

INCIDENTAL SELLING OF INSURANCE

**Comments from the
Insurance Brokers
Association of
Canada**

Submission to:
**CCIR INCIDENTAL
SELLING OF INSURANCE
WORKING GROUP**

April 2008



ABOUT IBAC

The Insurance Brokers Association of Canada (IBAC) is the national trade association representing over 32,000 property and casualty (P&C) insurance brokers across Canada through its 11 member associations.

Although our provincial member associations may be providing their own submissions in this matter, we are presenting our profession's position from a national perspective.

BASIS OF OUR COMMENTS

As intermediaries, our first priority is always to act in the best interest of our client. In reviewing this paper, we have done so from the perspective of the consuming public.

DEFINITIONS

The concept of an insurance sale that is said to be "incidental" is a little troubling for us. As distributors of insurance products, we believe that these transactions can very rarely be incidental. In the examples provided by the ISI WG, our submission is that automobile insurance is automobile insurance. The manner in which it is provided is irrelevant as to the product itself. Should the product be sold in conjunction with an automobile purchase, the fact remains that consumers deserve, require, and eventually purchase insurance coverage based on their needs for adequate and appropriate coverage.

The fact that this type of insurance buying decision is made in the process of a purchase of an automobile should in no way influence this transaction, in fact we would even argue that insurance decisions made during such a transaction are detrimental to consumers. Influencing the insurance purchase by another transaction in no way allows the consumer from making an un-biased and free decision on the appropriateness of the insurance purchase.

The other example raised by the ISI WG is that of insurance offered by banks, credit unions, or other financial institutions. On this issue, our profession has been clear for many years. Credit and insurance simply do not mix. Tying the credit application process with an insurance decision puts the consumer in an even weaker and vulnerable position, drastically increasing the risk of inappropriate insurance decision-making.

We submit that although there is logic in reasoning that you can compartmentalize these types of transactions by the "method of sale used", due to the monetary amounts involved, there is nothing "incidental" about these transactions.

WORKING GROUP QUESTION:

“Is the consumer in a position at the time of sale to make an informed decision about his purchase?”

We submit that the answer to this question is a resounding no. Consumers in most cases become less empowered to make an informed decision when faced with an insurance product that is being promoted to them during an ancillary transaction. The fact that they are being offered an insurance product only comes about because of a separate possible transaction.

MANAGING CONFLICTS OF INTEREST

Our profession took part, and subsequently applauded the Councils’ work on determining and implementing the three principles in managing conflicts of interest for insurance distribution. We believe that these principles are appropriate, achievable, and if followed provide consumers with adequate disclosure and protection.

We would however like to raise an issue that has struck us with regards to these principles and the issue at hand.

How would these principles apply to insurance sales which are deemed “incidental”? We’d like to take a closer look at the applicability of the specific principles.

1) Priority of the clients’ interest

In an incidental sale, the insurance transaction is contingent on the sale of another primary product, (ex.: mortgage, habitation, etc...). Consumers deserve and expect their insurance agent to advise them on the appropriateness of all possible options available to them. How would an insurance agents’ behavior be in the clients’ interest if the only way they would conclude the insurance transaction is if another transaction necessarily took place?

Put another way, the interest of the seller is to conclude a primary transaction, without which the insurance would not even be on the table. Therefore, we submit to the working group, that an incidental sale by contingent nature is not in the interest of the consumer, and as such the insurance agent cannot act in the their interest.

2) Disclosure of conflicts of interest

When more than one transaction is being negotiated, there are always primary and secondary ones involved. Assuming insurance falls under the category of “secondary” ones, can and should the seller advise consumers of the remuneration method for all products involved? Should the seller inform

consumers that the insurance remuneration is higher should they sell both products instead of only one?

3) Product suitability

We submit that the sales environment in an advice-sought transaction is not conducive to consumers making informed decisions on product suitability. The seller is mainly driven in concluding a primary transaction and not offering suitable options for the insurance. These two are rarely compatible. Remuneration is contingent on the conclusion of the primary transaction, not the secondary one, therefore that's where the motivation lies.

A further concern that arises from this is the knowledge and expertise that sellers can offer. If these sellers are not knowledgeable in products arising from their primary occupation, how is the consumer afforded suitable options for their insurance needs?

From our perspective, these three principles are inherently incompatible with anyone who undertakes selling "incidental" insurance. Our submission to the working group on this issue, is in the form of a question: how would a regulator enforce compliance of these three principles on sellers of insurance who sell it "incidentally"?

REGULATION AND LICENSING

On the issue of licensing of sellers of incidental insurance, we believe that insurance is insurance. Coverage is coverage, irrespective of who the seller is. In all cases it should be adequate, appropriate, affordable, and available.

Provinces in Canada are currently regulating distribution to a very high standard. Education and licensing requirements all result in consumers being well served by knowledgeable and competent professionals advising them. We believe this is what consumers deserve and expect.

On the issue at hand, we submit that consumers deserve the same level of knowledgeable and professional standards afforded to them with other insurance sellers. The standards should be the same whether the "method of sale" is the same or different. The provisions and coverage provided by an auto or home policy are exactly the same irrespective of the point of purchase or the method of purchase.

We submit to the working group, that the standards of licensing and supervision of sellers should be determined not by the "method of sale", but by the substantive attributes of the product sold. For example, sellers of auto policies should all be held to the same high standards, and not differ due to under what

circumstances the product is sold. This is the only way consumers can be assured that the advice offered is uniform across the country.

CONCLUSION

We believe that consumers should benefit from the protection offered by the three principles enunciated by the CCIR. Informed, un-biased and suitable advice serves consumers best when making an insurance decision. This type of purchase is too important to be left in the hands of unlicensed sales people who only aim to provide insurance as an incidental product.

We respectfully submit that regulators should seriously consider ways to apply and enforce the principles dealing with conflicts of interest, as only then would consumers not be coerced into purchasing inappropriate insurance products “incidentally”.

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