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Mr Jim Scalena,
Chair, Working Group on Market Conduct and Other Issues,
Canadian Council of Insurance Regulators
c/o Maria Policelli
Policy Manager
CCIR Secretariat
5160 Yonge Street, Box 85
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Toronto, Ontario
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May 19, 2004

Dear Mr Scalena,

CAFII is very pleased to respond to the consultation paper entitled "Issues Related to Inducements, Rebating and Tied Selling". CAFII will comment on the industry proposals in the order presented in the consultation paper.

Rebating and Inducements

Industry Proposal – Legislative prohibitions on rebating and inducements should be removed so that the market forces are allowed to operate more freely.

CAFII supports the industry option to remove prohibitions on rebating and inducements. We see no need to adopt the other options set out in the consultation paper. CAFII prefers an open and competitive marketplace with regulatory streamlining wherever possible to help manage costs of compliance. CAFII believes that the removal of the prohibition on rebating will lead to an increased amount of promotional activity geared to rewarding customers for making a very important financial decision to protect themselves, their family and their possessions. Enhanced promotional activity would increase the overall awareness of insurance products and benefits and would thereby move the industry and consumers in a positive direction.

CAFII believes that recent consumer protection initiatives make specific prohibitions redundant. The new Center for Financial Services Ombuds Network (CFSON) provides a national system for complaint handling and the Financial Consumer Agency of Canada (FCAC) ensures that federal financial institutions comply with consumer protection provisions of legislation, ensures institutions adhere to codes of conduct and provide consumer education. Institutions also provide clients with the 30-day "free look" for most products.

Permitting promotional activities will enhance competition and provide incentives and benefits to consumers. We believe that both consumers and industry will benefit by allowing

more creativity in the marketing role. Companies should not be restricted in their ability to offer beneficial promotions that encourage and reward consumers for considering and purchasing insurance products.

Should rebating and inducements be considered separately?

CAFII believes that the issue of rebating and inducements can be considered together. CAFII supports the removal of the ban on rebating, but should it remain, companies should not be prevented by prohibitions on rebating from offering insurance at different costs through different distribution channels.

If rebates and inducements are allowed, should there be any restriction on their use and value?

CAFII believes that restrictions on inducements and rebates are not necessary. It will be very difficult to determine and monitor what would be appropriate marketing incentives for different insurance products.

What is the impact of the suggested change on existing methods of distribution of insurance?

A prohibition on rebating of premiums has been used by the industry to help prevent fraud on the part of life agents who would rebate premium then collect the full commission for the sale of a product, which may be subsequently discontinued or lapsed. CAFII believes that the industry will find other means to monitor and control this activity. We would like to point out that Alberta has allowed rebating for a number of years now, and no company has reported an increase in fraud or problems associated with the practice.

Should all insurance products be treated the same? Life? P&C? A&S? Other?

For simplicity and reduction in regulatory burden, CAFII recommends that a general removal of a ban on rebating and inducements is appropriate.

Should an inducement be restricted to a quote or request for information but prohibited when “tied” to a purchase?

CAFII supports allowing inducements to encourage customers to seek quotes but we do not support limiting inducements to this situation only. Promotional activities provide a way for companies to compete and differentiate themselves in the market. Consumers will benefit from enjoying the added value of having companies and brokers compete vigorously for their business. Consumers are very accustomed to promotional activity such as collecting points on loyalty programs for purchases. This market activity is well understood and accepted by consumers and there is no real reason to exclude insurance purchases. If the promotion of points with the purchase of, for example, travel insurance encourages or reminds consumers to protect themselves while traveling, then such activity is a real benefit to consumers..

Should there be any differentiation between an insurer and an agent/broker offering a rebate or inducement?

CAFII sees no need for any differentiation.

Are there any regional or local issues that need to be addressed?

CAFII does not see any regional or local issue.

Are there any options or implications concerning the elimination of the prohibition on rebates and inducements that are not discussed above?

CAFII believes the issue has been adequately addressed.

Tied Selling and Bundling

Industry Proposal – Bundling of financial service products should not be considered tied selling, provided it does not require the consumer to purchase unwanted products.

CAFII supports the industry proposal. CAFII agrees that coercive tied selling should be prohibited as consumers should never be forced into buying financial products or requiring the purchase of one product in order to obtain another one. However, offering an optional bundle of products to consumers allows companies to pass on administrative cost savings resulting in a better price and greater convenience for the consumer. CAFII cautions however, that certain types of protection are only offered in combination. CAFII members may define their product as the combination of protections such as job loss and disability coverage on creditor insurance. The offering of combined coverages should not be construed as a bundle or tied selling, but a necessary risk mitigation requirement.

CAFII appreciates being invited to participate in this important consultation. We encourage the CCIR in its efforts to both revise and harmonize the rules relating to rebating and tied selling. If you have any questions or comments on this submission, please contact the undersigned.

Yours truly,

A handwritten signature in black ink, appearing to read 'Oscar Zimmerman', with a stylized flourish at the end.

Oscar Zimmerman
President