



Mr Jim Scalena  
Chair, Streamlining and Harmonization Committee  
Working Group on Market Conduct Issues  
Canadian Council of Insurance Regulators  
c/o Maria Policelli  
Policy Manager  
CCIR Secretariat  
5160 Yonge Street, Box 85  
Toronto, Ontario  
M2N 6L9

May 18, 2004

**Re: CCIR Consultation: Issues Related to Inducements, Rebating and Tied Selling**

Dear Mr Scalena,

CADRI is pleased to be able to offer comments on the CCIR consultation document entitled Issues Related to Inducements, Rebating and Tied Selling. CADRI represents Canadian insurance companies that use call centers, the Internet and other “direct response” methods to distribute property and casualty insurance products directly to the Canadian public. Direct response is the fastest growing sales channel in the Canadian market today, with an estimated 20% market share. CADRI members are at the forefront in the application of technology to the insurance sales process, which benefits consumers through faster and more convenient service.

CADRI members believe it is appropriate to remove certain marketing prohibitions in regulation. In the last several years the regulatory environment in the area of consumer protection has been enhanced. At the federal level, there is the Financial Consumer Agency of Canada (FCAC) whose mandate is to oversee federal financial institutions’ compliance with consumer provisions of federal law. The FCAC ensures compliance with codes of conduct and deals with consumer education. Financial institutions also have the Financial Services Ombudnetwork (FSON), which provides a national system for the handling of complaints through the CLHIO (life insurance) GIO (general insurance), and OBSI (banking and investments). This is in addition to provincial complaint handling regimes.

For ease of reference, our comments will follow the order of questions asked in the consultation document.

Inducements/Rebates

With respect to the first issue, CADRI strongly supports the industry proposal to remove prohibitions on rebating and inducements. As direct writers, CADRI members are more likely than traditional insurance companies to be creative with marketing initiatives and provide a competitive challenge to traditional distribution methods. Discounts and incentives for



transactions completed on the Internet have already been approved in several provinces for P & C insurance. Such initiatives are done in the interests of both the insurer and consumer.

CADRI believes that the issues of rebating and inducements can be treated together as a removal of a ban on both is acceptable to CADRI. We see no need for any restrictions on the use or value of incentives as it will be very difficult for regulators to determine what is a suitable incentive level for any given product line. The use of incentives will have no particular impact on current distribution methods other than to permit more creativity in the marketing process. We believe that consumers are familiar enough with marketing incentives in order to make appropriate purchasing decisions, and believe that consumers should be given the opportunity to receive a benefit from having companies compete based on price and promotions for their business. CADRI members are in the P&C business but we do not foresee any reason why the use of incentives should differ for A&S and life insurance. In past, the use of incentives has been permitted for encouraging customers to seek a quote or request information. CADRI feels that the use of incentives should also be permitted for customers who purchase a product. There does not need to be differentiation between an insurer or an agent/broker offering an incentive, nor do we see any regional or local issues to be addressed.

#### Tied Selling

CADRI supports the industry proposal that the bundling of financial service products should not be considered tied selling provided it does not require the consumer to purchase unwanted products. We would like to refer the CCIR to Section 459.1 of The Bank Act which prohibits coercive tied selling of all products but recognizes bundling by noting that it would be acceptable for an institution to offer more favourable terms to a person than it would otherwise offer, if another product is purchased from the institution or one of its affiliates. We would caution, however, that certain products are often only available in combination with other products. For example, a policy on a jewelry item may only be available if a person also insures his or her residence with the insurer, as it may not be justified on a standalone basis. We would like to ensure that any phrasing of a coercive tied selling restriction does not impede an insurer's ability to prudently manage its risk and pricing policies.

We commend the CCIR on its goal of achieving streamlined and harmonized regulation in these matters. If you would like to discuss this response in more detail, please contact the undersigned.

Yours truly,

David Lincoln  
President