

# It's Time to Back the Consumer

**A Speech by Mr. Raymond J. Protti**

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**for**

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**CHECK AGAINST DELIVERY**



CANADIAN BANKERS ASSOCIATION

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*Building a Better Understanding*

## ***It's Time to Back the Consumer***

Good morning. Thank you for being here today. It is my pleasure to have the opportunity to speak here, in Ottawa, to the always distinguished and inquisitive audience of the National Press Club of Canada and the Economic Club of Ottawa.

And Ottawa is an exciting place to be these days – a new government, a Speech from the Throne, a Budget and legislation being introduced. The Speech from the Throne clearly laid out the government's key priorities – five to be exact. It also identified other areas that the government intends to address.

A week ago today, the government tabled its first Budget, garnering a positive response. So it should. Without question, the corporate tax initiatives announced in the Budget will benefit all Canadians. Money will be put back in the hands of businesses to reinvest in their enterprises and the economy and into Canadians' investments in pension plans such as the CPP, mutual funds and private pension plans. These measures will enhance Canada's global competitiveness, attract more businesses, create jobs, improve productivity and innovation and, ultimately, lead to a broader tax base. And, that stronger tax base will ensure that the government has a sustainable source of revenue to finance the programs that are so important to Canadians.

The Budget and Throne Speech also contained the good news that the government is committed to a comprehensive review of the *Bank Act*, with the Budget setting out the timeframe for the review.

The *Bank Act* is important legislation and we are pleased that the review was included along with the key priorities, so that the legislation can reflect and keep pace with the rapidly-changing marketplace and the needs of consumers.

The last round of reform in 2001 was an extensive overhaul of the legislative and regulatory framework governing federally-regulated financial institutions. There are, however, some areas where the framework needs to be improved to enhance the interests of Canadian consumers. For example, we need to bring the system for processing cheques into the 21<sup>st</sup> century by allowing electronic cheque imaging, to help speed the cheque clearing process for consumers and businesses. In addition, there are some important pieces of unfinished business from the 2001 round of reform that need to be resolved, including, finalizing key remaining elements of a workable holding company system.

But by far the most important item left on the table from the last review is what's usually referred to as "insurance retailing by banks." These are the prohibitions in the *Bank Act* on virtually all insurance activities in bank branches, in particular the sale of insurance. These prohibitions have been in place for decades. They have never made sense and they don't make sense now, particularly for consumers who are

trying to navigate the complicated and confusing insurance marketplace. In fact, in all the previous rounds of legislative reform, the interests of the consumer have been lost in what turned into an “insurer vs. bank” debate.

With the *Bank Act* review upon us again, it’s now time to put the interests of consumers first. In planning for this round of reform, we’ve tried to do just that. We thought about the type of changes that would improve the situation for consumers, while recognizing the cautious approach government has taken on this matter. The most absurd barrier for consumers is being denied basic access to information about specific products available in the marketplace.

These restrictions are also highly confusing and frustrating for consumers. Banks are in the insurance business, and consumers know it. Visit a bank financial group’s website and you can purchase insurance right there online, or fill out a form and have someone contact you. Visit a bank insurance subsidiary, and you can purchase insurance coverage. Call a bank financial group and they can sell you an insurance product over the phone. Or, they might direct you to an insurance office, or set up an in-person meeting for you with a qualified insurance representative in your area. You can do any of those things, but step inside a branch and you’re faced with a bewildering array of restrictions.

Today, in the information era, a consumer cannot go to a bank branch to pick up insurance information, like a brochure. A consumer cannot get a referral to a

qualified insurance professional outside of the branch. And a consumer cannot give their bank permission to send them insurance product information tailored to their specific needs. This is counter-productive public policy that works against the interests of consumers. Despite what some in the insurance industry would claim, this is not protecting consumers. The truth is it is restricting consumers.

I can stand in my local bank branch with a bank insurance company product information brochure that I happened to get in the newspaper - one like this. It has information about the insurance product on it, a 1-800 number and a website address. I decide to take out my BlackBerry and call the 1-800 number to talk to an insurance professional about the product. Yes, all of this is happening IN the bank branch. But, let's say I misplace the product brochure. I walk over to my account manager, explain that I lost the brochure that was in my paper, and I ask her to give me another copy of it. She says she can't. No one in the branch can. But, she tells me that there is a convenience store next door and it sells newspapers. So she can refer me to a 7-11 to get insurance information but not to a qualified insurance professional.

This is the nonsense that our bank branch staff and customers are forced to deal with every day.

This absurdity, at the very least, had to be addressed. So we identified some simple changes to correct the problem of consumers being denied access to insurance product information. All we're suggesting are four simple changes so that consumers can:

- Get insurance product information at a bank branch – like these brochures, which you can get at Loblaws, Costco, as newspaper inserts, bulk mail, and elsewhere. That would mean picking it up from a display, asking for it, or accepting one that is offered.
- Give permission to have tailored insurance product information sent to them. So you could say to your bank, yes, please, if you have information about products that might be of value to me, by all means, have your affiliate send me some information.
- Get a referral from bank branch personnel to a qualified insurance professional outside of the branch. This could mean obtaining the contact information for a bank-owned agency down the street, the number for a call-centre, or the contact information of an independent agency or third party insurance corporation with which the bank has a relationship. And, finally,
- Ask to have relevant information referred to an insurance affiliate to make it easier to obtain information. It just means you can say yes, please, refer my information

to an insurance professional and have them call me about this product I'm interested in.

Please note that nothing that we're proposing changes the fact that the individual consumer will remain in complete control of the process. As you will have also noted, these four proposals do not include selling insurance in bank branches. We know that it has been a challenging issue in the past, and we know that this government has made clear – in statements made during the election campaign – that it is opposed to changing rules around bank insurance sales. But that is not what we are proposing.

We are talking about having a better informed consumer through better access to product information, whether through brochures or referrals to insurance professionals to learn more. The decision about what insurance product to buy and from whom – whether a broker, an agent, direct from an insurance company – would still be the consumer's, as it should be.

So why do we still have these restrictions on a consumers' freedom of choice? Let's look at the reasons that have been put forward in the past. In the last round of *Bank Act* reform, concerns about possible coercive tied selling and personal information privacy were presented as reasons to delay needed change. There were also concerns about whether the insurance industry could compete in the marketplace. Today, these are no longer factors. There is privacy legislation and well-functioning

privacy protection policies in place. There is a *Bank Act* prohibition against coercive tied selling. And, the size and strength of the insurance industry is hardly an issue when three of the largest Canadian life insurance companies are as big as the major Canadian banks.

In other words, all the reasons that were put forward in years gone by have been addressed, and it's time that good, fact-based public policy wins the day for Canadian consumers. But I must tell you that over the last several months that I've been talking about this issue, I have heard the most amazing tall tales from those in the insurance industry who want to see these nonsensical restrictions continue. It's too bad the Pinocchio truth spell can't be applied. Let's look at each of these issues in turn.

First, coercive tied selling. Despite the specific *Bank Act* prohibition against coercive tied selling, some people have claimed that allowing any change to the restrictions would lead to consumers being forced to buy insurance products as a condition of getting other financial products. This is just not true.

Banks adhere to the *Bank Act* prohibition. Adherence is monitored and enforced by a federal regulator, the Financial Consumer Agency of Canada. The insurance brokers themselves have said that this legislative provision, which came into being five years ago, dealt with the issue to their 'complete satisfaction'. And that is a direct quote, by the way, from the insurance brokers' submission to the federal government

on this issue. This issue, which Parliament addressed, is being resurrected as nothing more than a red-herring.

In fact, consumers completely dismiss the idea that they would even feel any pressure to purchase insurance from a bank source. We know this because we actually asked them. In a February 2006 poll by The Strategic Counsel, 91% of Canadians say banks are just additional sources of information about insurance products and they would not feel obligated to get their insurance through the bank source.

Another fable being spun by some insurance people is that consumers' health information would be shared between bank insurance affiliates or subsidiaries and the bank. And, they claim there would be other privacy breaches. Again, this is simply not true. Laws and other measures are in place that prevent the sharing and misuse of medical information. The federal personal information privacy legislation, also known as *PIPEDA*, is among the best in the world. *PIPEDA* prohibits the use of personal information, including health information, other than for the purposes for which it was collected or for which customers have given their permission. And, the law makes clear that a customer cannot be required to consent to disclosing their information for anything other than the specific, legitimate purpose. Plus, the Privacy Commissioner of Canada oversees and enforces the banks' compliance with all provisions in *PIPEDA*. In addition, there is a banking industry insurance code of conduct in place, which is overseen and enforced by the Financial Consumer Agency

of Canada, as well as bank policies. These mechanisms prohibit the sharing of health information and the use of health information for assessing loans or marketing products and means medical information cannot be passed on to a bank from an insurance subsidiary or affiliate.

The sky continues to fall with fear-mongering that merely informing consumers about their product choices will put insurance brokers out of business. The facts do not support this claim.

Canada is the only developed country that continues to impose restrictions on consumers' ability to get insurance information at banks. In places around the world – and more particularly in the United States, and at home in Quebec – a more open insurance system has benefited consumers without disrupting the marketplace. Look at Quebec. Customers in Quebec can obtain insurance product information and get insurance referrals at branches of Mouvement Desjardins, the largest financial institution in the province with 40% market share of deposits. The sky has not fallen in Quebec. It is quite the opposite. Desjardins caisses populaires were allowed to get into P&C insurance in 1987. At that time, there were some 5800 brokers in Quebec. By 2004, that number had grown to some 7600 brokers, a 31% increase.

And concerns about the size and strength of the insurance industry? Of the nine largest financial institutions in Canada by market capitalization, insurance companies now rank 2nd, 5th and 7th.

On the property and casualty side, the industry is dominated by large foreign-based companies with deep pockets. In fact, approximately two-thirds of the P&C insurers operating in Canada today are foreign-based, controlling just over two-thirds of the Canadian market. Why should we be protecting foreign insurance companies from competition in our own marketplace?

As many of you will know, the so-called pillars of the financial services industry – insurance, trust, banking and securities – have been integrated over the past decade to give consumers more flexibility and choice about the range of products and services they can access. Today, banks are in the insurance business, while insurers – companies and even insurance brokers like Western Financial Group – are in the banking business.

Through consolidation, Western Financial Group has become the largest property and casualty insurance broker in Western Canada – fourth largest in the country. It is a successful insurance brokerage that launched a successful western-based bank, Bank West, to offer a full range of banking services. That's their strategy. In fact, the 2002 prospectus for Western Financial Group, then called Hi-Alta, stated quite clearly that their business strategy is to build a network of brokers where customers can get bank products like deposit accounts, credit cards, loans, mutual funds and financial planning, as well as life annuities and insurance, under one roof, that is, an office of a Western Financial Group broker. And this is not the only model. Great West Life agents can similarly offer insurance and banking products as they meet

their customers face-to-face in their offices. Dundee Wealth Management can do the same, Mouvement Desjardins in Quebec can do the same. Banks cannot do the same.

So it's acceptable for other financial services providers – brokers, insurance companies, mutual fund dealers – to meet the needs of their clients, but not banks? Why, as the vast majority of rules have been changed to support greater consumer choice, have the puzzling and frustrating restrictions on a consumer's ability to obtain information about bank insurance products remained in place? It makes no sense.

Yet some people in the insurance industry want to maintain these restrictions on access to information. They seem to be afraid of an informed consumer. I ask you: what is there to be afraid of? In a world of the “shop around” and “be informed before you buy” messages, it is quite curious that insurance, of all products, would be viewed as something consumers should be kept in the dark about.

It is curious because Canadians are saying the exact opposite. The February 2006 poll by The Strategic Counsel revealed that three out of the top four financial products people want the ability to shop around for are insurance products.

In addition, more than eight out of ten Canadians say they shop around for insurance products whether they use the services of an insurance broker or not. And, they want the option to shop and compare financial products for themselves. For those

who use an insurance broker, almost nine out of ten said it would be useful for them to have more information from other sources available before meeting with their insurance broker. And when asked where individuals would look for financial information, consumers cited the bank, second only to the Internet, as a good source of financial information to help them make a fully-informed decision.

It just makes sense that consumers should be able to find this information when and where they are expecting to find it. Canadians want the rules to match their expectations.

Clearly, the current rules pose problems. Ask yourself: How are you as a consumer well-served by restrictions that limit your knowledge of the insurance choices available to you? You are not well-served and neither are the tens of millions of other consumers in Canada, many of whom are underserved by the current system. For example, only 39% of Canadian households have a relationship with a personal life insurance professional and 21% of households generally have no life insurance coverage at all.

As the saying goes, you can lead a horse to water but you can't make it drink. But, you certainly diminish the chances even further if you restrict the watering holes they can go to. Insurance is an important product. The more opportunity consumers have to learn about insurance products, the better the chance there is that they will access the product.

That's exactly what happened in Quebec. According to the Mouvement Desjardins, more consumers are protected by insurance than might otherwise have access to the product – young couples in their early thirties who are starting families, for example. Statistics show that 50% of these consumers had no insurance prior to buying it at the caisse populaire.

Banks reach a household segment that tends not to be covered by other financial professionals. According to the Financial Planners Standards Council, those who used a financial professional from a bank, trust company or credit union tended to be younger, have lower incomes (under \$50,000) and a lower net worth (under \$100,000) than those who used other financial professionals, such as insurance agents, brokers and financial planners. These are precisely the individuals who are hurt the most by restrictions on their access to information and financial service providers.

During the review process, you will likely hear all kinds of stories used to justify delaying this important change yet again. This time, however, we hope that the fables can be put to bed and the facts can come to the fore. As Nick LePan, the Superintendent of Financial Institutions said in a recent speech, it is important to address "...issues based on as much dispassionate analysis and judgement as possible, and with a full range of options under consideration, not just on interest group politics or the 'sky will fall' kind of analyses."

I couldn't have said it better myself. It is through this lens that giving consumers access to insurance product information where and when they want it is a straightforward, good sense public policy initiative.

In no other situation would it be acceptable to regulate the restriction of product information to consumers. No one would allow it. It would be roundly chastised as anti-consumer. Yet, throughout my remarks, I have asked why these absurd restrictions are still in place for insurance products. Is it acceptable? No; not at all. The self-interested, protectionist ranting of those who are opposed to informed consumers has to be discounted. Without facts on their side, they are spreading unnecessary fear, threats and false accusations about what would happen if these changes were adopted – changes consumers support. There is no reasonable or logical public policy rationale left to prevent the package of change we are proposing from being adopted. Consumers deserve, at the very least, to know what insurance product choices are available to them.

I say, it is time to back the consumer. It just makes sense.