



Canadian Life  
and Health Insurance  
Association Inc.

Association canadienne  
des compagnies d'assurances  
de personnes inc.



May 21, 2004

Ms. Maria Policelli  
Policy Manager  
CCIR Secretariat  
5160 Yonge Street, 17<sup>th</sup> Floor, Box 85  
Toronto, ON M2N 6L9

Dear Ms. Policelli:

I am writing on behalf of member companies of the Canadian Life and Health Insurance Association (CLHIA) regarding the Canadian Council of Insurance Regulators (CCIR) consultation paper entitled "Issues Related to Inducements, Rebating and Tied Selling."

The CLHIA, founded in 1894, is a voluntary association with member companies accounting for some 98 per cent of the life and health insurance in force in Canada. The Canadian life and health insurance industry protects about 23 million Canadians and almost 19 million people elsewhere in the world. Within Canada, it makes \$42 billion a year in benefit payments, invests almost \$280 billion and provides employment directly to about 119,000 Canadians.

The proposals in the CCIR consultation paper have been reviewed by the CLHIA Committee on Distribution and Intermediaries and other member company experts. The comments in this letter reflect this input.

At the outset, it should be noted that we commend CCIR for its ongoing efforts to identify regulatory requirements across the country that can be streamlined or harmonized. The current consultation on these specific issues is a welcome continuation of the work that has already been done to advance these important objectives.

### **Inducements/Rebates**

While the CCIR paper identifies an "industry" proposal to remove the prohibitions on rebating and inducements, the option that appears to be closest to the position of CLHIA member companies is "continue to prohibit rebating but relax prohibition related to inducements."

With respect to the specific questions set out in the consultation paper, we believe that rebating and promotional inducements should be considered separately and that rebating should not be permitted. Providing inducements as a promotional activity is acceptable but a materiality test for limiting the value of the inducement would be appropriate. As well as being of token value, the inducement should not be contingent on the actual sale of the product. Instead, the inducement should be available to anyone who makes an inquiry, asks for a quote or does something else of a similar nature.

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The most significant effect arising from the elimination of the prohibition on rebating of insurance premiums is likely to lie with consumers. It is important to keep in mind that most life insurance products are purchased for the long-term. The risk is that a consumer will purchase a policy with a low initial premium that they cannot afford over the long-term. Purchase decisions about life insurance should be based on what the customer needs and can afford. These decisions should not be influenced by illusory or short-term savings.

If rebating or inducements was permitted, the effect on distribution would depend on the frequency of the practice and the dollar amounts involved. There is at least a theoretical risk that smaller, independent agents could be disadvantaged under certain circumstances.

There does not appear to be any reason for differentiating among various life insurance products. We cannot comment on the merits of the prohibition for P&C insurance so cannot comment on whether life and general insurance should be treated the same.

We are not aware of any local or regional issues nor any other issues related to this matter.

### **Tied Selling**

We support the position set out in the CCIR paper that “bundling ... not be considered tied selling, provided it does not require the consumer to purchase unwanted products.”

It is important to distinguish coercive tied selling, i.e., a situation in which a consumer is not able to purchase something he or she wants without purchasing something else, from situations where a company can achieve economies that are passed along to a consumer by bundling products. In the latter case, the consumer is still able to buy the products separately but can realize a savings if they are bought as a package.

On behalf of our member companies, I would like to thank CCIR for the opportunity to comment on these matters. I would be happy to expand on these comments or provide additional clarification if it is required.

Sincerely,

Peter B. Goldthorpe  
Director, Marketplace Regulation Issues