

October 13, 2017

Autorité des marchés financiers
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Dear Sir/Madam:

Thank you for seeking stakeholder feedback on your July 2017 Issues Paper on *“Managing Conflict Of Interest In Relation To Incentives.”* CAFII appreciates the opportunity to provide our Association’s comments on matters addressed in the Paper.

Our comments are mainly of a general, high level nature, in keeping with a risk- and principles-based perspective. We determined that it would **not** be appropriate for our Association to attempt to answer the specific questions raised in the Issues Paper because (i) the compensation model that CAFII members use is predominantly salary-based; and (ii) many of the 17 questions seem directed solely at insurance companies; and, within an industry Association, answering them would require the sharing and discussion of proprietary information which could potentially be perceived as anti-competitive collusion.

To elaborate briefly on the compensation model used by our members, CAFII member client service representatives – the majority of whom are salaried staff – are highly supervised both in branch and in client contact centres. Our members’ client service representatives undergo comprehensive and recurring product training, to enable them to provide consumers with accurate and reliable information; as well as ethics and integrity training which underscores the importance of fair treatment of consumers (FTC). The training provides client service representatives offering insurance with the knowledge, skills, and tools to do their jobs and serve clients well. It also ensures that they, as sales personnel, and our member companies, as their employers, act in accordance with applicable federal and provincial/territorial insurance legislation and regulations; and industry guidelines.

General Comments and Observations

CAFII recognizes that the current consultation on managing incentives-related conflicts of interest -- as well as the AMF’s Sound Commercial Practices Guideline and related supervisory examinations for compliance, from which the Issues Paper emanated -- have their root in the International Association of Insurance Supervisors’ (IAIS) *Insurance Core Principle 19: Conduct of Business*. Our Association often refers to ICP 19 as a benchmark for discussing industry best practices and ways that companies can do an even better job on FTC.

With respect to the situation here in Canada, we offer some observations on CLHIA’s February 2016 paper *“Insurance Distribution In Canada: Promoting A Customer-Focused System,”* which is referenced in the Issues Paper.

CAFII agrees with CLHIA's viewpoint that "in Canada, the potential for conflicts of interest (or the perception of such) is managed in a twofold way – first, by fostering needs-based selling and making recommendations that are suitable to the customer; and second, by advisor disclosure about the insurers that they represent and how they are paid. This is reinforced through CCIR's principles for managing conflicts of interest, and supported by industry practices and guidelines."

CAFII members support, and make every effort to embed in their organizational cultures, the industry practices guidance which CCIR has issued with respect to FTC and managing conflicts of interest – namely that the customer's interest must take precedence over the salesperson's/advisor's; that the salesperson/advisor must disclose conflicts or potential conflicts of interest; and that the product sold must be suitable for the needs of the customer.

CAFII members also comply with applicable CLHIA Guidelines; and in particular, we offer the following observations on *Guideline G13, Compensation Structure: Managing Conflicts of Interest*; and *Guideline G14, Confirming Advisor Disclosure*, which are prime examples of how the industry has responded to regulators' concerns in this area.

Our Association concurs with G13's fundamental premises that "a robust compensation system is needed to attract and retain qualified professionals to offer, place and service life and health insurance products that meet the needs of the consumer. At the same time, it is important that well-designed compensation systems be alert to the risk that sales-related compensation could create conflicts of interest" and that "one element of FTC is that remuneration and reward strategies take account of fair customer outcomes."

With respect to G14, our members support and comply with all applicable provisions related to Advisor Disclosure but particularly -- as alternate/direct distributors of creditor's group insurance, travel insurance, and other types of life and health insurance -- its provision that "where an insurer accepts an application through a call centre or online process using a licensed life and/or accident & sickness insurance agent, the insurer's processes should also ensure that appropriate disclosure has been made."

Specific Comments and Observations

CAFII agrees with the Issues Paper's classification of Salary as a low risk incentive, as it is usually fixed and does not factor in a salesperson/advisor's sales volume or performance and is not geared toward the sale of a specific product. However, we believe that an argument can be made that Salary is not truly a sales incentive akin to the other incentives examined in the Paper; and that, instead, Salary is the "price of admission" for an employer to attract and retain qualified personnel to offer its insurance products and service its policyholders.

We note that Bonuses have been classified in the Issues Paper as a high risk incentive. However, we would caution that that is not always the case, particularly where a bonus is structured as a component of an overall compensation package that is based on a number of objectives and not just sales or premium volume, e.g. a package that includes FTC and related customer satisfaction objectives.

Our final comment relates to the fact that CCIR's recently launched *Annual Statement on Market Conduct —Life and Health Insurance Industry* and the parallel *Annual Statement on Market Conduct — Property and Casualty Industry* contain comprehensive sections on *Sales and Incentives Management*. Therefore, we would encourage the AMF to use the nationally harmonized *Annual Statement* – of which the Autorité has been a prime mover in design and implementation – for such regulatory supervision and monitoring initiatives in the future.

We make that recommendation for two reasons: (i) the data collected through a mandatory vehicle such as the *Annual Statement* will be more comprehensive and deeper than that which can be obtained through a voluntary Issues Paper consultation. Thereby, *Annual Statement* data can better inform the AMF's next steps in supervision related to managing conflicts of interest and other FTC-related matters; and (ii) taking that approach will reduce the number of independent provincial/territorial requests to industry players for data/responses, thereby fulfilling one of the *Annual Statement's* primary purposes.

Thank you again for giving CAFII the opportunity to respond to the Issues Paper on "Managing Conflict Of Interest In Relation To Incentives." Should you require further information or wish to meet with representatives of our Association at any time, please contact Brendan Wycks, our Co-Executive Director, at brendan.wycks@cafii.com or 647-218-8243.

Sincerely,



Peter Thorn
Board Secretary and Chair, Executive Operations Committee

ABOUT CAFII

CAFII is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. Our Association was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. Our members provide insurance through client contact centres, agents and brokers, travel agents, direct mail, branches of financial institutions, and the internet.

CAFII believes consumers are best served when they have meaningful choice in the purchase of insurance products and services. Our members offer travel, life, health, property and casualty, and creditor's group insurance across Canada. In particular, creditor's group insurance and travel insurance are the product lines of primary focus for CAFII as our members' common ground.

CAFII's diverse membership enables our Association to take a broad view of the regulatory regime governing the insurance marketplace. We work with government and regulators (primarily provincial/territorial) to develop a legislative and regulatory framework for the insurance sector that helps ensure Canadian consumers get the insurance products that suit their needs. Our aim is to ensure appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII is currently the only Canadian Association with members involved in all major lines of personal insurance. Our members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players American Express, Assurant Solutions, Canadian Premier Life Insurance Company, and The CUMIS Group Ltd.