The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

On July 22, 2024, CCIR held a webinar to discuss its recently released report, *Governance and Business Culture in Terms of Fair Treatment of Customers Report*. The report is 24 pages long and details the supervisory work the CCIR has conducted on FTC to better understand the industry's development of governance and business culture in response to CCIR's FTC expectations. It aimed to identify weaknesses as well as good practices. As per the report:

> *[it set] out the main observations drawn from different work involving 40 insurers out of a total of nearly 300 insurers nationally, including cooperative FTC reviews conducted by CCIR members, including an industry review on governance and business culture for 26 insurers that concluded in October 2023 and individual FTC reviews carried out since 2017 by one or more regulators in their respective jurisdictions.*

Most of the examinations conducted for this report began in early 2022; reports from previous monitoring programs conducted before 2022 have been considered. For clarification, CCIR's definition of business culture is "the common values (e.g., ethics and integrity) and standards that characterize a business and influence the mindset and actions of its entire staff. It informs strategic decisions and the conduct of client-facing staff." It is, therefore, important that companies establish an FTC-centric culture to foster consumer confidence and long-term relationships. In the view of the CCIR, this will also maintain, even improve, insurers' reputation and solvency.

The report was divided into four sections: FTC responsibilities for the board of directors and senior management, codes of ethics or conduct and FTC policies and objectives, risk management and commercial practices that could adversely affect FTC and management information. Each section had one to three subsections. Below is a brief summary of each section and CCIR's recommendation.

- ***FTC-related roles and responsibilities of the board of directors and senior management.***
  - *Roles and responsibilities of the board of directors:* The Board of directors are responsible for their company's adherence to sound commercial practices through maintaining strong governance and business culture FTC commitments.
    - In order to achieve robust FTC governance, CCIR recommends that insurers "assign to board members or one of its committees responsibility for ensuring adherence to sound commercial practices and for monitoring changes in business culture and risk of inappropriate practices that could adversely affect FTC" within the organization.
    - It is important to "define and document the FTC roles and responsibilities for the board of directors or a committee of the board" responsible for ensuring adherence.
  - *Roles and responsibilities of senior management*: senior management is responsible for the management, effectiveness, and functionality of an organization in a manner that aligns with policies, practices, procedures, and strategies approved by the Board of Directors.
    - In order to comply with the regulatory frameworks for each insurer's respective jurisdictions and achieve robust FTC governance, CCIR recommends that insurers "assign the roles and responsibilities to the

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

position held by the designated person." CCIR found that some insurers assigned FTC responsibilities to individuals rather than positions, thereby resulting in a divergence from FTC commitments when the individual in question departed. Furthermore, many FTC roles and responsibilities were not p[properly defined, thereby causing confusion, uncertainty, and stagnation in meeting FTC commitments.

- Appointing a designated officer responsible for FTC and commercial practices and providing them with clear definitions, expectations, and goals is an example of good FTC practices by senior management.

- ***Codes of ethics or conduct, FTC policies and objectives***.
    - *Codes of ethics or conduct*: CCIR found that "all insurers had a code of ethics or conduct to which all staff were subject. In about 50% of cases, insurers' external distributors were also subject to this code of ethics or conduct."
    - *FTC policies*: CCIR found that "approximately 73% of insurers had established one or more FTC policies."
    - *Codes and policy objectives*: CCIR found that "in some cases, FTC policies or the code of ethics of conduct were not approved by the board of directors. In some cases, there was no evidence the policy had been approved by the board of directors." In regards to reviews, CCIR found that some insurers did not review or sporadically review their policies. The same was found for policy updating. Some insurers identified 1 to 3 years as the appropriate window for policy review.
        - CCIR recommends insurers:
            - Adopt a code of ethics or conduct;
            - Establish a Board-approved FTC policy, communicate it to all stakeholders, and implement it across the company;
            - Review and update the FTC policy or policies on a periodic basis.
- ***Risk Management and commercial practices that could adversely affect FTC:*** CCIR found that only 9% of insurers included a specific FTC risk in their company's integrated risk management framework or policies. It is crucial that senior management ensure integrated risk management considers the risks and commercial practices that could negatively impact FTC. Furthermore, CCIR found that reporting options, data collection, monitoring and performance measurement, and implementation tools were not always effective for continuous FTC improvement processes.
    - CCIR recommends that insurers incorporate FTC-specific risk into their risk management framework or policy.
    - CCIR also recommends that insurers implement and/or strengthen the controls used to track and measure FTC performance company-wide.
- ***Management Information:*** According to the CCIR, "a company seeking to achieve meaningful FTC results should ensure that all levels of the organization understand the importance of FTC reporting, and to do so should develop and use FTC indicators that are measured, monitored, and driven by a continuous improvement cycle." Therefore, the CCIR recommends insurers should:
    - Develop indicators for assessing the extent to which set objectives and strategies are being achieved;
    - Analyze the indicators to identify FTC-related issues or trends and take corrective action when required;

cafii acifa
The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance
200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

- Report to senior management and the board of directors to assure them that FTC objectives are being met and thus be able to assess the company's FTC performance.

The CCIR report found that while some insurers had incorporated FTC objectives into their strategic plans, many of these objectives were either poorly defined or borrowed from the CCIR without proper adaptation to the insurer's particular situation. Many insurers had FTC objectives but did not have proper indicators for assessing the objective's achievement. Finally, for some insurers, the implementation of FTC reporting was suboptimal or simply nonexistent. Many were unable to show they had any kind of formal review process in place.

Therefore, the CCIR's overall recommendations to insurers in order to maintain FTC across company governance and within business culture are:

1. Document and communicate FTC objectives to stakeholders and implement them within all operations.
2. Extend, develop, and implement FTC performance indicators, including tools to identify and aid in corrective action when required.
3. Communicate with the board of directors and senior management to maintain assurance that FTC objectives and strategies are being met.

Read the entire report here. If you are unable to access the report via the link, please contact CAFII's research analyst, Robyn Jennings, who will email you a PDF copy.