

## ***Crozier Financial Group***

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August 5, 2005

Mr. Stephen Paglia  
Policy Manager (A)  
CCIR Secretariat  
5160 Yonge Street, Box 85  
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Toronto, Ontario  
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Dear Sirs:

### ***RELATIONSHIP BETWEEN INSURERS AND SALES INTERMEDIARIES***

This is in response to the Consultation Paper on the Relationships Between Insurers and Sales Intermediaries dated June 2, 2005.

I am an actuary and licensed insurance agent with 20 years experience in the industry. My background includes i) working for an insurer to design and market life insurance products, ii) working as a consultant to assist in the applications and sales of life insurance and iii) as an agent for the sale of insurance products. My comments are based on this experience.

The financial industry needs to ensure public trust and confidence. Insurance advisors generally are paid commissions for the sale and persistence of products and there is the possibility for conflicts of interest. It is appropriate that processes be in place to prevent such conflicts, both real and perceived, in order to maintain public trust.

I thus applaud this joint undertaking of CCIR and CISRO, where you seek feedback on three policy options. My general comments, from a life and health insurance perspective, are as follows:

- Various professional organizations, such as Advocis and IFBC, already include a code of ethics for members, including priority of clients' interests. I do note, however, that not all intermediaries belong to a professional organization.
- While insurers with more than 50% market share extend loans to intermediaries, this should not be translated into meaning more than 50% of the intermediaries have loans at any time, as one might conclude from the findings summarized on pages iii and 5 of the paper.
- Need to clarify who is meant by the intermediary. Is it the agent/broker who has the direct contact with consumers & sells the product? Or, is it the Managing General Agency (MGA), branch manager, etc?
- There are legitimate business reasons for having incentive-based sales rewards and the practice is also common for sales in other industries. Insurers voluntarily offer them, and presumably do so as an effective means of obtaining profitable sales. Thus, I do not believe these should be restricted.

- Re scope of disclosure on page 7:
  - The paper differentiates between whether or not the intermediary “holds themselves out as being independent” and suggests a possible difference in practice for the two groups;
  - Many intermediaries claim to be able to access different insurers and be independent, yet their business tends to be directed to only a few insurers;
  - Most consumers do not know whether “their” intermediary is independent;
  - In any event, the same “issues” the paper addresses apply equally to different insurance plans/options within the same insurer (ie. captive intermediary may have an incentive to promote one product over another);
  - Paper states that if disclosure is to be done by all, then captive intermediaries would not need to disclose ownership or financial relationships; however, compensation may affect the sales process for captive intermediaries (eg. pressure to oversell) and they should not be eliminated from any disclosure requirement.
- The paper does not distinguish between an ultimate intermediary and MGAs. Bonuses and over-rides of 200% or more are paid to the MGA, who then decides what to pay their brokers. Typically the MGA is paid the full 200% bonus (assuming they have sufficient total sales volume to qualify) even for brokers who are not selling enough with that insurer to substantiate such bonus level.
- It is common for MGAs to pay their brokers a bonus/over-ride percent for each insurer based on the broker’s aggregate sales volume for all insurers placed through that MGA rather than a bonus/over-ride that varies for each insurer dependent on the sales volume only with that insurer.
- In my experience, intermediaries tend to be more influenced by non-financial reasons, such as relationship and leverage with under-writing staff, service levels, past experience, fair treatment of existing clients, relationship with wholesalers, product competitiveness and familiarity with sales process (eg. knowledge and ease of use of the illustration system and applications).
- Required disclosure of too much information unfortunately may have the unintended consequence of consumers ignoring it (ie. too much to read and unfortunately just accept it without reading it).
- The paper suggests life and health intermediaries disclose the names of all insurers they represent. If this is to be done, they should also disclose breakdown of the portion of their business that is done with each (some brokers have contracts with many insurers but do over 90% of their business with only a few).
- Disclosure by intermediaries of their bonus/over-ride may confuse consumers. For example, consider two brokers competing for a sale with the same client. One broker discloses their compensation based on a 100% bonus while the other discloses compensation based on a 160% bonus. Yet, the premium from a given insurer is the same for both. [Note: as

mentioned above, the MGA for the two brokers are likely paid the same total bonus.] I believe this would confuse the consumer.

- Pure “incentive-type” compensation (eg. sales conferences, additional over-rides, etc) is a very small part of the overall compensation received by intermediaries and built into the premium costs.
- If disclosure is to be done, what is to be disclosed? Just what the particular intermediary gets (either in total or with any incentive-based amount split out)? Total compensation paid? Or, total “distribution cost” for the product?
- What about direct writers of insurance? What disclosure would apply for them? The paper does not consider this.

As noted in several of these comments, the paper does not appear to address some potential problems with the issue of the amount of compensation to disclose. In my opinion, the best way to handle this issue, should disclosure become mandated, is for the insurers themselves to disclose the portion of premium that arises for total distribution costs. The insurers develop and offer the products, including the commission levels. They are the best party to determine the amount of such compensation and prepare any disclosure document.

In general, I very much believe in providing objective advice and recognize there is a need to maintain public confidence and eliminate any real or perceived issues on sales practices. I do not have an opinion on the actual amount of information to be disclosed and am comfortable with minimal or full disclosure. However, I am also practical and believe any disclosure should be i) meaningful to consumers, ii) easy to provide and iii) consistent for all intermediaries.

Finally, I respect this work on compensation for intermediaries. However, I believe there are other issues of insurance products that are more important for consumers. Examples include treatment of insurability status from the date of application until date the actual policy is delivered and the time frame for which the insurer may deny a claim due to fraud (unlimited in Canada whereas it is only two years in the United States). These issues can cause an individual to believe they have coverage, but one unfortunately find out coverage does not exist only at time of claim. By then, it is too late to obtain alternative coverage. Other examples may be found by reviewing the types of lawsuits that commonly arise involving insurers.

Sincerely,

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