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Monsieur Richard Boivin
Sous-ministre adjoint aux Politiques relatives aux institutions financières et au droit corporatif
Ministère des Finances
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Subject : Aviva's response to the Quebec consultation on rules limiting the ownership of insurance brokerages

Monsieur Boivin,

Aviva Canada Inc. ("Aviva") is pleased to respond to the consultation regarding the rules limiting the ownership of insurance brokers announced on April 18, 2017. As an industry leader, we appreciate your interest and your willingness to engage the insurance industry and relevant stakeholders in evaluating the merits of this important provision in order to guide future policy, regulatory or legislative proposals.

Background information about Aviva Canada

Aviva is the second largest property and casualty insurer in Canada, with a 10.6% market share. Aviva Canada is a wholly owned subsidiary Aviva plc. We provide insurance for homes, automobiles, leisure and lifestyle products, and businesses. We have close to 3 million customers and gross written premiums of $5 billion. Our 4,000+ employees operate in 27 locations across Canada. We distribute our products through the independent broker network, through partnerships and directly to customers. In 2016, we acquired RBC General Insurance Company and now provide a full suite of insurance products to RBC insurance customers.

In Quebec, we have 500,000 customers and gross written premiums totalling $375 million. We have 460 employees in the province who work from three different locations. Aviva paid $18.8 million in taxes to the Quebec government last year.

We are serious about corporate responsibility. Since the inception of the Aviva Community Fund in 2009, Aviva has awarded $7.5 million to 250 charities and community groups nationwide. Aviva is also a national partner of the Canadian Red Cross. We sponsor and support the *Ready When the Time Comes* program.

The public consultation on the provision limiting ownership

In 1988, Quebec introduced the *Act respecting market intermediaries* and the "20% rule," which limits a property and casualty insurer from owning more than 20% of the shares of a broker. This measure is designed to promote the independence and objectivity of brokers and avoid potential conflicts of interest to the benefit of consumers. The government is reviewing the 20% rule now due to concern that the rule may no longer be relevant because of changing business models and new technologies.

While Aviva appreciates the opportunity given to evaluate this provision, we would like to highlight that this issue is only now being raised despite the fact that the Insurance Act review has been in discussion for many years. Aviva maintains that the industry and consumers are generally well served under the current ownership limit. Aviva does not believe that there is a clear consensus in the industry on whether the 20% rule should be changed. In the absence of clear consensus, the 20% rule should be retained. It is an important provision in addressing conflicts that may arise from ownership. If the rule is eliminated, the government will need to put in place additional rules to manage conflicts of interest.

The insurance market is changing but the need for consumer protection remains

The insurance market is changing while consumer needs, and expectations are evolving rapidly, largely influenced by technology advances. In looking ahead, innovation will drive new opportunities for both consumers and businesses alike. We anticipate the emergence of new products, new methods of pricing, new methods of sales and perhaps even new insurers. In this context, regulation needs to be flexible enough to allow innovation to happen, while at the same time serving to protect consumers and the integrity of the financial services marketplace. Regulation should balance these competing interests. The 20% ownership limit provision is one of the key elements that enables the Quebec government to achieve these objectives and does not hinder the ability of brokerages to adapt to an evolving marketplace.

In a period of rapid change, it is the responsibility of the Quebec government to ensure that consumers are protected and treated fairly. Since the financial crisis, trust in financial services is at an all-time low, and consumers not surprisingly have become increasingly insistent on transparency within the financial services sector. Quebecers want access to information so that they can make informed decisions. Transparency is critical to the stability and reputation of the financial services system. **Undisclosed conflicts of interest destroy transparency and**

confidence in the market. We need laws and rules that promote fairness, transparency and confidence in the marketplace that are respected by all and enforced by the appropriate authority.

Aviva's responses to the questions asked in the consultation document follow:

1. **Does the provision limiting the ownership of insurance brokerage firms ensure the objectivity of the broker and adequately avoid conflicts of interest?**

The 20% rule is crucial for ensuring the independence and objectivity of brokers. It defines a point at which ownership may compromise independence. Increased ownership introduces a greater chance of an actual conflict of interest. It also leads to a greater risk that consumers perceive a conflict of interest. The rule helps avoid a fundamental conflict of interest. This is good for consumers. A change to this rule would certainly reduce the number of insurers, impact the variety of products made available to consumers in Quebec and unduly increase premiums. This rule has enabled Quebec to strike a just-balance in order to develop a robust and competitive insurance marketplace that offers widespread consumer choice and protection.

It is our understanding that certain insurers are using very creative corporate structures or the use of agreements to circumvent the intent of the legislation. We recommend that brokers be required to provide more transparency at the time of quotation or renewal, not only with respect to their corporate ownership but also any indirect benefit they receive or preference the insurer may be receiving. Any broker that has more than a standard broker agreement with an insurer may feel pressured to send a certain quantity or quality of business to such insurer. The consumer has the right to know of any factors influencing the broker's choice of insurer at the time of the quotation or renewal. These disclosures would include financing arrangements, concentration percentages of the broker's business with the insurer, and the number of markets that the broker represents and the number of insurers canvassed before offering the quote.

A few have suggested that the 20% rule limits independent brokers from growing their businesses, investing in new technology etc. The rule limits brokers from selling a large ownership stake to an insurer, but it does not unduly limit independent brokers from obtaining financing. Brokers can obtain financing through loans or by selling an ownership interest to an entity other than an insurer. Consumer transparency should be the most important consideration, and we have outlined the negative impact that eliminating the 20% rule would have on consumers.

We anticipate that the government may consider whether to increase the ownership limit from 20% to a higher number. Increased ownership leads to a great risk of conflict of interest. In the absence of compelling evidence to the contrary, we recommend that 20% ownership limit be retained as the limit.

RECOMMENDATION 1: The 20% rule should be maintained and further revised so that the ownership stake is calculated based on the total ownership by all affiliated or associated companies of a particular insurer.

RECOMMENDATION 2: Brokers should be required to disclose to consumers at the time of quotation or renewal any factors that may influence the broker's choice of insurer. This would include ownership, financing arrangements, agreements regarding quantity and quality or business, concentration percentages of the broker's business with the insurer, the number of markets that the broker represents and the number of insurers canvassed before offering a quote and any other incentives.

RECOMMENDATION 3: The 20% ownership limit should be retained as the ownership limit.

2. Can we regulate conflicts of interest without imposing rules of ownership?

It does not seem possible to regulate conflicts of interest without imposing rules of ownership because ownership by its very nature causes a conflict of interest. Every owner by nature has a vested interest to do what is most profitable or beneficial for his company or shareholders. If the 20% rule is eliminated, the Quebec government will need to introduce very significant and enforceable rules of disclosure to ensure independence. At a minimum, ownership should be disclosed. Indirect ownership and other forms of influence that impact independence (and are discussed above) would also have to be disclosed at the time of a quote or renewal. In addition, an intermediary that holds itself out as independent should be required to give a consumer quotes from at least three unaffiliated insurance companies (ie. not from a group of insurers with a common owner) so that the consumer has choice. We believe that these rules allow consumers to make more informed choices and should exist along with the 20 % rule if we are truly to protect the interests of the consumer.

RECOMMENDATION 4: At a minimum, ownership should be disclosed to consumers. Indirect ownership and other forms of influence that impact independence should also be disclosed. These would include financing arrangements, concentration clauses, and the number of markets that the broker represents.

RECOMMENDATION 5: An intermediary that holds itself out as independent should be required to give a consumer quotes from at least three unaffiliated insurance companies so that the consumer has a real choice to make.

3. What justifies the difference between life and health insurance and property and casualty insurance?

Aviva does not sell life and health insurance in Canada so we cannot comment on that market. Aviva is very experienced in property and casualty insurance. We believe that the business model that currently exists in the Quebec property and casualty market serves consumers well. The 20% rule is a key reason why the property and casualty market works well.

4. If the 20% rule were to be eliminated, should the rule concerning business ties or the titles of representatives be revised in order to inform the consumer?

A business title may be the most important piece of information that a consumer gets about an intermediary's level of independence. Eliminating the distinction between agent and independent broker titles would blur lines for no good reason. These distinctions are important for consumer information and transparency. Transparency is vital to ensuring consumer confidence. The government needs to protect consumers and ensure that they have adequate

information by which they can make informed decisions. The title should adequately describe the intermediary's independence and ability to provide products from multiple markets or a singular market. The title should also reflect the legal obligations of the intermediary, and whether the intermediary is considered an agent of the consumer or the insurance company.

RECOMMENDATION 6:

Business titles should adequately describe an intermediary's independence. The distinction between agent and independent broker should be maintained.

In conclusion, Aviva would like to thank you for the opportunity to provide a response to the consultation. We hope our response will enable policymakers to make an informed decision by maintaining the current 20 % ownership limit as it serves well the interests of government, consumers, brokers, agents and insurers to meet current and future demands and needs.

I reiterate our full cooperation with the Quebec government and regulatory authorities on this important issue. We would be pleased to meet and discuss any questions that you may have.

Sincerely,

Aviva Canada Inc.

Gregory D. Somerville
President & CEO