community-based agents, our broker representatives, directly on-line, and our Customer Contact Centre at 1-800-ALLSTATE.

Over the past several months provincial regulators and the insurance industry have worked extremely hard to address the issue of disclosure and transparency. The CCIR is to be commended for spearheading the development of the consultation paper, which has provided a thorough and comprehensive assessment of this very important topic.

ACG strongly believes that consumers deserve nothing less than complete openness and transparency from the insurance industry and its representatives. It is incumbent upon the industry to earn the trust and confidence of consumers through education and information on the methods used to assess risk, the products and services that are offered and the means by which these products and services are distributed and delivered.

It will be important to continue to work together in order to maintain the consultation paper as a meaningful and thoughtful process to achieve our mutual goals of long-term market stability and consumer protection and awareness. To that end, Allstate Canada Group of Companies has identified three specific items that were queried in the CCIR paper on which we would like to provide comment for further consideration by the CCIR.

.../2

First, as noted above, ACG strongly believes that the industry and its representatives have a responsibility to be as open and transparent to consumers as possible. By doing so the industry can address public perception of conflict of interest head on and in fact, may well provide the necessary remedy to the issues identified in the CCIR paper.

However a closer look reveals that when dealing specifically with agents or direct channels such as call centres and the internet, the potential for conflict of interest does not exist because the products and services are provided by only one company.

Therefore, a reasonable approach for the CCIR would be to clarify the proposed recommendations by exempting agents and direct channels from any initiatives or guidelines intent on addressing issues around the potential for a conflict of interest. It goes without saying that agents and direct channels will continue to address consumers in a manner that supports openness and transparency.

Second, competitive compensation arrangements generate greater competition between insurers for access to broker markets. Commissions earned by brokers do not adversely affect the consumer any more than commissions earned by individuals selling products or services in other industries. Brokers have and will continue to act in the best interests of their customers with a goal to sustain their independent business through excellent customer service and customer advocacy. Regulation in the area of compensation packages would stifle the spirit and small-business economics of the broker distribution channel, ultimately resulting in less choice for consumers.

Therefore, a reasonable approach for the CCIR would be to continue to allow the open and competitive market to regulate commissions, incentives and/or support packages for broker intermediaries.

Finally, and certainly among the most challenging issues to address in our industry is defining what is considered, 'independence' in the broker distribution channel. ACG believes that a strong concept of transparency for the broker channel will necessarily provide consumers the information they need to understand the nature of their relationship with their broker and their transaction for purchase of insurance. The industry can well devise the necessary types of transparency initiatives that support this goal, and indeed must do so themselves directly in careful consultation with all necessary stakeholders, including consumers.

We also believe that actual regulation in this area may create both unnecessary costs and/or impose restrictions on issues within the consumer's experience of the purchase of insurance that ultimately Canadian consumers are telling us are not the source nor cause of issues for them.

A critical distinction to make when considering broker distribution and "independence" is that the nature of independence resides solely in the jurisdiction of capital share and/or financial ownership and links. The volume of business a particular broker places with a particular insurer is irrelevant, as the competitive market is fully at play.

The broker can and will place a customer's business with the insurer who provides the most suitable coverage at an affordable price, regardless of market volumes. At ACG we believe that for a broker to be truly independent, capital share or ownership ties must be less than 50 percent. As a result, the volume of business with a particular insurer will have no bearing, as it cannot be deemed codified by ownership or interest. In addition, competition would thrive and consumers would benefit.

Therefore, a reasonable approach for the CCIR would be to create a definition of 'independence', which clearly states that capital share, ownership or financial ties must be less than 50 percent in order to enhance transparency and improve consumer confidence.

As the CCIR deliberates on these issues there is one additional point that should be highlighted. ACG strongly supports an approach that would harmonize disclosure practices with the creation of one set of guidelines for Canada. There is no need for regional discrepancies in disclosure practices from a consumer's perspective.

Allstate Canada Group is committed to working with the CCIR to create a framework for transparency and disclosure that improves consumers' confidence of the insurance industry. We believe that agents and direct channels do not pose a potential for conflict of interest; that regulating compensation and commission will stifle competition between insurers and provide the consumer with less choice; and that clear and concise definition of 'independence' is necessary for the broker channel, and that the consumer's interest is best served if the experience of such purchase with respect to transparency requirements is harmonized across all jurisdictions.

I appreciate the opportunity share our suggestions on behalf of Allstate Canada Group and I thank you in advance for your measured and thoughtful consideration of these proposals.

Sincerely,

A handwritten signature in black ink, reading "Michael J. Faragher". The signature is written in a cursive style with a large, prominent initial "M".