

Agenda Item 4.2
April 16/19 Board Meeting

CAFII Dialogue With CCIR/CISRO Re Fair Treatment of Customers

Summary of CAFII Meeting With CCIR/CISRO Fair Treatment of Consumers (FTC) Working Group
27 March 2019

Attendees From CCIR/CISRO:

Louise Gauthier, Senior Director, Distribution Management Policy
Mylène Sabourin, Director of Distribution Practices and Self-Regulatory Organizations, AMF
Ron Fullan, Executive Director, Insurance Councils of Saskatchewan
April Stadnek, Director of Compliance, Insurance Councils of Saskatchewan
Swati Agarwal, FSCO
Wendy Horrobin, FSCO
Timothy Goff, Registered Insurance Brokers of Ontario (RIBO)
Vivian Lee, RIBO
Tony Toy, CCIR Policy Manager
Joanna Reading, CISRO Policy Manager
Adrienne Warner, CCIR Policy Associate

Attendees From CAFII (In-Person)

Rob Dobbins, Assurant
Charles MacLean, RBC Insurance
Huma Pubani, TD Insurance
Martin Boyle, BMO Insurance
Brendan Wycks, CAFII
Keith Martin, CAFII

On The Phone

John Lewsen, BMO Insurance
Michelle Costello, CUMIS Services Inc.
Anu Bains, CIBC Insurance
Dominique Julien, CIBC Insurance
Louise Nash, CIBC Insurance
Joanna Onia, CIBC Insurance
Pete Thorn, TD Insurance
Fay Coleman, TD Insurance
Karyn Kasperski, RBC Insurance
Michele Jenneau, National Bank Insurance
Dallas Ewen, Canada Life Assurance
Sharon Apt, Canada Life Assurance
Dana Easthope, Canadian Premier Life Insurance/Valeyo

Meeting Summary

Louise Gauthier, Chair of the CCIR/CISRO Fair Treatment of Consumers Working Group, opened the meeting by thanking CAFII for its participation. She noted that it had been one and a half years since the initial consultations began with respect to CCIR/CISRO's intention to issue a Guidance document on the Fair Treatment of Customers; and these quarterly meetings were an opportunity to continue the dialogue on this critical issue in a "safe environment." It was the desire of CCIR and CISRO that the Guidance be embraced by industry and that it lead to specific initiatives.

It was noted that there likely were still areas where the regulators could provide greater clarity around the Guidance, and this would be a continued focus for the Working Group. It was also noted that CCIR and CISRO understood the strong desire of the industry for regulatory harmonization; and, in that respect, it was mentioned that three jurisdictions -- namely British Columbia, Nova Scotia, and New Brunswick -- had now each publicly and formally endorsed the CCIR/CISRO Guidance document. Other provincial/territorial jurisdictions were working on following suit.

Some questions had been submitted by CAFII in advance of the meeting, and Ms. Gauthier and Mr. Fullan both noted that the Working Group had separately also received six Guidance-related questions from industry more generally. Ms. Gauthier said that they would go through the answers to those questions first, as they might answer CAFII's particular questions as well.

One question was about the meaning of Section 6.8 on Advice.

Another was a request for clarity around the meaning of the part of Section 6.6 which states that intermediaries must "disclose the services provided, including whether they offer products from a full range of insurers, from a limited range or from an exclusive insurer."

Another question pertained to Section 5 which states that insurers and intermediaries are expected to "make available their strategies, policies and procedures dealing with the fair treatment of customers," with the question being whether making these strategies available was to occur only upon request.

A related question was around the expectation that insurers and intermediaries must "promptly advise regulatory authorities if they are likely to sustain serious harm due to a major operational incident that could jeopardize the interests or rights of customers and the insurer or the intermediary's reputation," with clarity sought around precisely what "promptly advise" meant and what was a "major operational incident"? It was also noted that this section referenced expectations of insurers, and the view expressed was that this was too narrow and these expectations should also fall on intermediaries.

Based on some of the comments made in response to these questions, it was agreed that many of the questions which CAFII had posed had been addressed.

CAFII then offered to update the FTC Working Group on the progress of its members, and to address that component of the agenda.

Brendan Wycks delivered the following update statement:

CAFII Members initially embraced Fair Treatment of Consumers six years ago, when the AMF first released its FTC-related Sound Commercial Practices Guideline.

Currently, CAFII Members are now using the new CCIR/CISRO Guidance: Conduct of Insurance Business and Fair Treatment of Customers as both a guide and a benchmarking reference tool which informs their ongoing Risk and Control Self-Assessment Activities to identify potential gaps and plan remediation initiatives, as necessary.

Such gaps could be in Members' current practices, or in the ability of Member companies to demonstrate adherence to the Guidance document's principles in an immediate and tangible manner.

CAFII Members are also embracing the new Guidance document as a tool in reviewing and updating their governance and business culture documentation; and as part of their scheduled compliance monitoring and testing activities.

The following is a compilation summary of some of the implementation progress initiatives with respect to the Guidance which CAFII Members have taken since it was released last September, and which are at various stages of development and progress among our Members:

- (a) conduct a high-level review against principles to determine alignment.
(Common feedback received from the review was that the biggest opportunity was the need for a framework to continually demonstrate FTC, as opposed to having to undertake a separate exercise if asked by a regulator to demonstrate FTC. A strong consensus emerged that there is a lot of value in these frameworks to reinforce existing organizational values around FTC.)*
- (b) communicate with the business about the need for an in-depth gap analysis against the Guidance.*
- (c) perform an in-depth (paragraph by paragraph) gap analysis against the Guidance (done by First Line of Defence and Second Line of Defence).*
- (d) assign accountabilities for any gaps and opportunities identified.*
- (e) currently at various stages of (i) developing action plans; (ii) implementing action plans; or (iii) have already completed some action plans.*
- (f) develop and/or update a Fair Treatment of Customers Policy to set expectations for all employees.*
- (g) develop and implement a mandatory, annually recurring Fair Treatment of Customers training module, with successful completion required by all employees.*

The discussion then turned to other areas for continued review of adherence to the Guidance, including training.

Charles MacLean of RBC Insurance noted that product development was another area that had been the subject of focus in his company, where those developing products were coached on keeping FTC principles top-of-mind as they worked on new products.

Louise Gauthier said that this sort of initiative was of interest and asked if our members could share some of these developments with the Working Group in writing. It is, she said, comforting for the regulators to obtain information on these sorts of initiatives.

CAFI representatives agreed that we would see if there were updates that could be provided in writing; and, if there were, they would be sent to Tony Toy.

Another area that was mentioned as a priority for the industry was to identify where there might be gaps between the expectations laid out in the Guidance and actual practices. The importance of continued training on the importance of the principles in the Guidance was also mentioned.

Keith Martin noted that a challenge for the industry is that measuring business culture is very difficult to do, with Rob Dobbins agreeing that this made it difficult to demonstrate progress even if it was occurring.

Louise Gauthier and others from the FTC Working Group agreed with that observation. Ms. Gauthier added that there were some measures that could be proxies for or indicators of adherence to the Guidance, or of potential problems in adhering to the Guidance. She cited reviews of complaints as an example, including the source of the complaint, noting that if a complaint occurs repeatedly and it is determined that the customer is complaining due to a lack of understanding of the product, that is a signal to the company that they have an issue to address, as customers should not continuously be having difficulty understanding a product.

Turnover among staff, staff morale, and customer retention were also cited as possible measures. Ms. Gauthier said that customer satisfaction surveys were another good measure that allowed a company to see if customers were satisfied with the different parts of their exposure to products.

It was added that the International Association of Insurance Supervisors (IAIS) is looking at developing Key Performance Indicators (KPIs) around FTC.

There was discussion about the importance of open communication on these initiatives, and of not just checking boxes but rather making fair treatment of customers a front and centre priority in all company initiatives. It was stated that there had been a shift in societal expectations and companies are being held to ever-higher standards.

Incentives management was cited as a particular priority for the regulators. Incentives-driven conflicts of interest were inconsistent with the fair treatment of customers, and needed to be looked at in detail.

Ms. Gauthier advised that an FTC Working Group sub-committee was looking at these issues, with a focus on four specific areas:

- 1) incentives that are challenging from a public optics perspective, for example a trip to Hawaii as a reward for meeting a sales target.
- 2) behaviour by the seller that is not aligned with the interests of customers, such as volume bonuses, quotas, etc.

- 3) contractual programs that restrict competition. The example was given of sliding commissions where commissions grow per sale if certain volumes with an individual company are met, which means that the seller has an incentive to send more business to one firm, even if the terms might be better for the customer at another firm.
- 4) customer service issues, for example where compensation is paid for the sale of a product, but there is no compensation for proper post-sale servicing of the consumer.

Ron Fullan spoke to these issues and said that as progress was made by the FTC Working Group sub-committee, the industry would be fully consulted, including being given the opportunity to offer written submissions in response to an Issues Paper which the Working Group sub-committee would be issuing. Initially, requests for responses will be made to industry Associations.

CCIR/CISRO representatives added that it would be appreciated if CAFII could share any information on how compensation and incentives management works within our member companies.

Conclusion

It was agreed that the next quarterly meeting between CAFII and the CCIR/CISRO FTC Working Group would be held in late June 2019. The Working Group asked if CAFII would be agreeable to very high level minutes of this meeting being developed and shared with other stakeholders, and the response was generally yes, so long as care was exercised around attribution and revealing details. It was agreed that draft high level minutes would be shared with CAFII prior to circulation, to ensure our comfort prior to dissemination.

CAFII members present at this meeting felt that the discussion was positive and collaborative and that there was a good rapport and dialogue during the session.