



Incentive Management Guidance

CCIR FTC Working Group
Pre-Consultation Meetings
July 21 & 22, 2021

Introduction

- ▶ CCIR/CISRO *Guidance: Conduct of Insurance Business and Fair Treatment of Customers* (FTC Guidance) released 2018.
- ▶ Stakeholders sought more information about applying FTC expectations to sales and servicing incentives.
- ▶ CCIR/CISRO gathered data from industry on incentives arrangements and saw some evidence that FTC may not be taken into account.
- ▶ CCIR/CISRO directed FTC Working Group to develop principles-based guidance on incentives management to complement FTC Guidance.
- ▶ CCIR/CISRO now seeking preliminary feedback on draft Guidance from key stakeholders.

Incentive Management Guidance Structure

- ▶ Definitions/Concepts
- ▶ Preamble
- ▶ Scope
- ▶ Principles & Expectations

Definitions / Concepts

- ▶ Some identical as the FTC Guidance
- ▶ Other specific terms defined because of the nature of this Guidance (e.g. Incentive arrangements)

Preamble

- ▶ Complements CCIR/CISRO FTC Guidance
- ▶ Insurers and intermediaries are responsible for compensating persons or entities acting on their behalf in the sale and servicing of insurance products
- ▶ Supports insurers and intermediaries in achieving FTC while respecting existing laws and regulations

Scope

- ▶ This Guidance applies to:
 - Insurers and intermediaries that pay compensation and/or design incentive arrangements
 - All insurance products, types of insurance, and distribution channels

Principles

1. Governance
 2. Design and management of incentive arrangements
 3. Risks of negative outcomes to customers
 4. Post-sales controls
- ▶ Each principle sets out expectations and targeted outcomes for insurers and intermediaries

1. Governance

CCIR and CISRO expect incentive arrangements aligned with FTC to be a core component of the governance and business culture of insurers and intermediaries.

- ▶ Expectations to achieve this outcome:
 - Roles and responsibilities of board of directors
 - Roles and responsibilities of senior management

2. Design & Management of Incentive Arrangements

CCIR and CISRO expect insurers and intermediaries to design and implement incentive arrangements that include criteria ensuring FTC.

- ▶ Expectations to achieve this outcome:
 - Designing and Managing incentive arrangements

3. Risks of Negative Outcomes to Customers

CCIR and CISRO expect insurers and intermediaries to identify and assess on a regular basis the risks of negative outcomes to customers that may arise from incentive arrangements so that they can either introduce appropriate controls or adjust their incentive arrangements.

- ▶ Expectations on risk assessment
- ▶ Appendix providing examples of incentive arrangements features that may increase the risk of negative outcomes to customers

4. Post Sales Controls

CCIR and CISRO expect insurers and intermediaries to establish effective post sales controls to identify unsuitable sales, resulting from incentive arrangements.

- ▶ Expectations to achieve this outcome:
 - Post-sales control and monitoring
 - Risk-based post sales control
 - Regular review of post-sales controls

Next Steps

- ▶ Draft Guidance available upon execution of Non-disclosure agreement
- ▶ Written comments expected by September 17th to tony.toy@fsrao.ca
- ▶ Pre-consultation with stakeholders Summer/Fall 2021 and concludes November 30th
- ▶ Public consultation – Early 2022
- ▶ Implementation – March 2023

► Questions and Comments ?



Thank you !