

From: Tim Fitzpatrick <timfitz@covirt.com>
To: <ccir-ccrra@fsco.gov.on.ca>
Date: Fri, Aug 19, 2005 5:50 PM
Subject: Relationships between Insurers and Sales Intermediaries

Attention:

Stephen Paglia
Policy Manager (Acting)
CCIR Secretariat
5160 Yonge Street, Box 85
Toronto ON M2N 6L9
ccir-ccrra@fsco.gov.on.ca

Dear Stephen,

I am writing about the consultation paper: ?Relationships between Insurers and Sales Intermediaries?.

http://www.ccir-ccrra.org/publications/index_en.htm

My background:

<http://covirt.com/timf.html>

I have a major concern with the proposed remedy of changing performance-linked compensation in the life insurance distribution system. Life Insurance and P&C should not be treated as one industry--compensation practices are substantially different.

The free market has determined the current independent system is lowest overall cost for carriers to provide the suite of services that carriers provide. If there was a better way, someone would have implemented it.

It is an economic 101 fact of life that if you tamper with the free market, you increase overall costs or decrease services. As an extreme example, the communists tried to perfect a planned economy in Russia for decades and it only resulted in long lines and empty store shelves. If your actions increase overall costs or decrease services by only 5%, that still is material and unnecessary.

Due to the current demographic problem of the majority of advisors over age 55 and the lack of new blood coming in, removal of performance-linked compensation could accelerate the retirement of the most experienced advisors in the industry, which would impact carriers consumers, carriers, MGAs and even the organizations as they lose members and volunteers.

Russia had a planned economy and this led to empty store shelves. Carriers will price for the same return on capital after the change -- it might take 18 months to filter through. The problem will be that sales will be lower as the model without performance-linked compensation to the free market is less economically effective at providing services to consumers . This is the parallel to empty store shelves.

The return on capital will be the same but with less sales, there will be too

much capital and some will have to be removed from life carriers so they can meet their return on capital. Again the industry will shrink and there will be volcanic upheaval.

Therefore the option being considered to end performance-linked compensation can only result in a substantial reduction in the service that the industry provides consumers, or the same services at higher prices. Ask any economics professor about this cause and effect. How can higher prices possibly help consumers? Consumers overall are injured more by regulatory interference as they have to pay more and the damage is much more than the illusionary problem that the regulatory interference. The whole issue reminds me of this story -- "On the plains of La Mancha the pair spotted a cluster of huge windmills. Quixote instantly declared them to be giants, and, despite Sancho's protests, charged on them with lowered lance. The great arms of a windmill caught the knight and his steed and sent them both rolling. Quixote blamed the disaster on the work of a magician, who must have changed the giants into windmills in order to deprive me of the glory of overcoming them." In other words, the regulators are tilting at windmills that are illusionary and not at a relevant consumer issue.

Even the consultation paper begins by stating no evidence of illegal activity was found. Why this has become an issue at this time? The questionnaires sent to the insurance industry to examine compensation practices, by the admission of the CSI itself, showed no evidence of need for change. The window for comment is unusually small, especially during the summer. This has the appearance of a regulator having decided to make changes regardless of the facts or needs of consumers.

On the other hand, if as the paper states the goal is to compare markets to the US and to take action that increase consumer confidence in the Canadian insurance market, then there is one tremendous consumer issue that are not being addressed and one that is a glaring difference between the US and Canadian insurance market. In both countries, life insurance not contestable if the policy has been inforce 2 years. In the US, there are no exceptions to the rule. In Canada, there are 2 exceptions --fraud or a change of insurability before delivery. While on the surface there are good reasons for these 2 exceptions, pretty much all the carriers that operate in Canada also seem to be able to operate in the US environment. In Canada, I have never seen an explicit discount in mortality for the poor consumer protection aspect of our regulatory environment. Who suffers? Windows and orphans when the lose a loved one. Removing these exceptions is a 100% win for consumers, widows and orphans and will have no material impact on insurance carriers.

Tim Fitzpatrick
President
CoVirt Inc. (Canada)
Suite 1119, 1750 The Queensway
Toronto, Ontario, Canada, M9C 5H5
Phone 416-587-3901
Fax 416-352-5664
EMail: timfitz@covirt.com

<http://www.covirt.com/>