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RECOMMENDATIONS AND OBSERVATIONS

32. Recent federal proposals prohibited licensed sales of insurance services on bank or trust premises. The Committee suggests that this is not the most appropriate way to approach this issue. The decision to allow or disallow licensed insurance agents to operate on the premises of deposit-taking institutions rests with each of the provinces. Thus the Committee recommends that, in each of the provinces, federally and provincially chartered institutions be under the same regime in terms of on-premises sale of insurance.
33. The Committee notes that the end result of the above recommendation may well be different treatment from province to province. This recognizes the provincial prerogative in this area. What our recommendation does accomplish, however, is the levelling of the playing field, by province, for provincially and federally incorporated institutions. Thus, if Quebec allows, as it does, the caisses populaires to network insurance on their premises, this right must also be extended to federally chartered institutions such as the National Bank and Trust Général.

In terms of who should be licensed for on-premises sale, the Quebec model as it applies to the Mouvement Desjardins requires that the licensed persons be representatives of the insurance subsidiary, not of the caisses populaires. This general model would allow financial institutions to enter into contractual (networking) agreements with affiliated or non-affiliated insurance companies to share distribution facilities. The financial arrangements could be flexible—straight rental of space or a percentage of premium income—but the key operating principle that would distance the two pillars would be that bank/trust employees and insurance employees would be subject to different primary regulators.

An alternative approach is the so-called "two hat" model where bank/trust employees can also be licensed to sell insurance products. In effect, this model represents an in-house expansion of banking powers into the insurance pillar. The problem is that this represents an inherent conflict of interest. Customers who are indebted to the deposit-taking institutions (via loans or mortgages) may feel that they are in no position to refuse an offer for insurance coverage.

An even more potentially abusive conflict would arise if insurance agents had full access to clients' overall financial positions *vis-à-vis* the deposit-taking institution, as they would have if they wore the two hats of bank employee and registered insurance agent. Thus, the Committee has no trouble at all in rejecting this two-hat model.

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34. Employees of deposit-taking institutions should not be allowed to be licensed to sell insurance. There is an inherent conflict of interest here since a customer indebted to a bank, trust, or credit union can be put in a position where she/he might find it difficult to refuse an offer for insurance coverage. Therefore, the Committee recommends that federal and provincial insurance regulators come to an agreement to the effect that if a province wishes to license on-premises sales this be done via networking arrangements and not by licensing employees of deposit-taking institutions. In any event, federal legislation should prevent such licensing of employees of deposit-taking institutions.
35. All of the above recommendations relating to networking insurance are premised on the assumption that confidential customer information will not pass between the