



30 Eglinton Avenue West, Suite 306
Mississauga ON L5R 3E7
Tel: (905) 279-2727
Website: www.ifbc.ca

December 17, 2010

Mr. G. Matier
Executive Director
Insurance Council of British Columbia
P.O. Box 7, Suite 300-1040 West Georgia Street
Vancouver BC V6E 4H1

Submitted by electronic mail: gmatier@insurancecouncilofbc.com

Dear Mr. Matier:

Subject: Discussion Paper on Regulatory Model Governing Distribution of Life Insurance Products and Related Activities by British Columbia Life Insurance Agents

Independent Financial Brokers of Canada (IFB) is pleased to offer comments on this Discussion Paper on behalf of its members who are licensed to conduct life/health insurance business in B.C.

As you know, IFB is a not for profit association which supports the ongoing viability of the independent broker channel of sales delivery. The Association furthers the professionalism of financial advisors by sponsoring various educational events several times per year in various locations, a comprehensive errors and omissions insurance program for individual brokers and agencies, advocating on behalf of our members with government and industry stakeholders and providing ongoing regulatory, compliance and general business practice support. To be eligible for and maintain membership in IFB, our members are required to keep their financial license in good standing and to adhere to the Association's code of ethics.

We have read, with interest, the Discussion Paper prepared by the Insurance Council (the Council) in which the Council sets out its view of the current regulatory structure governing the life insurance industry and its comments on this structure.

We support the Council's intent to explore more fully what these relationships are and how they interact in the sale of life insurance to consumers. However, we note that this is also the subject of study by the Canadian Council of Insurance Regulators (CCIR), to which a number of industry associations, including our own, have responded with considerable detail on how brokers, agencies/MGAs and insurance companies work together to provide the public with life and health insurance products. While we are happy to provide further comment to you, we hope that the Council

will co-ordinate its work on this matter with the CCIR initiative so that any approach taken will result in a harmonized approach amongst the various jurisdictions to ensure a common experience for clients of these products across Canada.

Our comments are organized by the three issues Council has identified in the Discussion Paper:

1. supervision of new life agents,
2. the role of insurance agencies and,
3. the role of MGAs, or managing general agencies.

Supervision

Some of the assertions in this section cause us some concern as we feel they are overstated. These include statements such as *“It is not uncommon for an individual to become licensed as a life agent and immediately start working in the financial services sector without any supervision”* and *“A new life agent can engage in marketing any insurance product or service without sufficient knowledge or understanding of the specific product and without any oversight”*.

“It is not uncommon for an individual to become licensed as a life agent and immediately start working in the financial services sector without any supervision.”

Although B.C. is the only jurisdiction that does not specifically require a new agent to be directly supervised or sponsored, this does not change the statutory obligation of insurance companies to supervise the agents they have contracts with and to ensure their ongoing suitability. Indeed, life agents are prevented from selling life insurance unless they have a contract with at least one insurer. These regulatory requirements are set out in the provincial *Insurance Act* and set the life insurance industry apart from the other financial services intermediaries insurance agents are compared to in this paper. In addition, the *Act* establishes standards of market conduct re the duties and responsibilities of individual agents, and suitability requirements.

“A new life agent can engage in marketing any insurance product or service without sufficient knowledge or understanding of the specific product and without any oversight”.

With regard to the existing educational requirements for new life agents, the LLQP was introduced some years ago to increase the standard of proficiency for new entrants. This standard was endorsed by all provincial regulators. If there is evidence that the current LLQP no longer meets this desired level of proficiency, then we would recommend this be dealt with by CISRO, as a national issue, rather than by individual provincial regulators. This will ensure that a standardized baseline level of entry remains consistent in all jurisdictions – especially since many brokers seek to become licensed in more than one jurisdiction.

In order to support a broker’s ongoing knowledge about the products available in this marketplace, the companies and MGAs regularly provide educational sessions relevant to their existing products and new products, so that the brokers representing them understand them. As previously mentioned, our Association offers affordable opportunities for brokers and agents to further their education and obtain CE credits as required, and to meet their provincial licensing requirements.

In fact, IFB expressed considerable concern several years ago when Council consulted the industry on reducing the number of CE credits required for experienced brokers relative to new entrants, and to narrowing the types of courses which Council would recognize for CE purposes.

In our response, we said:

We do not share Council's view that experienced brokers have less of an educational need than new entrants. We understand that new entrants may require CE that is more technical in nature, while experienced brokers may require CE that has a smaller technical component but a greater need for information that addresses issues more complementary in nature. We believe that all licensees should have the same annual CE requirement of 15 hours. However, if Council wanted to propose a change, we think a better alternative is a framework where all licensees have the same annual CE requirement but where flexibility on the types of courses which would qualify is built in after the 5 year period. In our view, experience is not a sole replacement for education. The purpose of continuing education is to ensure that an appropriate level of knowledge is maintained throughout the licensee's career so that a high professional standard is maintained, leading to greater consumer protection. We think our proposal will be more effective in meeting these needs. As an added benefit, it helps to standardize and harmonize the educational requirements for advisors licensed in multiple provincial jurisdictions.

Unfortunately, the Council decided to implement the reduction in required CE and the types of courses which would earn a credit. This regulatory change has reduced the number of brokers and agents who now attend IFB sessions in that province. We are surprised, then, that Council appears to be critical of the knowledge level of life licensees in that province.

Having said this, if Council wishes to explore some sort of mentoring relationship, aimed at matching new licensees with a more experienced agent, we would have no specific objection. However, we would not like this to result in a reintroduction of a sponsorship requirement, which would require a new agent to have an employment contract with one specific company. We would be more agreeable to a relationship where the new agent could seek out another independent, experienced broker who could provide such support for a limited period of time. The potential effect of such a relationship on both of these brokers' errors and omissions insurance coverage would have to be examined further.

Life Insurance Agencies

Regardless of the size of the agency, the baseline business function agencies and MGAs share in common is to provide services intended to increase the administrative efficiencies between the broker and insurer.

As mentioned, the CCIR undertook a similar initiative to understand the role of the 'agency' in the distribution of life insurance, earlier this year. In gathering information for our response to the CCIR, IFB surveyed its members. Many of those who responded operate small agencies of their own, which may deal directly with the insurer or place business through a larger MGA.

Individual brokers are contracted directly with the insurers they represent and must meet certain criteria as defined in their contract. Our members told us they deal directly with the client throughout the application process and provide an important function as an advocate on behalf of their clients, with the insurance company, as required.

Our information further indicates that claims adjudication and application approvals are conducted by the insurance company, not the agency. Since there is little client contact at the agency level, we are not sure why Council would want to introduce regulations designed to provide such oversight, nor are we aware of problems in the current structure that would require a new set of regulations.

Consumers receive protection from the requirement that all licensees, including licensed agencies, are required to put their client's interest first and to disclose or refrain from conflict of interest situations. In addition, agencies are required to have corporate errors and omissions insurance, which provides clients with further protection in the event of a dispute or claim.

Managing General Agencies

As mentioned in this paper, Council has found that most agencies/MGAs do not have direct client contact. This is the role of the broker and insurance company. If a few MGAs are conducting business directly with the public and adjusting claims, as stated in Council's paper, and Council wishes to allow this, then we may support regulatory measures that ensure there is no gap in consumer protection. However, we are not aware that this is a common practice amongst agencies and would suggest that any regulatory change be specific to such cases.

We understand that MGAs have various business procedures in place that help them to manage their risks, such as to 'know their broker', that go beyond simply verifying the broker is licensed. In addition, life insurers have flags to look for in contracting with a new broker and in the event a broker submits unusual business transactions. Our members feel that there is sufficient oversight provided in these current arrangements and would not welcome interference with their ability to find the best solution for their clients, or to deal with the MGA(s) of their choice.

We trust Council will be very cautious in considering expanding the MGA's role to include any statutory supervisory oversight of a broker's business. It must be remembered that this is a competitive industry where the MGA may well exert influence on the broker's choice of product if provided with this power, thus reducing overall consumer protection.

The specific questions Council has asked for industry feedback on contain considerable overlap with the response we developed for the CCIR. Therefore, we have also attached a copy of this response, in the hope it will assist in answering many of these questions.

We look forward to continuing an open dialogue as you develop further information on this important matter and receiving additional information as it becomes available.

Yours truly,



John Whaley
Executive Director
Email: jaw@ifbc.ca