



# **CCIR Cooperative Fair Treatment of Customers (FTC) Review – Consolidated Observations Report**

October 2021

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# Executive Summary

## Adoption of Fair Treatment of Customers (FTC) Principles

FTC principles have a broad impact on the reputation of not only individual companies, but the reputation and confidence of the financial system as a whole. Adherence to FTC is an end-to-end process and the insurer must take it into consideration at each stage of the product life-cycle. Strong integrated risk management in the form of monitoring and supervision must also be used to ensure FTC principles are being followed.

The Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) jointly published Guidance Conduct of Insurance Business and Fair Treatment of Customers<sup>1</sup> (FTC Guidance) in 2018, laying out a framework of expectations relating to business conduct in the insurance industry with the end goal of achieving FTC.

## Key Observations

This report provides a summary of key observations from the CCIR cooperative FTC reviews of insurance companies conducted between 2017 and 2021 and the individual FTC reviews of insurance companies in the CCIR members' own jurisdictions based on FTC principles.

Key observations have been highlighted within the following seven areas of review:

### 1. Corporate Governance and Culture in relation to FTC

- The roles and responsibilities specifically related to FTC were not always clearly defined.
- The current policies and procedures were not fully evaluated to assess if pertinent FTC elements were incorporated, and no action plans were in place to implement and operationalize the FTC elements.
- There was no consolidated reporting that assesses the insurers' overall performance with respect to FTC.

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<sup>1</sup> <https://www.ccir-ccrra.org/Documents/View/3450>

- There were no procedures to ensure that agents were reviewing the insurers' code of conduct on an ongoing basis.

## **2. Agent Training and Outsourcing/Delegating Arrangements**

- The contractual agreements or supporting documentation between insurers and intermediaries<sup>2</sup> did not outline detailed expectations regarding their roles and responsibilities.
- There were no mechanisms in place to provide reasonable assurance that independent agent training was being completed, or intermediaries understood and fulfilled their delegated training responsibilities.

## **3. Incentive Management and Remuneration Structure**

- The structure of incentive programs reviewed predominantly contained sales-related quantitative elements and the application of qualitative criteria based on FTC was not formalized.
- There were no supervision processes over incentive programs used or developed by intermediaries.

## **4. Product Design, Marketing, and Advertising**

- There were no formal and established processes for ongoing and periodic reviews of marketing materials provided to intermediaries and consumers.
- There were no FTC components implemented in the product design and marketing procedures.

## **5. Information Provided to Consumers**

- There were no mechanisms in place or formal procedures provided to agents as guidance on what should be distributed to consumers.

## **6. Claims Examination and Settlement**

- The claims process was not always explained in a complete and accessible manner.

## **7. Complaints Examination and Dispute Settlement**

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<sup>2</sup> The use of the term 'intermediaries' in this report refer to Managing General Agencies (MGAs) and/or National Accounts (NA).

- Insurers' reporting of complaints was not being done in accordance with Annual Statement on Market Conduct (ASMC) requirements.
- The complaints handling policies and procedures were not always simple, accessible, and complete.

# Introduction

## Cooperative Supervision Approach

Following the adoption of a Memorandum of Understanding on Cooperation and Information Exchange (the Memorandum) by the members of the CCIR in 2015, a concerted Framework for Cooperative Market Conduct Supervision in Canada was put in place<sup>3</sup>. In accordance with this cooperative supervision framework, the members of CCIR's Cooperative Supervisory Oversight Committee (CSOC) collaborated and conducted joint FTC reviews of insurance companies since 2017.

## Objective

The objective of these joint FTC reviews was to assess the business practices of various insurance companies to ensure FTC is being applied and followed across all distribution channels. The scope of the joint FTC reviews to date has focused on individual life insurance line of business, however, the CCIR members have also carried out individual FTC reviews in their own jurisdictions based on FTC principles. The common observations and themes found from these joint and individual FTC reviews are laid out in the Consolidated Observations section below and can be applied to both Life and Health (L&H) and Property and Casualty (P&C) sectors. These common observations provide some examples of the application of the FTC principles and may help those who have not yet been subjected to the joint or individual FTC reviews.

Each area of these joint and individual FTC reviews aims to understand insurers' commercial practices in preventing consumer harm, and supports:

- adopting FTC principles throughout the entire product life-cycle and consumer journey

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<sup>3</sup> <https://www.ccir-ccrra.org/Documents/View/2592>

- establishing the right tone at the top, which sets the organization's FTC corporate culture and values
- building strong agent onboarding, training, and supervision programs that put consumers' needs first
- providing adequate information to consumers at different stages of the sales process
- handling claims and complaints in a fair and efficient manner

## Key Areas of Review

The areas of scope for FTC reviews typically include the following categories:

1. Corporate Governance and Culture in relation to FTC
2. Agent Training and Outsourcing/Delegating Arrangements
3. Incentive Management and Remuneration Structure
4. Product Design, Marketing, and Advertising
5. Information Provided to Consumers
6. Claims Examination and Settlement
7. Complaints Examination and Dispute Settlement

## Consolidated Observations

There are common observations and themes noted in each area throughout all the aforementioned reviews. The following observations and recommendations are examples of key items raised by regulators in both joint FTC reviews and individual jurisdictional FTC reviews.

### 1. Corporate Governance and Culture in relation to FTC

CCIR and CISRO expect FTC to be a core component of the governance and business culture of insurers.

Incorporating a FTC culture requires the involvement of all organizational levels and processes, from strategic planning to decision-making and governance structures to operations. In doing so, insurers aim at striking balance between the obligations of all involved, including representatives.

*Guidance Conduct of Insurance Business and Fair Treatment of Consumers (FTC Guidance),  
Section 6.1. Governance and Business Culture*



## General Scope

The scope of review included assessing organizational structure to ensure that reporting relationships between management and senior leadership allow for effective oversight and confirming there is a reflection of FTC elements within the insurers' culture and values.

## Observations

- 1) Roles and Responsibilities:** Most reviewed insurers had some FTC elements embedded across different business areas. However, not all insurers had defined the roles and responsibilities specifically related to FTC, including specific function(s) with access to company identified FTC metrics and information, in order to report the overall performance and findings accordingly to senior/executive management and the Board of Directors.

In some cases, there were designated personnel with specific FTC related functions such as reviewing claim denials, handling complaints, etc. However, there was not always a clear segregation of duties or controls in place in order for the individuals to perform certain duties independently and with proper reviews/approvals.

- 2) FTC Policies and Procedures:** Some insurers were found to have a variety of policies and procedures broadly related to FTC, but in most instances, these policies and procedures were not fully evaluated to assess if pertinent FTC elements were incorporated. Also, insurers had not adopted policies and procedures relating to FTC at the time of the review, nor had action plans in place to implement and operationalize the pertinent FTC elements into practice.

Some insurers, however, had clearly established policies and procedures related to FTC and had implemented them in their various business areas.

- 3) Reporting on FTC Elements:** In general, there was no specific reporting being done with regards to FTC objectives. All reviewed insurers provided regular reporting on a variety of subject matters to their senior/executive management, including some FTC goals and indicators, such as the volume of premiums and benefits paid, claims examination and review time frames, percentage of claim denials, and number of complaints. However, these indicators were scattered throughout different reports. Also, there was no consolidated reporting that assesses the insurers' overall performance with respect to FTC that would assure senior/executive management and the Board of Directors that the insurers are meeting their FTC obligations and desired outcomes.

In some cases, there were established FTC goals and indicators, but they did not provide reasonable assurance to the insurers in order to confirm if FTC is being sufficiently implemented and their goals are being met. Furthermore, these indicators were not analyzed to identify FTC issues or findings, determine trends, and identify risks and causes that may have a negative impact on consumers. This may prevent insurers to take timely corrective actions when required.

- 4) Code of Conduct:** The insurer's code of conduct (the Code) for agents was provided to new agents upon signing contracts with insurers, however, there was no procedure to ensure that agents were reviewing the Code on an ongoing and regular basis to remain up-to-date with any changes made to the Code.

## Recommendations

- 1) Roles and Responsibilities:** Recommendations were given to clearly define and set the roles and responsibilities specifically related to FTC and identify specific function(s) with access to company identified FTC metrics and information. This may assist insurers to report overall performance and findings accordingly to senior/executive management and the Board of Directors.

In cases where there were designated individuals with specific FTC related functions, there should be clear segregation of duties or appropriate mechanisms in place in order for the individuals to perform certain duties independently and with proper reviews/approvals.

- 2) FTC Policies and Procedures:** Recommendations were given to implement a formal process to periodically review and update policies and procedures to address major FTC risks, and operationalize FTC related processes to measure their performance against expected outcomes as outlined. Where there were no FTC related policies and procedures in place, it was recommended that appropriate policies to be put in place or to update existing policies to incorporate FTC.
- 3) Reporting on FTC Elements:** Recommendations were given to provide senior/executive management with a more holistic view of the insurers' performance regarding FTC objectives to ensure that these objectives are taken into consideration across all levels of the organization and any decisions and strategies made within.

Where FTC goals and indicators were not established, it was recommended that they be identified and put in place. If established but insufficient, it was recommended that they be refined and put in place. Recommendations were also made to analyze these indicators to identify FTC issues, risks, and trends in order to take corrective actions when required.

- 4) **Code of Conduct:** Recommendations were given to ensure the agents are informed of any changes made to the Code. Also, an ongoing periodic reminder should be implemented for agents to review and acknowledge the Code.

## 2. Agent Training and Outsourcing/Delegating Arrangements

CCIR and CISRO expect that functions related to conduct of insurance business outsourced to service providers do not hinder the quality of services or jeopardize the Insurer's ability to achieve FTC.

It is also expected insurers provide relevant information and training to intermediaries to ensure that they understand the target market and characteristics of the insurance product being sold.

*FTC Guidance,  
Section 6.3. Outsourcing and Section 6.4. Design of Insurance Product*

### General Scope

The scope of review included the review of the contractual agreements between insurers and intermediaries with regards to their roles and responsibilities, including delegated functions. The review also included the evaluation of insurers' agent training, including their policies and procedures, agent suitability factors, as well as nature, timing, and extent of training conducted.

### Observations

- 1) **Contractual Design:** Contractual agreements or supporting documentation between insurers and intermediaries did not outline detailed expectations regarding their roles and responsibilities, particularly when certain functions were delegated/outsourced.

- 2) Monitoring of Delegated Training:** While all insurers made their trainings available for intermediaries and agents, there were no mechanisms in place to provide reasonable assurance that the training was actually being completed by independent agents, or that intermediaries understood and fulfilled their delegated training responsibilities.

## Recommendations

- 1) Contractual Design:** Recommendations were given to insurers to review and update their contractual agreements or supporting documentation, where applicable, ensuring that clear and more specific expectations are outlined.
- 2) Monitoring of Delegated Training:** Recommendations were given to put processes in place to obtain reasonable assurance that independent agents are adequately trained and knowledgeable. Various mechanisms can assist insurers to identify areas for which they should offer additional support, follow-up, or training to their external distribution. Some examples may include obtaining the list of training offered and disseminated by intermediaries, evaluating the completion rate for training offered by the insurer, or putting quality control in place to target specific training topics.

Insurers were also recommended to proactively monitor intermediaries who have been assigned the responsibility to train agents to ensure that they carry out their responsibilities according to the expectations.

## 3. Incentive Management and Remuneration Structure

CCIR and CISRO expect that insurers' remuneration, reward strategies, and evaluation of performance take into account the contribution made to achieving outcomes in terms of FTC.

It is also expected that insurers take all reasonable steps to identify and avoid or manage conflicts of interest and communicate these through appropriate policies and procedures.

*FTC Guidance,  
Section 6.1. Governance and Business Culture and Section 6.2. Conflicts of Interest*

## General Scope

The scope of review included the examination of policies and procedures, agent compensation structure, and incentives, including the insurers' oversight of the incentive programs used by their distribution channels for their products and services.

## Observations

- 1) Design of Incentive Programs:** The structure of incentive programs reviewed predominantly contained sales-related quantitative elements and in most instances, insurers did not formalize the application of qualitative criteria based on FTC. Also, risk assessment and management of each incentive program were not performed by all insurers.
- 2) Monitoring of Incentive Programs:** Insurers did not have a supervision process over incentive programs used or developed by intermediaries.

## Recommendations

- 1) Design of Incentive Programs:** Recommendations were given to review and update incentive programs, where necessary, to consider elements of FTC<sup>4</sup>.
- 2) Monitoring of Incentive Programs:** Recommendations were given to establish monitoring practices that will allow insurers to detect, be informed of, and properly supervise incentives related to the sale of their products, as well as programs run by intermediaries to ensure consumer interests are appropriately taken into account and conflict of interest risks are adequately managed.

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<sup>4</sup> CCIR members are currently in the process of developing an incentive management guidance, which will further clarify and guide this area.

## 4. Product Design, Marketing, and Advertising

CCIR and CISRO expect that product promotional material is accurate, clear, not misleading, and consistent with the result reasonably expected to be achieved by the customer of the product.

The insurer is responsible for providing promotional material that is accurate, clear, and not misleading not only to customers but also to intermediaries who may rely on such information.

*FTC Guidance, Section 6.7. Product Promotion*

### General Scope

The scope of review included confirming insurers provided accurate and sufficient product information to allow a customer to make an appropriate decision. To this end, the reviews sought to ensure that insurers have the appropriate processes in place to design products that meet consumer needs, develop clear and simple materials for their distribution network and the consumers, where the information disseminated is not confusing or misleading.

### Observations

- 1) Review of Marketing Materials:** In most instances, there was no formal and established process for the ongoing and periodic reviews of marketing materials provided to consumers.
- 2) Product Design and Marketing Procedures:** Many insurers did not implement FTC components in their product design and marketing procedures to ensure the product meets the consumers' needs (before, during, and after sales), to identify the target clients and suitability, and to ensure the information and documentation prepared is clear, simple, and not misleading.

## Recommendations

- 1) Review of Marketing Materials:** Recommendations were given to implement a formal review cycle and have procedures in place to review and update marketing and advertising materials on a regular and ongoing basis to ensure that all information is current and accurate.
- 2) Product Design and Marketing Procedures:** Recommendations were also given to implement FTC components in their product design and marketing procedures to ensure the product meets the consumers' needs (before, during and after sales), to identify the target clients and suitability, and to ensure the information and documentation prepared is clear, simple, and not or misleading.

## 5. Information Provided to Consumers

CCIR and CISRO expect that a customer is given appropriate information to make an informed decision before entering into a contract.

The information provided should be sufficient to enable customers to understand the characteristics of the product they are buying and help them to understand whether and how it may meet their needs.

*FTC Guidance, Section 6.6. Disclosure to Customer*

## General Scope

The scope of review included confirming insurers had formal processes that takes FTC into account for informing customers before, at the moment, and after sales.

## Observations

- 1) Information Provided to Consumers:** For certain products and services, information provided to consumers was general and did not highlight specific information that would give a clearer understanding of the products being considered and purchased (e.g.,

limitations and exclusions, specific timelines or delays, particular definitions, rights and obligations, etc.)

- 2) Information Provided to Intermediaries:** While product and marketing information was readily provided to agents, there were no mechanisms in place or formal procedures provided to these agents as guidance on what should be distributed to consumers (e.g., among all the documents and information provided by the insurers, what documents/information should be provided and disclosed to the customer).

## Recommendations

- 1) Information Provided to Consumers:** Recommendations were given to ensure all points of information provided to consumers are clear and readily accessible, including information provided on insurers' websites and marketing materials. This can assist consumers to be well informed of what they are purchasing.

In addition, tools may be created or made available to agents and consumers to help them better understand the information that is given to them. (e.g., glossary, explanatory passages or reference to policy clauses, participants' guide, FAQs). This applies to both new and modified products to enable all required information provided to agents and consumers are accurate, clear, consistent, not misleading in any way, and provided in a timely manner.

- 2) Information Provided to Intermediaries:** Recommendations were given to implement appropriate mechanisms or formal procedures to provide their distribution channels with the information to be presented to consumers during the sale process. This may guide agents on what information should be distributed to consumers and that they have the necessary tools to pass along the sufficient information.



## 6. Claims Examination and Settlement

CCIR and CISRO expect claims to be examined diligently and fairly settled, using a simple and accessible procedure.

*FTC Guidance, Section 6.10. Claims Handling and Settlement*

### General Scope

The scope of review included confirming insurers had claims handling policies which incorporate FTC elements, as well as standard processing times that appropriately reflect FTC.

### Observations

**Explanation of Claims Process:** In some instances, the claims process was not explained in a complete and accessible manner as the options available to consumers may not have been fully communicated within the insurers' websites or other provided documentation. For example, not all insurers adequately informed customers of the reasons for claims denial, where the denial letters did not include sufficient details to allow the customers to understand the reasons for the denial and what they can do in order to appeal or complain about the decisions made.

### Recommendations

**Explanation of Claims Process:** Recommendations were given to update any areas used to provide information about the claims process, including the denial letters, add all required information, and make the information provided clear, accessible, and understandable.

## 7. Complaints Examination and Dispute Settlement

CCIR and CISRO expect complaints to be examined diligently and fairly, using a simple and accessible procedure.

*CCIR FTC Guidance, Section 6.11. Complaints Handling and Dispute Resolution*

### General Scope

The scope of review included confirming insurers informed their customers of the existence of their complaints processing service and applicable response timelines.

### Observations<sup>5</sup>

- 1) **Complaints Reporting in Accordance with ASMC Requirements:** Insurers' reporting of complaints was not being done in accordance with ASMC requirements. Specifically, the way a complaint was defined by insurers for reporting purposes differed from the ASMC requirement.
- 2) **Complaints Process:** All insurers had policies and procedures related to complaints handling in place. However, these processes were not always simple and accessible, which may discourage consumers to file a complaint due to overly complicated and onerous processes. Also, information such as expected turnaround times, available options on how to file a complaint, and the next steps were not always clearly communicated.

### Recommendations

- 1) **Complaints Reporting in Accordance with ASMC Requirements:** Recommendations were given to review and report all complaints in compliance with ASMC requirements.

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<sup>5</sup> Please refer to the 2019 and ASMC public reports for more information in this area: <https://www.ccir-ccrra.org/AnnualStatementonMarketConduct>

Insurers, who wish to ensure that they are reporting complaints in accordance with expectations, can refer to the definition of complaints available on the ASMC forms<sup>6</sup>.

- 2) Complaints Process:** Recommendations were given to streamline and simplify complaint handling procedures to ensure that consumers have a timely resolution to their complaints, and also that they are aware of all necessary information such as response timelines and the next steps. Recommendations were also given to review all areas where information about the complaints process is provided to ensure that consumers can follow the procedures easily and efficiently.

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<sup>6</sup> Please refer to the ASMC forms and documentation at <https://lautorite.qc.ca/en/professionals/insurers/market-conduct/>

## Conclusion and Next Steps

The Insurer is responsible for FTC throughout the life-cycle of the insurance product, as it is the insurer that is the ultimate risk carrier. However, it is important to note that intermediaries also play a significant role in insurance distribution. Where more than one party is involved in the design, marketing, distribution, and policy servicing of insurance products, FTC in respect of the relevant services is a responsibility that is shared amongst involved insurers and intermediaries<sup>7</sup>.

As mentioned in the FTC Guidance, the CCIR and CISRO provide this guidance to further support insurers in achieving FTC while complying with existing laws and regulations. It also aims at strengthening public trust and consumer confidence, minimizing reputational risks and unsustainable business models.

As per the CCIR Cooperative Supervisory Plan, CCIR members plan to continue to conduct entity-specific, systemic, and thematic reviews. CCIR members expect these consolidated review results will shed light onto some of the common issues the industry encounters and serve as a tool for insurers in both L&H and P&C sectors to benchmark themselves against the reported recommendations in order to achieve better consumer outcomes and protection.

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<sup>7</sup> You can also read the following public reports from:

- Financial Services Regulatory Authority (Ontario)
  - Insurer-MGA relationship review report at <https://www.fsrao.ca/newsroom/fsra-reviews-life-insurer-supervision-mgas-enhance-consumer-protection>
- Autorité des marchés financiers (Québec)
  - Group disability insurance cross-sectional analysis report and Insurer analysis report on the offering of insurance products by dealerships at <https://lautorite.qc.ca/en/general-public/publications/for-professionals/insurance-and-deposit-institutions>



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