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INSURANCE BROKERS ASSOCIATION OF CANADA  
ASSOCIATION DES COURTIERS D'ASSURANCES DU CANADA

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May 31, 2005

Mr. Gerry Salembier  
Director, Financial Institutions Division  
Financial Sector Policy Branch  
Department of Finance  
L'Esplanade Laurier  
20<sup>th</sup> Floor, East Tower  
140 O'Connor Street  
Ottawa, Ontario  
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Dear Mr. Salembier,

Attached you will find the comments of the Insurance Brokers Association of Canada (IBAC) on your Department's Consultation Document for the 2006 Review of Financial Institutions Legislation which includes the *Bank Act*. IBAC thanks you and your Department for the opportunity to present our views on this important matter.

***ABOUT IBAC AND OUR INDUSTRY***

As you are probably aware, IBAC is the national trade organization that brings together and represents the 11 regional member associations of Property and Casualty (P&C) insurance brokers in Canada. These associations represent approximately 29,000 insurance brokers in virtually every community across the country. Most insurance brokerages have about 10 employees, and are therefore members of the small-to-medium-sized enterprise (SME) community.

Insurance brokers are the principal distribution channel for P&C insurance companies in Canada. P&C insurance primarily covers real estate, automobiles and other non-life assets. Brokers provide an array of risk-management services to their clients. Among other services, they arrange contracts of insurance with various insurers in order to protect the physical assets of their clients. Brokers also provide their clients with independent, unbiased advice in the selection of insurance coverage, interpret the legal complexities of insurance policies for them, and represent and assist them in dealing with the insurance company in the event of a claim.

The client base of brokers is very diverse, ranging from individual clients to large commercial accounts. It is also sizeable, as brokers write approximately 80 percent of personal and commercial insurance policies in the country. Brokers assign priority to meeting the insurance needs of their clients.

P&C brokers and the rest of the industry make a significant contribution to the Canadian economy. For example, your Department indicates that the P&C industry has assets of \$66 billion, and employs approximately 100,000 people in Canada. The importance of those numbers and their positive multiplier effect should not be understated – and neither should the potential damage that a negative change for our industry, such as allowing banks to sell insurance from their branches, could inflict on the economy.

### ***OUR PERSPECTIVE***

The perspective of insurance brokers on reforms to the financial services sector is unique and threefold. As members of the SME community and taxpayers, we are concerned about Canada's financial services sector and its contribution to our country's economic growth and productivity. As consumers of many products and services offered by financial institutions, we are concerned about affordability, accessibility and consumer protection rights, particularly as they relate to tied selling. As members of the SME community and the principal distribution channel for P&C companies, we seek competition on a level playing field with other players in the financial services industry.

### ***IMPORTANCE OF FEDERAL FINANCIAL SERVICES SECTOR ISSUES TO IBAC***

P&C insurance brokerages are provincially-regulated entities. Nevertheless, they have a large stake in federal reforms to the financial services sector for two key reasons. First, they provide the services of federally-chartered insurance companies to consumers. Second, they compete directly against other federally-regulated insurance providers including "direct writers" which provide insurance services directly to the public without the use of intermediaries. Direct writers include the insurance subsidiaries of chartered banks which were granted access to the insurance marketplace by the federal government in 1992. Insurance brokers also compete against "captive" insurance agents who represent a single insurer and only offer consumers that company's products.

P&C brokers also have a lengthy involvement in federal reforms to the financial services sector. This involvement largely stems from the wish of other federally-regulated entities, notably bank branches, to enter the insurance marketplace. The debate over this issue has a very long history which will not be repeated here. However, suffice it to say that the federal government has agreed with us on several occasions that the existing prohibition on bank sales of insurance at the retail level benefits consumers by providing them with greater insurance choices, and the P&C sector as a whole by maximizing competition. We sincerely thank the federal government for its continued support of our industry and the insurance consumer on this issue.

Over the years, we also made the case for stricter measures to deal with the related practice of tied selling. We were delighted when the federal government addressed this matter to our complete satisfaction in 2001 with the passage of Bill C-8.

**We are therefore extremely pleased that the federal government shares our view that the existing insurance networking restrictions and tied selling provisions work well, and is not proposing to change them in the context of this review.** While we do not wish to reopen these debates, we will nevertheless take this opportunity to briefly restate our position on both issues.

### *ISSUES OF CONCERN FOR IBAC*

#### *a) Insurance Sales*

We have many reasons for opposing insurance sales through bank branches, all of which point to a harmful effect on our industry and the insurance consumer. For one, we expect that such a measure would result in the loss of thousands of insurance brokerage jobs. In spite of any best efforts to compete, the fact remains that chartered banks possess a competitive advantage over insurance brokerages because of their much larger size, and the abundance of consumer information at their disposal. They would have access to millions of customer files that could then be used to cross-market insurance products. This abundance of consumer information is something that few insurance brokers could ever hope to have.

The evidence provided since the entry of Québec's "caisses populaires" into the retail insurance business in 1988 supports our argument. Over the ensuing five years, "caisses populaires" sold insurance directly from their branches with the support of subsidies from their banking operations. This led to a 45 percent reduction in the number of insurance brokers operating in that province, along with the closure of many brokerages. Caisses populaires now have a significant share of the P&C insurance market in Québec.

Second, most insurance brokerages currently have little choice but to use a chartered bank as their primary banking facility. We believe that allowing banks to sell insurance from their branches would make it difficult for some brokerages to obtain credit from those wishing to compete against them. Similarly, banks would be ideally positioned to influence individual consumers in their purchases of insurance products. Indeed, the ability of banks to extend various forms of credit (e.g. automobile, loans, mortgages) and provide other financial services would give them substantial influence over their individual customers' choices.

An example will illustrate our concern with the potentially significant competitive advantage a chartered bank selling insurance could have over insurance brokerages. Insurance brokers must routinely provide banks with "proof of insurance coverage" on their customers to whom the bank has lent money. In so doing, banks are provided with the "insurance coverage data" of the brokerage's customer; personal information which could in turn be used to sell that individual insurance. Banks may also obtain client personal information in the course of providing the brokerage with a loan whereby customer files are used

as collateral in the transaction. The situation would be a particular concern in rural areas where one bank is the only local source of credit not only for individuals, but also insurance brokerages.

Finally, we believe that insurance sales through bank branches would result in less access and choice for consumers. The P&C industry is currently very competitive, and it is that competition that currently drives the price and availability of the product. We believe that letting banks into the insurance business would reduce the number of competitors in the P&C industry, and allow banks to control the insurance marketplace. Moreover, while we recognize that banks could employ necessary experts to provide customers with the knowledge they require about insurance products, it is unlikely that they would operate in the same manner as brokers, nor sell products from a similar breadth of insurers.

***b) Tied selling***

As mentioned previously, we have also had longstanding concerns with the ability of banks to tie the provision of certain services, insurance in particular, to extensions of credit or other products and services. Tied selling whether resulting from coercion by a seller, or from a customer's realization that they stand a better chance of securing a particular product or service by volunteering to accept another product or service from the same seller, is a practice that adversely affects competition as consumers no longer base their purchasing decisions on factors of price or product attributes.

The 1998 amendment to the Bank Act prohibiting coercive tied selling in relation to loans was a good first step toward addressing this problem. However, we were delighted that Bill C-8 extended this prohibition to all other bank products, and legislated consumer disclosure. We believe that the existing Bank Act provisions on tied selling benefit consumers, and ensure competition on a level playing field between banks, providers of insurance and other financial institutions. We therefore strongly encourage the federal government to maintain them.

***CONCLUSION***

- ***We are extremely pleased that the federal government shares our view that the existing insurance networking restrictions and tied selling provisions work well, and is not proposing to change them in the context of this review.***

We thank you for the opportunity to provide our views on this important issue, and would be pleased to further discuss them with you or your colleagues at your convenience.



Keith Wilson  
President