

**Relationships Between Insurers and Sales Intermediaries
Consultation Paper**

**Submission to the CCIR/CISRO
Industry Practices Review Committee**

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Comments:

I understand the regulators rationale for the Canadian insurance industry to review and examine the recent alleged fraudulent and dishonest practices in the U.S., to see if they were occurring in Canada and to be proactive in identifying options to enhance public confidence. I am told the review concluded there was no evidence of illegal practices and the life and health insurance companies have policies and procedure in place to mitigate the potential for conflicts of interest. I am in the life and health insurance business and have been since 19889. I have been an independent broker since 1990. I have always placed my clients' interest first and have found my associates and colleagues do the same.

There is no evidence to suggest that consumer confidence is weak in the Canadian marketplace or that consumers are being negatively affected by the manner in which they are currently being served. A competitive industry is what drives consumer decisions in today's marketplace, and the Canadian Life and Health insurance industry is highly competitive.

The Consultation Paper proposes to: codify the priority of the client's interest; restrict performance-linked benefits offered to intermediaries; and enhance transparency of compensation, ownership and other financial interests through greater consumer disclosure. I have been a member of several industry associations, including ADVOCIS since entering this business and believe the priority of our client's interest is adequately dealt with under professional codes of conduct. Tampering with performance-linked benefits would have considerable negative impacts on the insurance distribution sector and would ultimately hurt consumers. The industry is taking significant steps to meet enhanced disclosure requirements in respect of perceived or actual conflicts of interest.

We are sufficiently regulated in the life and health insurance sector and I find it counter-intuitive for regulators to increase regulation in areas where it is unfounded. More regulations would only deteriorate consumer service, as the brokers try to juggle with the increased burden and reduction in compensation.

There are significant negative impacts associated with restricting performance-linked incentives. Such a move would be extremely disruptive to the industry and would negatively impact consumers, by actually limiting choice and reducing service standards for consumers. These disruptive elements to an already stable insurance distribution system may include: an exodus of existing participants from the industry; the creation of significant barriers to entry of new participants in the industry; a limitation of consumer choice resulting from a contraction of the number of insurance intermediaries; and the deterioration of consumer service.

Performance can be measured in many different ways. Not just reward for initial sales, but consistency of sales and persistency of business. Performance bonuses are frequently paid for providing good client service and for maintaining long-term relationships with clients, one of the criteria for putting the clients' needs first. We are paid for best when

we look after the clients' priorities. It is not uncommon for people to be compensated for performance. If an employee does an excellent job and the companies financial performance is enhanced as a result of the actions of the individual they are rewarded. It may be a bonus or a special perk, or it may be an increase in their salary. My clients feel they get good value for the service I provide. They have told me they do not consider our business relationship to be transaction orientated, but they rely on my advice and council in their long term financial planning concerning their family and their business. My clients are frequently rewarded based on their performance and they have never indicated a concern with the idea of my compensation being linked to performance.

The life and health insurance business is a very different from the property and casualty business. Any regulations should reflect the business structure of the industry and current regulatory environment.

Meaningful disclosure for insurance consumers should focus on matters that are relevant to the transaction or proposed transaction, provide information useful to the buyer in the decision making process; reveal bias or a reasonably likely bias on part of the seller; and are reasonably quantifiable. Current disclosure requirements in the L&H insurance industry adequately address these issues without providing unnecessary information to consumers that could confuse them and distort the decision-making process. Disclosing intermediary compensation, which is determined largely by insurers, is extremely complex with several unpredictable variables, and would be extremely confusing to consumers.

In the mid 90s the Ontario Insurance Commission worked closely with industry to develop a 29-point Agent Code of Conduct. When it was published in 1995, the announcement said it would be adopted into regulation. It never was.

I understand the intent of the Consultation Paper to provide the results of the IPRC's recent market conduct questionnaire of Canadian insurers, outline a number of potential policy options addressing key issues as determined by the IPRC, provide a forum to consult with interested stakeholders, and, following the consultation process, allow IPRC to possibly recommend to governments implementation of various policy options, including those identified in the paper, those proposed by key stakeholders or those developed and put in place by industry through voluntary measures.

I agree with the objective of ensuring the highest level of consumer confidence in the insurance marketplace. I also agree it is vital to maintain a competitive market for insurance, to provide consumers with sufficient information and choice to make an informed decision.

Insurance intermediaries in today's business and regulatory environment are subject to a significant amount of regulation and necessary due diligence in every step of the process from the time they first come into contact with a client to the time the financial transaction is complete and as a matter of maintaining the ongoing relationship with the client and the continued servicing of the financial products purchased by the consumer. Moreover, insurers impose strict requirements in most cases on agents and brokers to

comply and often exceed regulatory requirements. This is evident in insurers suitability assessments of agents, the contracts that allow agents to sell insurance products of a particular insurer, and the standard forms that insurers produce that agents must use.

Canadian consumers of life and health insurance products and life and health insurance advice are treated fairly within the current insurance distribution system, and advisors in today's environment are providing unbiased advice to their clients. There is a significant degree of competitiveness and choice in the market, and consumers are provided a substantial amount of information in order to make appropriate financial decisions. With the growth of the Internet, consumers have been afforded the opportunity to obtain competitive pricing information across a variety of suppliers and have the ability to comparison shop should they be inclined to do so. Consumers have also been the beneficiaries of declining premium costs year-after-year as the industry's competitiveness is further enhanced.

The IPRC believes that some current business practices may contribute to a perception of or actual conflicts of interest in the marketplace that may be undermining consumer confidence.

The premise behind the conclusion is that bias *could* exist in the course of providing advice to consumers due to actual or potential conflicts of interest as perceived by a reasonable, informed, third party. Notwithstanding that a bias could exist, there is no evidence to support a conclusion that a bias does exist. I believe that it is important to gain the consumer's perspective when examining consumer confidence issues. This study into Canadian sales practices does not consider consumer input.

Consumers understand that individuals in any sales industry are paid on a variable basis and may be eligible for bonuses. The banking industry has also adopted this compensation structure. There is no evidence whatsoever to suggest that Canadian consumers are being impacted detrimentally by the compensation structure of the L&H insurance industry, or that they are concerned that this form of compensation structure may give rise to a perception of bias. Consumers today may purchase life insurance through a variety of channels with significant choice, and it is a highly competitive industry that drives consumers' decisions in today's marketplace. They choose the intermediary.

There are legitimate reasons for having performance-linked benefits embedded in the compensation structure of the insurance sector, a practices that is common for sales in other industries. Insurers offer these voluntarily, as part of their business model as a means to effectively compete in the marketplace. Disallowing sales incentives in a competitive marketplace for life insurance would substantially disrupt the insurance distribution industry. Moreover, such a move would amount to a significant restructuring of the industry and would be contrary to the objective of maintaining a level playing field in the financial services industry. In an era where governments are driven by a desire to cut through red tape and in many cases reduce regulations it appears counter-intuitive for

regulators to now seek to embark upon a drive for more regulation in areas where such an approach is unfounded.

In making financial decisions, clients care most about the value they are receiving. In other words, the quality and characteristics of the product (does it meet their needs?), the cost of the product (what is the final price?), and the ongoing service associated with that product (to what extent will the financial advisor be of assistance?). Meaningful disclosure for insurance consumers should focus on matters that:

- Are relevant to the transaction or proposed transaction;
- Provide information that the buyer can employ in the decision making process;
- Reveal bias or a reasonably likely bias on part of the seller; and
- Are reasonably quantifiable and that are reasonably expected to remain at least relatively constant or at least predictable for a reasonable time into the future.

Current disclosure requirements in the L&H insurance industry adequately address these issues without providing unnecessary information to consumers that could actually confuse them and distort the decision-making process.

Insurance companies set the compensation schedule, including the bonuses and other incentives we receive for each product. In many instances, we do not know what the final compensation will be because compensation is based on a contractual agreement with the insurer that includes not only commissions but also bonuses based on targets which may be achieved well after the client has purchased the policy. While the premium between two insurers may be identical, the compensation arrangement might vary substantially based on the bonus structure, which forms only part of the total compensation.

Disclosing a complex compensation structure with unpredictable variables would be extremely confusing to consumers and would take away from their focus, which should be choosing the right product, for the right price, serviced by a reliable, competent and accessible financial advisor.

Conclusion:

The IPRC's review of Canadian insurance industry practices was initiated following high-profile investigations in the United States in late 2004, where State regulators and governments have taken legal action against a number of insurers, brokerages and individuals, that were alleged to have engaged in fraudulent practices in the sale of insurance. The investigation concludes that there was no evidence of illegal practices in Canada, and that companies representing the vast majority of the L&H insurance business have policies and procedures in place to mitigate the potential for conflicts of interest. Moreover, there is no evidence to suggest that consumer confidence has been shaken in any way by situations arising out of the United States.

Some of my clients have operated businesses both in the U.S. and in Canada. They tell me business is more aggressive and the culture is very different. They prefer to operate here in Canada where business is open and fair, where we share a general concern for the client and where business relationships are long term and based on the client being priority # 1.

I understand that regulators must balance the priority of protecting consumers with that of ensuring the industry is operating efficiently and in a cost-effective manner. However, it appears counter-intuitive for regulators to now seek to embark upon a drive for more regulation in the L&H insurance industry where such an approach is unfounded.

Thank you for the opportunity to provide comments to the Canadian Council of Insurance Regulators' (CCIR's) and the Canadian Insurance Services Regulatory Organizations' (CISRO's) Industry Practices Review Committee (IPRC) on its *Consultation Paper on Relationships Between Insurers and Sales Intermediaries*.