

Discussion Points On AMF's "Managing Conflict of Interest Risk In Relation To Incentives" Issues Paper

This consultation opportunity is geared primarily toward individual companies/corporate entities in the insurance industry – especially individual insurers/underwriters – and less so toward other industry stakeholders such as industry Associations.

It would not be appropriate for collective entities such as CAFII and other industry Associations to attempt to answer seven of the 17 specific questions posed in the paper.

That said, it would be appropriate for CAFII to make a submission which addresses up to 10 of the 17 specific questions, along with a number of other comments, observations, definitions, assumptions, and positions put forward in the paper.

Purpose of/Background to the Paper

- to further discussion on (i) the risk of certain sales incentives impacting negatively on Fair Treatment of Consumers; and (ii) control and supervision (i.e. regulatory) mechanisms that should be implemented to mitigate this risk;
- to continue the AMF's step-by-step approach to raising awareness in the insurance industry about the introduction of its Sound Commercial Practices Guideline (2013); and to enabling industry players' implementation of measures to achieve the AMF's expected results.
- is a "next step" following the July 2015 release of the results report from the AMF's May 2014 insurer self-assessment questionnaire, called *Results of the Commercial Practices Self-Assessment – Insurers*. That report identified certain areas as requiring ongoing regulatory vigilance, including incentives management. The self-assessment exercise revealed that many insurers' incentive systems are based solely on volume of written premiums; some incentives being utilized inherently create a conflict of interest risk, e.g. sales contests targeting a given product; and, in most cases, the AMF was not able to identify incentives that explicitly factored in the Fair Treatment of Consumers as an evaluation criterion; and
- over the past few months, the AMF has analyzed all of the documentation it gathered from the insurer self-assessments as well as from meetings with industry stakeholders and from supervisory and inspection work (*may also include insights gained from the "Sales and Incentives Management" section of CCIR's Annual Statement on Market Conduct. See separate Appendix A for "Sales and Incentives Management Excerpt From Year 1 Final Version of CCIR Annual Statement on Market Conduct – Life & Health"*).

Specific Questions Which CAFII Should Consider Addressing

- Question #1: Should other incentive categories be added to the list of incentives? Which ones?
- Question #2: What details could be added to the descriptions of the various incentive categories?
- Question #3: In your opinion, does the risk assessment presented in this document by incentive category adequately reflect conflict of interest risk? If your answer is "no," explain why.

- Question #4: What other criteria could be considered to assess the risk of conflict of interest in relation to incentives?
- Question #10: For incentive categories deemed to be high risk, do you think that mitigation measures could reduce the risk to an acceptable level? Please elaborate.
- Question #11: Do you think that the accumulation of incentives could present an increased risk of conflict of interest? Please explain.
- Question #12: Given the consultations under way in the securities sector, do you believe that the insurance sector (overall or in certain subsectors) faces the same issues? Please develop and support your answer with examples and facts.
- Question #13: Do you believe that incentives create a competitive imbalance between insurers of different sizes or, as regards investment products, between the insurance sector and the securities sector? Explain your answer.
- Question #14: Do you believe that current incentive programs prevent product offerings that are more advantageous and less costly for consumers? Please explain your answer.
- Question #15: In your opinion, which method of remuneration would most adequately mitigate conflict of interest risk?

More General Comments/Observations/Definitions/Assumptions/Positions Put Forward In The Paper Which CAFII Should Consider Addressing

- do we agree with the definition of “conflict of interest” being used (p.2, third para; derived from ICP 19.7.1)?
- do we agree that “salaries” should be considered an incentive at all, even if the AMF classifies this form of remuneration as a “low-risk” incentive?
- do we concur with the AMF that it is a “good practice” to suspend the payment of an incentive when the customer satisfaction objective is not reached; and when underwriting rules or the code of conduct (which includes factors pertaining to the Fair Treatment of Consumers) are not observed?
- are we comfortable with the fact that the AMF has made no distinction in its analysis between the life and health insurance industry and the property and casualty insurance industry (page 3)? Does a distinction between the two sectors need to be made with respect to sales incentives?
- do we agree with the *Criteria Identified By The AMF For Assessing Conflict Of Interest Risk* (p. 6)?
- do we want to state a CAFII view on the CLHIA’s February 2016 paper *Insurance Distribution in Canada: Promoting a Customer-Focused System*, given that it is referenced twice in the AMF’s Issues Paper?

Specific Questions Which It Does Not Seem Appropriate For CAFII To Address, As An Association

- Questions 5, 6, 7, 8, 9, 16, and 17.