

Agenda Item 5(e)
February 25/20 EOC Teleconference Meeting

From: Brendan Wycks <brendan.wycks@cafii.com>
Sent: Tuesday, February 18, 2020 10:48 AM
To: Michael Kilby <MKilby@stikeman.com>; Victoria Hale <VHale@stikeman.com>
Cc: Stuart Carruthers <SCarruthers@stikeman.com>; Keith Martin <Keith.Martin@cafii.com>
Subject: FW: Request For Short CAFII/CLHIA "Touch Base" Call Re Early March 2020 Quarterly Stakeholder Meetings With CCIR/CISRO Fair Treatment of Consumers Working Group (FTCWG), Focused On Incentives/Compensation

Hi, Mike.

See the Meeting Invitation content below, beneath my related message to Brent Mizzen and Luke O'Connor of CLHIA, which I just circulated to a segment of CAFII volunteer leaders for our upcoming CAFII quarterly stakeholder meeting with the CCIR/CISRO FTCWG on Thursday, March 5/20.

In particular, take a look at the underlined text (two paragraphs) in my initial invitation/positioning message at the top of that Meeting Invitation content.

In that connection, can I line up an expert advice-related call with you for 10 to 15 minutes on Thursday (anytime) or Friday morning of this week to discuss the issue I raise therein? Please propose two or three time Thursday or Friday, and I'll send out a Meeting Invitation with the CAFII dial-in information.

Thanks and regards,

Brendan Wycks, BA, MBA, CAE
Co-Executive Director
Canadian Association of Financial Institutions in Insurance

From: Brendan Wycks
Sent: February-18-20 10:42 AM
To: Brent Mizzen <bmizzen@clhia.ca>; Luke O'Connor <LOConnor@clhia.ca>
Subject: Request For Short CAFII/CLHIA "Touch Base" Call Re Early March 2020 Quarterly Stakeholder Meetings With CCIR/CISRO Fair Treatment of Consumers (FTC) Working Group, Focused On Incentives/Compensation

Hi, Brent and Luke.

See the Meeting Invitation content below, beneath my signature block, which I just circulated to a segment of CAFII volunteer leaders for our upcoming CAFII quarterly stakeholder meeting with the CCIR/CISRO FTCWG on Thursday, March 5/20 from 9:00 to 10:30 a.m.

In particular, take a look at the underlined text in my initial invitation/positioning message at the top.

In that connection, can I line up a 15 minute call with one or both of you for Wednesday or Thursday of this week to discuss the issue I raise therein? Please propose two or three time options on Wednesday or Thursday, and I'll send out a Meeting Invitation with the CAFII dial-in information.

Thanks and regards,

Brendan Wycks, BA, MBA, CAE

Co-Executive Director

Canadian Association of Financial Institutions in Insurance

CAFII EOC and Market Conduct & Licensing Committee Members:

As per the February 15/20 confirmation message from Tony Toy, CCIR Policy Manager, below, you are invited to attend this CAFII stakeholder meeting with the CCIR/CISRO Fair Treatment of Consumers Working Group (FTCWG), either as part of our in-person delegation or on the phone.

If you are able to attend, please indicate in your Acceptance whether you will attend in-person or via teleconference.

For those able to be part of our CAFII in-person delegation, a Rendez-Vous and Prep Meeting will be arranged for 8:00 to 8:50 a.m. on Thursday, March 5/20, at a location close by the RIBO office location of the 9:00 a.m. stakeholder meeting.

We are currently investigating/looking into what, if anything, CAFII might be able to provide in terms of the written submission which the CCIR/CISRO Fair Treatment of Consumers Working Group is requesting for its early March quarterly meetings with various stakeholder groups. That includes touching base with CLHIA to find out what sort of written submission, if anything, it intends to provide for its stakeholder meeting with the FTCWG on March 4 or 5.

(CAFII EOC Chair Martin Boyle has expressed strong reservations about CAFII attempting to put together an Association-level written submission on "incentives and compensation models currently in market" (as per Tony Toy email of December 10/19 below) as being potentially anti-competitive (in violation of The Competition Act); and that if the CCIR/CISRO FTCWG wants that type of information, it probably needs to pursue it on a company-by-company basis. I am currently looking into this with CAFII's competition law advisor at Stikeman Elliott.)

Further information in preparation for this meeting, including the agenda once provided by Tony Toy, will be provided by way of updates to this Meeting Invitation.

Brendan Wycks, BA, MBA, CAE

Co-Executive Director

Canadian Association of Financial Institutions in Insurance

From: Tony Toy <Tony.Toy@fsrao.ca>
Sent: February-15-20 8:02 PM
To: Brendan Wycks <brendan.wycks@cafii.com>
Cc: Keith Martin <Keith.Martin@cafii.com>; CCIR-CCRA <ccir-ccra@fsrao.ca>
Subject: RE: CCIR Fair Treatment of Customers Stakeholder Meeting - 2020

Hi Brendan,

This email is to confirm that the next Fair Treatment of Customers Stakeholder Meeting with CAFII is scheduled for 9:00am – 10:30am on Thursday, March 5, 2020.

Insurers and distributors have been internally reviewing their business practices and conducting a gap analysis since our first meeting in November 2018. We have had several meetings since the introduction of the Guidance on September 27, 2018. As some regulators have and are beginning to implement the principles of the Guidance, the FTCWG would like to receive specific examples of practices identified by insurers and distributors that were determined to be possibly misaligning with the Guidance and solutions that addressed those situations.

As initially discussed at the November 5, 2019 Stakeholder Dialogue and clarified by a subsequent email of December 10, 2019, the FTCWG is expecting to discuss the written CAFII submission re: incentives and compensation models.

A formal agenda is expected to be distributed shortly.

The meeting will be held at the Registered Insurance Brokers of Ontario (RIBO) offices located at:

401 Bay Street
Toronto ON
M5H 2Y4
12th floor

For your members that are unable to attend in person, the dial in information is as follows:

Dial-in number: 416-212-8012
Toll Free: 1-866-633-0848
Passcode: 2494889#

Also, please confirm the individuals you anticipate to participate in person and on the phone. Feel free to contact me directly for any further questions.

Tony Toy
Policy Manager
Canadian Council of Insurance Regulators

From: Tony Toy <Tony.Toy@fsrao.ca>
Sent: December-10-19 1:51 PM
To: Brendan Wycks <brendan.wycks@cafii.com>
Cc: Keith Martin <Keith.Martin@cafii.com>; Fullan, Ron (ICS) <Ron.Fullan@skcouncil.sk.ca>; Gauthier Louise <Louise.Gauthier@lautorite.qc.ca>; CCIR-CCRRRA <ccir-ccrra@fsrao.ca>
Subject: RE: CCIR Fair Treatment of Customers and Incentives

Hi Brendan,

Sorry for the confusion. To provide a bit more background, we have engaged with some other stakeholders on the topic and they have provided the FTCWG with written submissions. We found that written submissions work best for the discussions.

The first round focussed mainly on the stakeholders representing the life sector, as you may recall, the November quarterly meetings focussed primarily on the life side. We are now engaging discussions with CCIR/CISRO's other stakeholders.

We look forward to CAFII presenting a paper on incentives at our next quarterly meeting, currently anticipated to be scheduled for sometime in March 2020. Please let me know if this would be doable.

If you have any further questions, please feel free to contact me directly.

Thank you.

Tony Toy
Policy Manager
Canadian Council of Insurance Regulators

From: Brendan Wycks <brendan.wycks@cafii.com>
Sent: Tuesday, December 10, 2019 1:34 PM
To: Tony Toy <Tony.Toy@fsrao.ca>
Cc: Keith Martin <Keith.Martin@cafii.com>; Fullan, Ron (ICS) <Ron.Fullan@skcouncil.sk.ca>; Gauthier Louise <Louise.Gauthier@lautorite.qc.ca>; CCIR-CCRRRA <ccir-ccrra@fsrao.ca>
Subject: Re: CCIR Fair Treatment of Customers and Incentives

Hi, Tony.

Thanks for this incentives/compensation-focused information-sharing and engagement request from the CCIR/CISRO FTC Working Group.

I can't seem to find it in the message, so can you please elaborate by outlining the manner/forum in which you would like the exchange to occur (written submission; meeting only; some combination of the two?); and the timeframe/deadline you have in mind for it?

Thanks and regards,

Brendan Wycks

Sent from my iPhone

On Dec 10, 2019, at 1:14 PM, Tony Toy <Tony.Toy@fsrao.ca> wrote:

Hi Keith and Brendan,

The joint CCIR/CISRO Fair Treatment of Customers Working Group (FTCWG) appreciates the participation of the Canadian Association of Financial Institutions in Insurance (CAFII) as regulators and industry implement the principles in the Fair Treatment of Customers (FTC) guidance. Released in September 2018, CCIR and CISRO members support the FTC guidance and are in various stages of implementing the common principles within their jurisdictions.

The FTCWG had initially indicated last November 2018 and at our subsequent meetings of March that the next area of focus is with incentives and compensation models currently in market. As you may recall, at our 2019 Stakeholder Dialogue Meeting, we asked if CAFII was interested in helping the FTCWG understand the compensation models for the distribution of your members' insurance products.

So far, the FTCWG identified four incentive categories that give rise to conflict of interest concerns:

1. *Incentives which create an obvious conflict by their very nature* – incentive programs such as awarding travel/trips for top-selling intermediaries.
2. *Incentives which potentially place the intermediary's interest ahead of the customer's interest* – incentive programs such as volume bonuses and sales campaigns.
3. *Incentives which restrict access to markets* – insurers set sales quotas for intermediaries to access or maintain contracts, which in smaller markets may mean that intermediaries have access to a limited number of markets.
4. *Incentives which impede servicing the customer* – original seller compensation only, no compensation provided for a new "agent of record" servicing an orphan policy.

As discussed at our November Stakeholder Dialogue meeting, the FTCWG would like to engage with CAFII in an exercise aimed at obtaining a comprehensive understanding, including terminology and definitions of compensation approaches in the distribution of insurance products in order to be able to discuss industry alignment with FTC. This exercise exclude transactions related to reinsurance products. The FTCWG is interested in how compensation flows throughout the chain in the distribution of insurance.

The FTCWG would like to obtain an understanding of all types of compensation (e.g. salaries, commissions, profit sharing, etc.) your members dispense for the selling of insurance products. We understand that there may be a variety of distribution methods, such as client contact centres, agents and brokers, travel agents, direct mail and the internet. There appears to be various industry terminology that are used interchangeably. A listing of those terms would assist us in understanding the nomenclature.

If compensation/incentive models differ by major lines of insurance business, those distinctions would also be helpful.

Furthermore, as discussed, we invite CAFII to provide detail on the oversight and governance programs typically in place to manage the conflicts of interest that can be generated by incentives.

As for incentives, we would like to obtain from CAFII a description of the most prevalent type of programs so to arrive at a common understanding of in-market practices.

Finally, we understand that individual insurers may be reluctant to divulge their specific compensation schemes and oversight programs due to the competitive nature of the industry. In light of this, the FTCWG is looking for a general level understanding and not one that would be attributable to a particular insurer.

If there are any questions, please feel free to contact me directly.

Thank you.

Tony Toy

Policy Manager

Canadian Council of Insurance Regulators

National Regulatory Coordination Branch

Financial Services Regulatory Authority (FSRA)

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