Opening the Books

Canada’s insurers caught in the U.S. undertow

GUEST COLUMN

BYREN L. INNES

What started as a probe by New York State Attorney General Elliot Spitzer into insurance practices in one sector has had a North America-wide impact on both the property and casualty insurance (P&C) and life insurance businesses. Insurance companies and regulators on both a national and provincial level have reacted, many feel, with a “let’s make sure our house is in order” response to a potential investigation.

The Canadian Council of Insurance Regulators (CCIR) and the Financial Services Commission of Ontario (FSCO) launched a survey last year to bolster their understanding of insurance company and intermediary relationships.

In response, the Canadian Life and Health Insurance Association unveiled a number of initiatives, while urging intermediaries to disclose their compensation and travel incentives.

Gaining this perspective should in itself be an illuminating exercise. Our own consumer research in both the U.S. and Canada indicates generally poor relationships amongst consumers and intermediaries, and where thus less than desirable relationship exists, it spills over to the insurance company.

While few will argue with the overall intent of these initiatives, offloading the whole responsibility for disclosure onto the intermediary seems flawed. Yes, agents must be the ones to disclose: they are at the point of sale with the consumer. But the companies and industry should provide common supporting information for the intermediary.

Further, disclosure of the commission dollars payable on an actual sale does little to assist the consumer in making a sound decision. Commission scales are generally standard at each company, so all advisors will receive the same basic amount. Override scales are very similar at the distributor (MGA or National Account) level so insurers will pay out roughly the same percent or total premium payable off the same intermediary.

An individual advisor may receive more or less of this compensation depending on their negotiating skills. Total sales volumes (with one or all companies at a given intermediary) and service and support agreements. Regardless, the total is quite similar — it’s just it may be payable to one or several intermediaries or paid in some combination of cash and services. How does this knowledge help the consumer?

On the other hand, the consumer may now balk at the amount of (first-year) compensation. If they did, they have two choices: shop around or don’t purchase. However, shopping will likely not help. The same policy with the same company will result in the same (total) compensation payable to the intermediaries.

A similar-priced policy of the same form with another company will result in a very similar compensation. Their choice, then, is ultimately to accept the compensation as the norm or to not purchase at all.

Better still, expressing this as a percentage of total premiums payable over the life of the policy will reduce sticker shock. It would be relatively easy for an insurance company to arrive a single number on their product illustrations.

The line item could read: Expected total distribution, marketing and service costs: 15% of premiums. Such disclosure at the manufacturing level would provide information to the consumer and a neutral disclosure mechanism for all intermediaries. Importantly, it would be accurate, since it would be calculated at the product development level.

This advice does not deal with conflicts, or proprietary or special deals that an intermediary may have with an insurer. These would have to be dealt with on an individual basis.

Next column, we’ll discuss issues relating to non-cash compensation as well as the impact of commission disclosure in two other jurisdictions — the U.K. and Australia.

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