



**Credit Union
Central of Canada**

May 21, 2008

Ms. Danielle Boulet
Chair
Incidental Selling of Insurance Working Group
CCIR Secretariat
5160 Yong Street, Box 85
17th Floor
Toronto, Ontario, M2N 6L6

Dear Ms. Boulet,

Credit Union Central of Canada (Canadian Central) is writing to provide a credit union system perspective on issues raised in the “Incidental Selling of Insurance” consultation document jointly issued by the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO).

Canadian Central is a federally regulated financial institution that operates as the national trade association and finance facility for our shareholders, the provincial credit union centrals and, through them, for our 465 affiliated credit unions across Canada. Our credit unions employ over 24,000 Canadians, serving their members, who now number over 5 million. At the end of the 4th quarter 2007 our credit unions held more that \$104.6 billion in assets.

Canadian Central is pleased to have the opportunity to respond to the consultation document and some of the issues raised in it. As the trade association for credit unions, Canadian Central will be responding from the perspective of sellers of incidental insurance rather than as a “manufacturer” of such products.

Upon an initial review of the cover letter that accompanied the ISI consultation document, Canadian Central was pleased that the consultation was viewed as an “...information gathering exercise” aimed at determining whether consumers are able to make informed decisions about the purchase of incidental insurance. Canadian Central agrees that considerable analysis into this area is required as currently it is a less understood and under researched part of the market. We note that the discussion document acknowledges that most jurisdictions do not have a legal definition of ISI and, in part, because of this, a statistical portrait of the ISI market is difficult to come by and proxies must be used to assess the scale and scope of the market.¹

However, having reviewed the discussion document Canadian Central is concerned that despite claims that the consultation paper is an “information gathering exercise” it is, in fact, geared to quickly devising regulatory “solutions” to perceived problems in the market. For example, the questions on page 10 and 11 of the document focus on the possibility of regulating greater disclosure, establishing licensing regimes, setting rate caps for sellers, having insurers supervise ISI sellers, and establishing production knowledge standards for sellers.

For reasons outlined below, Canadian Central is not supportive of efforts to develop a new regulatory regime for the ISI market as, in the current context, it is likely that such a regime could produce unintended consequences that are ultimately harmful to consumers and other stakeholders.

In particular, Canadian Central finds it disturbing that the consultation document outlines possible regulatory “solutions” to perceived problems while at the same time acknowledging an absence of comprehensive data in regard to the market. Such detailed knowledge would seem to be a necessary requirement to identify problem areas and to appropriately gauge solutions.

¹ The Canadian Council of Insurance Regulators and the Canadian Insurance Services Regulatory Organizations. (2008) *Incidental Selling of Insurance: Consultation Document*, p. 2 - 3.

For example, the discussion document does not contain any data in regard to the number of consumer complaints lodged in relation to the sale and purchase of ISI products, there is no breakdown of such complaints into particular issue areas nor is there any data that differentiates product delivery channels according to such complaints. It would appear that collecting credible data is a necessary first step to substantiate problems in this market.² Secondly, such data is a necessary input when considering appropriate responses (whether regulatory or not) to problem areas - assuming some are identified. For example, does the establishment of a licensing regime (as currently exists in Alberta) reduce consumer complaints and is consumer protection truly enhanced in that province? In the absence of credible data it is impossible to judge and therefore impossible to support the establishment of a licensing regime particularly in light of the costs associated with such a framework.

As indicated above, the questions set out on page 10 and 11 of the document focus on the possibility of regulating in a great number of areas including greater disclosure, establishing licensing regimes, setting rate caps for sellers, having insurers supervise ISI sellers, and establishing production suitability and product knowledge standards for sellers. The scope of the measures contemplated in the document appear to signal that the CCIR and CISRO are considering the establishment of a regulatory regime analogous to that which applies to insurance agents and agencies distributing individual life, accident and sickness, and income replacement insurance products. **Canadian Central is of the view that efforts to establish such a wide-ranging and comprehensive regime for the ISI market are not appropriate given the nature of the ISI business³.** For example, when credit unions sell incidental insurance products they are, of course, doing so as an adjunct to the sale of another non-insurance product. The selling of incidental insurance products is not core to the business

² Canadian Central notes that the ISI consultation document and the efforts of the ISI Working Group follow a “risk-based approach” to market conduct regulation as set out in the CCIR’s recently released paper *An Approach to Risk-based Market Conduct Regulation*. In that same document the CCIR notes that a basic precondition of a successful risk-based approach to such a regulatory practice is that regulators have a “...fulsome understanding of the market and its participants...” in order for regulators’ actions to be commensurate with risk. Given the lack of general or, more importantly, finely granulated data in regard to the ISI market it would appear this basic precondition has yet to be met.

³ Of course, credit unions are already extensively regulated financial institutions and these regulations also extend into consumer protection measures that include rules against “tied selling” and often restrictions on the sale of some insurance products.

engaged in by credit unions but rather the sale of such products form part of credit union efforts to provide our member/customers with a *convenient* and *complementary* way to manage the potential risks associated with the purchase of a particular financial service product. To impose a regulatory framework modeled on a regime intended to govern the **core activities** carried out by insurance agents and agencies would be vastly inappropriate and would likely impact the ISI market in two ways:

1. The increased costs associated with the new regulatory regime could – at the very least - increase the price of incidental insurance products for consumers as extra compliance costs will be built into the price of delivering the product; and
2. The number of distribution channels for incidental insurance products would likely narrow as some sellers leave the market when faced with higher costs. A narrowing of distribution channels would make incidental insurance products less available and therefore less convenient for purchase by consumers. Of course, fewer distribution channels would also reduce competition in the market for incidental insurance.

Canadian Central is not supportive of regulatory initiatives that, in our view, will likely increase the price of incidental insurance products, make them less convenient and, in the end, limit consumer choice.

However, Canadian Central could support efforts to assist consumers in making appropriate choices in regard to the purchase of incidental insurance products. One way of doing this could be to increase the level of meaningful disclosure available to the consumer when they are considering purchasing an incidental insurance product. For example, Canadian Central can support having insurers, through their associations, adopt plain language disclosure guidelines and standards that would be incorporated into contracts for incidental insurance products. The use of plain language disclosure is growing in the financial sector and is to be welcomed as a means by which consumers can more effectively evaluate their options and choices.

On another front, Canadian Central would also support initiatives that would see insurers, through their industry associations, adopt general compensation disclosure practices, for example, a disclosure statement identifying that there is compensation being paid to the credit

union on the sale of insurance. This is information that is useful to consumers when considering the appropriateness of the products they are considering purchasing and would be beneficial to consumers if such disclosure became common practice.

To conclude , Canadian Central looks forward to working with the CCIR-CISRO ISI Working Group through the remainder of the consultation process and we wish to be included in all future discussions in regard to these matters. We strong believe that caution should be exercised when considering moving toward further regulation of the ISI market as the unintended consequences of such regulation may ultimately increase the price of the product while simultaneously reducing its availability and convenience.

Canadian Central appreciates the opportunity to comment on the issues outlined above. If you have any questions please contact Rob Martin (Senior Policy Advisor) in Canadian Central's Government Relations Department (6143 238-6747 ext 327).

Regards



Hugh Scott
Director, Government Relations