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Submitted by email: ccir-ccrra@fsrao.ca

Subject: Draft Incentive Management Guidance

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to comment on the draft Incentive Management Guidance ('Guidance') developed by the CCIR/CISRO.

About IFB
IFB is a national, not-for-profit professional association dedicated to representing the interests of independent financial practitioners for over 35 years. IFB provides a unified voice for these independent advisors to government, regulators, and industry stakeholders.

The majority of IFB's 3000+ members are mutual fund registrants and/or life insurance licensees who own a small or medium-sized financial practice in their local community. Many are licensed in more than one provincial jurisdiction. Therefore, it is important that regulatory expectations be harmonized across jurisdictions whenever possible. IFB supports the role of the CCIR and CISRO in helping to advance this goal. The CCIR/CISRO Incentives Management Guidance is an example of a harmonized approach to regulatory expectations that will help industry and intermediaries build upon the *CCIR and CISRO Guidance Conduct of Insurance Business and Fair Treatment of Customers.*

IFB supports its members' professional needs, and the financial services industry more broadly, by offering accredited education, comprehensive professional liability insurance, regulatory updates and compliance tools, and support for industry best practices.

We note that this draft incorporates slightly different wording in some of the sections. In particular, the change from "negative outcomes" for consumers to "unfair outcomes" is more consistent with the FTC wording. We further note that the status of CISRO's draft document, *Principles of Conduct for insurers and intermediaries*, is unclear, as is any effect it may have on this Guidance in the future.

Comments on the draft Guidance
IFB supports the principles-based approach taken by the CISRO/CCIR in developing the Guidance. This Guidance provides a framework to assist in interpreting the principles encapsulated by the Fair Treatment of Customers into the everyday practices of insurers and intermediaries in the life insurance industry. This sets minimum standards for all insurance intermediaries across Canada, while providing the flexibility for insurers and intermediaries of various sizes and complexity to achieve the desired FTC outcomes.

IFB supports the Guidance's risk-based approach to Incentive arrangements. The life insurance industry has been built on a competitive platform which, by necessity, rewards more successful performers, over those with low performance. It's important that the CCIR/CISRO has acknowledged that insurers and intermediaries need to compensate those involved in the sale and servicing of their products, and that incentive programs that are properly designed and managed can still achieve FTC.

Scope - *This guidance applies to Insurers and Intermediaries that pay compensation and/or design incentive arrangements. Representatives who operate under an Incentive arrangement are expected to comply with their obligations to manage conflicts of interest and their duty to prioritize customers' interests as described in the CCIR/CISRO FTC Guidance.*
IFB appreciates the clarity added in the Scope for representatives. Individual life insurance agents operating as representatives, whether independent (such as IFB members), salaried or tied (captive), have little influence over the design or delivery of incentive arrangements. Incentive arrangements are developed by insurers, and to some extent MGAs, and form part of their contractual arrangements with the agents who are authorized to represent their products or services. Many IFB members would be 'representatives' under this Guidance. IFB members are required to conduct themselves in accordance with IFB's Code of Ethics and Standards of Professional Conduct, which has as its first principle that the client's interests are paramount. It also requires members to manage conflicts of interest by prioritizing the client's interest.

CCIR/CISRO's 4 Principles

1. *Governance*

Governance is an important first principle as it confirms the expectation that an insurer, or any intermediary, which designs or manages an Incentive arrangement, must set a 'tone from the top' that encourages a culture of FTC, and holds leaders accountable.

Importantly, those who are responsible for, or design, approve, implement, and monitor adherence to the incentive arrangements, should be appropriately trained and knowledgeable about the importance of FTC to these arrangements. We suggest this should include mandatory training such as on the life/health insurance industry, governance principles, and issues related to investor protection. It should also include training on their specific role and responsibilities to help foster a culture of FTC and reducing risk through effective management of potential conflicts of interests.

Training must be supported by appropriate policies and administrative procedures throughout the organization. There should be checks and balances throughout the organization to ensure employees, representatives and contractors are trained and knowledgeable about the organization's expectations, and the organization can monitor or test whether the FTC expectations are being met.

We note that the revised Governance principle no longer separates the roles and responsibilities of the Board and Senior Management. In our view, this is a better reflection of the range of organizations affected by the Guidance, as some will have more formal operational/governance structures, than others.

2. *Design and management of Incentive arrangements*

IFB agrees that the design or implementation of an incentive program can raise risks for consumers if not properly managed or controlled and tied to FTC outcomes. However, the inverse is also true – that with proper risk management systems in place, sales-related conflicts or risks to consumers can be effectively managed. Today, there are various checks and balances built into current industry practices such as client disclosures, needs analysis, 'reason why' letters, limiting rewards such as sales trips, and recovering commissions through chargebacks – all of which are designed to reduce the risk of unfair consumer outcomes.

Importantly, however, incentives can also be used to promote positive outcomes. For example, as the traditional sales role continues to transition into more of an ongoing advisory role, this presents opportunities to incorporate a variety of metrics that can reward positive behaviours to encourage the fair treatment of customers. These could include successfully completing enhanced product education and training, training on FTC expectations, monitoring client retention, persistency rates, and client complaint/satisfaction mechanisms by insurers and intermediaries, timely processing of claims and complaints, and encouraging advisor succession planning and business continuity planning. In other words, an Incentive program which is seen to reward ethical behaviour, with a balanced approach to both financial and non-financial targets, would be well-positioned to support the often, long-term nature of a life insurance product, and adapt to this advisory role.

3. *Risks of unfair outcomes to Customers*

The expectation for identifying, monitoring, and adjusting Incentive arrangements in Principle 3 appears to overlap with many of the requirements set out in Principle 1 – Governance, and in Principles 2 and 4. It is unclear to us what the CCIR/CISRO is intending to address in Principle 3 that is not covered in these other sections (and the Appendix).

Furthermore, we suggest the heading of Principle 3 seems inconsistent with the approach taken for the other Principles. Perhaps retitling Principle 3 to something like *Ongoing Evaluation and Monitoring of Incentive Arrangements* would make it clearer and more consistent, if the CCIR/CISRO does not want to consider deleting Principle 3 and adding some of the content to the Appendix.

4. *Post-sale controls*

In our view, Principle 4, which requires insurers and intermediaries to have effective post-sale controls and monitoring in place, appears reasonable. Many of these measures are routinely followed today, allowing insurers and intermediaries to flag sales that may raise questions of suitability and risk to consumers. We suggest expanding post-sale controls to include incentives paid to service existing policyholders, which is included under item #12 in the Appendix.

<u>Appendix</u>

The Appendix appears to be a comprehensive list of examples of circumstances that may increase the risk of unfair customer outcomes, if not properly designed and managed.

We draw particular attention to item #11, which identifies titles, when bestowed as part of a loyalty or recognition program for meeting sales volumes, as a possible FTC risk. In our opinion, titles used by intermediaries should accurately reflect their proficiency, licence and/or corporate position. Titles which improperly convey someone holds an officer position at a firm, when they do not, is misleading and can engender a heightened sense of trust in the consumer.

The CSA has taken steps to control the use of misleading titles[1], and we encourage the CCIR and CISRO to do so as well. Under the Client Focused Reforms, effective December 31, 2021, registrants are not permitted to hold out in a manner that could reasonably be expected to deceive or mislead a client, or prospective client, as to:

- Their proficiency, experience, qualifications or category of CSA registration;
- The nature of the client's relationship, or potential relationship; or
- The products or services provided, or to be provided.

Specifically, client-facing representatives in the securities industry are prohibited from using titles or designations that are based partly or entirely on that representative's sales activity or revenue generation (e.g., "President's Club"); or from using a corporate officer title, unless they have been legally appointed to that role (e.g., "Vice President").

The restrictions applicable to the titles Financial Planner and Financial Advisor, that have been introduced in some jurisdictions, have limited ability to restrict the wide array of other titles that can mislead consumers and undermine the FTC principles. Given these various industry developments, IFB encourages the CCIR/CISRO to undertake a review of titles, so insurance customers have similar protections.

We trust our comments on the draft Guidance are helpful. Should you have any questions, or wish to discuss any of our comments further, please contact the undersigned, or Susan Allemang, IFB's Director, Policy & Regulatory Affairs (email: sallemang@ifbc.ca).

Yours truly,

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[1] National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103). Section 13.18