



July 29, 2005

Canadian Council of Insurance Regulators (CCIR)
Canadian Insurance Services Regulatory Organizations
Stephen Paglia
Policy Manager (A)
CCIR Secretariat
5160 Yonge Street, Box 85
17th Floor
Toronto, ON
M2N 6L9

Sent by E-mail to: SPaglia@FSCO.GOV.ON.CA

Dear Sirs;

Thank you for providing Sovereign the opportunity to comment on the Industry Practices Review Committee Consultation Paper on the relationship between insurers, sales intermediaries and the consumer. We are pleased to see the paper reinforces openness in communication and the consumer's right to choice.

Yours truly,

THE SOVEREIGN GENERAL INSURANCE COMPANY

Howard R. Mann
Vice President, Business Information, Planning and Development
100, 6700 MacLeod Trail S.E.
Calgary, Alberta
T2H 0L3

Howard.mann@sovgen.com
403 298 4228

CCIR - CISRO - CONSULTATION PAPER RESPONSE
SOVEREIGN GENERAL INSURANCE COMPANY
JULY 25, 2005

SOVEREIGN GENERAL

Sovereign General Insurance is 100% Canadian owned and a member of The Co-operators group of companies. We distribute our products through independent brokers and are represented by over 500 brokers Canada wide. Sovereign writes personal lines in certain jurisdictions but we are primarily a commercial and specialty lines underwriter.

GENERAL PRINCIPLES

We support the independent brokerage network. We feel the client is best served by the choice, expertise and independence of the broker.

Insurance, however it is distributed, is a matter of relationships and mutual respect. Just as an insured has the right to select the broker or agent they wish to conduct business with, the broker or agent must feel comfortable representing the insured. Similarly the broker-insurer relationship must be built upon trust and good faith if the insured is to be best served.

We believe it is premature to start imposing regulations at this time given:

The Property & Casualty industries have introduced/implemented initiatives to deal with the issues surrounding the relationship between insurers and sales intermediaries;

The survey uncovered no evidence of any illegal insurance related activity and found that most insurers have written policies and procedures in place governing compensation to brokers, agents and other sales intermediaries.

We feel it would be prudent to give the industry some time to fully implement all of their initiatives and allow them to work before imposing regulations.

Disclosure

Disclosure continues to be the most important point. Consumers should be allowed to make their own purchasing decision providing full disclosure is made to them at the time of purchase.

Disclosure requirements should be voluntary and let the consumer decide. Based on their relationship, the consumer can purchase through intermediaries who are more open and sharing.

Any interest or indebtedness from the broker to an insurer should be disclosed. Any factor that might cause one to think that a broker is not being objective and independent should be disclosed.

Similar disclosures should emanate also from direct writers. Brokers should not be singled-out on the compensation or incentive reward side, or the ownership side. Clients deserve to know that dealing with a direct writer offers products and services from only one company, just like dealing with a broker owned 75% by an insurer may mean bias towards that insurer. Any distribution approach requires complete disclosure and the free market allows the customer to decide.

We need more good faith to encourage good business practices --- regulation will establish and force the bare minimum; competition will encourage best practices.

Compensation

We believe in general disclosure of commission ranges. Specific compensation arrangements are the responsibility of the broker to disclose and are a contractual matter between insured and broker.

We believe that, during the course of his function on behalf of the insured, the broker provides value added services to the insurance company. Important roles that are performed in the course of the risk selection and pricing deserve to participate in the profitability of such business and contingent commissions recognize this.

We believe performance based compensation provides the best opportunity for the broker to provide value-added services to the insured. An insurer, because of spread of risk and administrative efficiencies is prepared to compensate the broker for the long-term profitability of a portfolio. The broker then uses these funds to create the infrastructure to provide value-added services to the clients.

Insurance companies in annual regulatory filings have always disclosed contingent commissions. Contingents have no relationship whatsoever to illegal "bid-rigging", which were practices performed by only two of the large international brokers. Smaller regional brokers should not be penalized or broad-brushed due to the acts of a few in an entirely different country. As noted in your report, there was no evidence of illegal activity uncovered in Canada.

Other incentives such as trips, etc. are infrequent and serve a valuable purpose in building a strong relationship between broker and insurer, to enhance the delivery of products and services to ultimate customers. Most such incentives are again profit-based and involve a conference-type setting that encourages good solid business dialogue that is solution-driven.

We are prepared to compete on any "playing field" as long as it is level and all companies have to abide by the same set of principals, guidelines and regulations. Any "playing field" must acknowledge that reputation, trust and the relationship between the insured, the intermediary and the insurer are cornerstones in providing effective risk transfer to meet the insured's needs.

5. Possible Policy Options

The policy options considered in this consultation paper are:

1. Codify the priority of the client's interest;
2. Restrict the performance-linked benefits offered to intermediaries; and
3. Enhance transparency of compensation, ownership and other financial interests.

1. PRIORITY OF CLIENT'S INTEREST

The priority of the client's interest is already reflected in provincial legislation and code of conduct for the provincial independent broker's associations. We believe the client is best served if the insurance industry works towards a voluntary set of guidelines.

2. PERFORMANCE-LINKED BENEFITS

We believe performance-linked benefits provide the environment for the independent broker to best serve the needs of his client. Broker best practices should provide the appropriate level of principle-based controls.

Disclosure should be on a voluntary basis and apply to all financial intermediaries.

3. TRANSPARENCY

Industry-wide best practices should be adopted for enhanced disclosure of compensation, ownership and financial interests.