



August 6th, 2004

Ms. Maria Policelli
Policy Manager
CCIR Secretariat
5160 Yonge Street, Box 85,
17th Floor
Toronto, Ontario M2N 6L9

Re: CCIR Discussion Paper on Issues related to Inducements, Rebating and Tied Selling

Dear Maria,

I am writing to inform you of recent developments with respect to the industry's position on Inducements and Rebating. In particular, in light of the rapid advancement of the Risk-Based Regulation file and progress in IBC's own efforts towards a Co-ordinated Framework for Automobile Insurance, the industry position on rebating as stated on page 3 of the IBC's May 21st, 2004 submission to CCIR is currently under review.

We appreciate the opportunity to keep CCIR and its affiliates up to date with current developments.

Sincerely,

Jane Voll
Vice President Policy Development & Chief Economist
Insurance Bureau of Canada

**Issues Related to Inducements, Rebating and Tied Selling
CCIR Discussion Paper (March 2004)**



May 21st, 2004

Ms. Maria Policelli
Policy Manager
CCIR Secretariat
5160 Yonge Street, Box 85,
17th Floor
Toronto, Ontario M2N 6L9

Re: CCIR Discussion Paper on Issues related to Inducements, Rebating and Tied Selling

Dear Maria,

I am writing to you in response to CCIR's recent Discussion Paper on Inducements, Rebating and Tied Selling. We have had an opportunity to review the proposed options, and agree with CCIR that legislation governing the practice of inducements, rebating and tied selling should be reviewed. In general, IBC is supportive of initiatives to remove obstacles that impede competition and innovation in the industry as well as harmonize regulation across jurisdictions, as long as there is adequate protection for consumers. IBC is aware that there are consumer protection mechanisms in place through organizations such as Financial Consumer Agency of Canada and provincial regulators to ensure consumers' rights are upheld. We believe that the P&C industry is distinct, compared to other industries in Canada's financial services sector and that regulatory and other public policy initiatives should reflect this fact.

Unfortunately, not all areas of the Discussion Paper relate directly to P&C. However, please find attached IBC's response to the applicable options presented by CCIR. In the future, IBC would welcome the opportunity to provide further proposed changes that are considered on this topic. If we receive any further feedback from our member companies, we will forward it to you.

Sincerely,

A handwritten signature in black ink that reads "Jane Voll". The signature is written in a cursive, flowing style.

Jane Voll
Vice President Policy Development & Chief Economist
Insurance Bureau of Canada

**Issues Related to Inducements, Rebating and Tied Selling
CCIR Discussion Paper (March 2004)**



Attachment:

Issues Related to Inducements, Rebating and Tied Selling CCIR Discussion Paper (March 2004)



Issue:

It has been suggested that the marketplace has evolved significantly since the existing laws were enacted and that there should be a review to determine if changes are required to enhance competition and provide benefits to the consumer. CCIR recently produced a Discussion Paper on issues related to inducements, rebating and tied selling, and would like industry input on proposed changes to the legislation governing: inducements/rebating; tied selling and the bundling of financial products; and, disclosure requirements when replacing life insurance. An inducement is the offer of a thing of value as an incentive to purchase an insurance product. A rebate of premiums (rebating) is a specific type of inducement, which allows certain consumers to receive reduced premiums, that the insurer or agent or broker has not offered to other consumers. These practices have been characterized as potentially unfair or deceptive and as a result legislative restrictions are currently in place.

IBC Position:

Restoring balance to insurance regulation is a priority for IBC. IBC goals on this area include promoting:

- Modern market conduct supervision
- Efficient, effective solvency supervision
- Supervisory integration

The Principles and objectives guiding IBC activities on this area are found in the document *Restoring Balance (2001)*. As it encourages reform, including the response to the CCIR Discussion Paper on *Issues Related to Inducements, Rebating and Tied Selling*, IBC is guided by the following principles:

1) Need for government regulation

Appropriate government regulation reduces the risk of company insolvency and enhances public confidence in the financial system.

2) Balance

Efficient and effective regulation provides appropriate balance between intrusive government regulation and strict reliance on market forces.

3) Co-operation

Insurers and regulators both have a valuable role to play in the policy analysis and decision-making process.

4) Harmonized approach

There are significant benefits to consumers when regulators harmonize initiatives across jurisdictions, particularly among major trading nations, and secondarily within them (federal, provincial and territorial levels of government).

5) Pragmatic solutions

Regulators and insurers should focus on pragmatic solutions to regulatory concerns, rather than dwelling on philosophical differences.

6) Cost

Cost will continue to be an important determinant in evaluating the efficiency and effectiveness of the regulatory system, but not the only factor considered. Also, the damages of direct and indirect regulatory costs must be recognized.

7) Control

The conduct and management of any insurance company remains the sole responsibility of its senior management and Board of Directors.

8) Inherent limits to solvency monitoring

While active solvency monitoring can reduce the risk of failure, some companies may still fail because of unforeseen circumstances.

Issues Related to Inducements, Rebating and Tied Selling CCIR Discussion Paper (March 2004)



9) Disclosure of information

Disclosure is a powerful and cost-effective regulatory tool that strengthens industry discipline and instills public confidence.

10) Tangible measures

Objective measures of regulatory effectiveness can enhance public confidence in the system and demonstrate good value to insurance consumers.

IBC Response:

Through its Discussion Paper on *Issues Related to Inducements, Rebating and Tied Selling*, CCIR seeks industry opinion regarding the following options. IBC comments are noted in italics below.

INDUCEMENTS/REBATES:

Q) CCIR Proposals:

Option:

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

Other Possible Options:

- Do not prohibit incentives that are meant to encourage consumers to request a quote or learn more about a product.
- Continue to prohibit rebating but relax prohibition related to inducements.
- Relax prohibition for rebating and inducements by establishing the maximum value of the incentive.
- Eliminate the prohibition against inducements but establish a requirement for disclosure of the net value of the incentive and its impact on premium.
- Permit incentives that are considered risk management tools, such as smoke alarms, anti-theft devices etc.

Considerations:

- Should rebating of premium provisions and inducement provisions be considered together or separately?
- If rebates or inducements are allowed, should there be any restriction on their use or value?

A) IBC Response to above proposals:

IBC is supportive of initiatives to remove obstacles that impede competition and innovation in the industry as well as harmonize regulation across jurisdictions, as long as there is adequate protection for consumers. IBC is aware that there are consumer protection mechanisms in place through organizations such as Financial Consumer Agency of Canada and provincial regulators to ensure consumers' rights are upheld. IBC recommends that prohibitions on rebating and inducements should be removed since promotional activities as such are and should be a fact of life in the industry; in fact "a repeal of this legislation will lead to lower insurance costs to consumers".

Q) CCIR Proposal:

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

A) IBC Response to above proposal:

Per above, IBC supports the removal of obstacles that impede competition. IBC does not feel that a repeal of prohibitions on inducements, rebating and tied selling will have an impact on the methods of distribution of insurance.

Issues Related to Inducements, Rebating and Tied Selling CCIR Discussion Paper (March 2004)



Q) CCIR Proposal:

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

A) IBC Response to above proposal:

IBC believes that the P&C Industry is distinct, compared to other industries in Canada's financial services sector and that regulatory and other policy initiatives should reflect this fact.

Q) CCIR Proposals:

- Should an inducement be restricted to a quote or request for information but prohibited when "tied" to a purchase?
- Should there be any differentiation between an insurer and an agent/broker offering a rebate or inducement?

A) IBC Response to above proposals:

Per above, IBC supports the removal of obstacles that impede competition.

Q) CCIR Proposal:

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

A) IBC Response to above proposal:

No comment is available at this time.

Q) CCIR Proposal:

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

A) IBC Response to above proposal:

Per above, IBC supports the removal of obstacles that impede competition.

TIED SELLING AND BUNDLING OF FINANCIAL PRODUCTS:

Q) CCIR Proposals:

Option:

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

Considerations:

- Are there any other risks or inequities not considered with respect to bundling of financial products?

A) IBC Response to above proposals:

Per above, IBC supports the removal of obstacles that impede competition.
