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This letter responds to the invitation of the Industry Practices Review Committee (IPRC) to submit comments, suggestions and ideas regarding the issues described in the consultation paper entitled *Relationships Between Insurers and Sales Intermediaries*.

The undersigned are stakeholders by virtue of their roles as Managing General Agents (MGAs) also known as Managing General Underwriters or Wholesalers in both the Property & Casualty (P&C) and Life and Health (L&H) insurance classes. In that respect we are considered intermediaries. However it is our main concern that the IPRC distinguishes the MGA role from that of Retail Agents and Brokers in any new regulation.

MGAs perform an important role in the marketplace in providing specialized insurance that is not normally available from main line insurers. We estimate between \$750 million and \$1 billion of combined commercial P&C and L&H premium is written annually in Canada by MGAs.

MGAs solicit, underwrite and quote risks, issue policies, collect premiums and sometimes adjudicate claims for unique or special classes of risk on behalf of their supporting Insurers, distributing those specialized products to retail agents and brokers.

MGAs have acquired specialized knowledge and experience that the supporting insurer does not have and thus the insurer delegates his role to the MGA in those classes through Underwriting Agreements or Binding Authorities. Competent underwriting performance lies at the heart of the MGAs relationship with their insurers. If underwriting performance deteriorates, the relationship fails and a valuable marketing resource for retail brokers is lost.

To oversimplify somewhat, the MGA is aligned with the interests of the Insurer contrasted with the retail broker whose role is to serve the insured.

The MGA has no direct retail service costs. Their function is solely to underwrite on behalf of their insurers, their retained compensation includes a lower percentage commission than the standard retail commission and a higher Contingent Profit Commission (CPC) based on the profitability of the block of business being underwritten by the MGA. As a result, CPCs are usually a significant percentage of the MGAs remuneration.

We therefore ask that IPRC's final report recognises:

- (i) The importance of the underwriting role played by MGAs and their reliance on underwriting profit to insurer support for classes of business which standard insurers cannot or will not write.
- (ii) CPCs are entirely consistent with the underwriting objective. A recommendation to prohibit CPCs would have the effect of significantly reducing insurer support for Canada's most difficult commercial classes.
- (iii) The important difference between premium volume incentives offered to retail brokers (which have come into disrepute) and profit incentives offered to MGAs.
- (iv) Not all MGAs are licensed or are required to be licensed in every jurisdiction.
- (v) Although provincial regulations do not make a distinction between MGAs and retail brokers, MGAs are not required or expected to provide professional advice to the client. Indeed they rarely have any direct contact with the client at all.
- (vi) MGAs cannot control the insurance transaction at the point of sale therefore any MGA compensation disclosure must be satisfied in another manner. For example, Elliott Special Risks Ltd includes a compensation disclosure document on its web-site.

The undersigned therefore respectfully submit that any limitation or prohibition on the practice of insurers offering Profit Commissions should be applied only to Retail Insurance Agents or Brokers who represent the interest of clients and not applied to MGAs who properly represent the interests of the insurers.

The undersigned would be pleased to meet with the IPRC to further discuss this and any other matter affecting these issues.

Respectfully submitted,

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Mike McLachlan, Creechurch
Bob Morrison, Canada World Wide
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