

***Agenda item 6(a)(ii)  
May 29/18 EOC Meeting***

**CAFII Views On Optimal RIA Regime Model: For Input To BC and New Brunswick**

While CAFII believes that BC's current system of insurance retailing and licensing exemptions is working well, our members would be open to and supportive of the introduction of a Restricted Insurance Agent (RIA) regime in the province. We would encourage BC to harmonize with the existing RIA regimes in the other Western Canada provinces to the maximum degree possible. A thorough consultation process with industry will help ensure that such a new regime is structured in a way that will produce the results that the recommendation seeks.

If properly and fairly implemented, an RIA regime can be an effective tool for managing the sale of certain insurance products, including creditor's group insurance and travel insurance. We welcome proper oversight of the marketplace; our members place a strong emphasis on the fair treatment of consumers, and they dedicate significant resources to training staff and others acting on their behalf, and on controls and monitoring.

In that connection, we are pleased to highlight those features which our Association views as optimal in an RIA regime.

**Authorization for Contractors**

Third parties contracted by a restricted licensee (such as a third party administrator) – where the licensee is a federally or provincially regulated financial institution – should be considered authorized under the financial institution's RIA licence.

It is critically important to include contractors of RIA licensees as parties authorized under the licence because most financial institutions now outsource certain business activities, functions, and processes to meet the challenges of technology innovation, increased specialization, cost control pressures, and heightened competition. The contractual arrangement between the financial institution and the contractor makes the financial institution liable for the actions of the contractor. Further, federally regulated entities are subject to OSFI's outsourcing Guideline B-10 which sets standards for monitoring and oversight of the contractor, and requires the institution to take ultimate responsibility for outsourced activities. Including contractors under the authority granted to financial institutions holding an RIA licence would recognize the application of OSFI's outsourcing guideline and be appropriate with respect to the continued distribution of incidentally-offered insurance products by national financial institutions in BC.

Adopting this optimal RIA regime feature – which is in place in Saskatchewan and Manitoba; but not yet in Alberta, the first province to introduce an RIA regime in 2000 – would also see BC's new RIA regime remain well-aligned with the principles of the province's own legislation –ie. (2(1)(b.1)(ii) of the Insurance Licensing Exemptions Regulation under the Financial Institutions Act) -- which provides an exemption from licensing for a service provider under contract to a trust company, credit union, extra-provincial trust corporation, extra-provincial credit union, or bank in connection with incidental insurance.

### **Council Composition**

Insurance Councils in Canada have been designed on the basis of “peer regulation and proportional representation,” principles which are intended to remove conflict of interest and ensure that Council representatives have appropriate knowledge and experience of the business they are regulating. Given the unique nature of incidentally-offered insurance products and of alternate distribution channels, successful oversight of these products requires different expertise and relies on the effective management of competitive sensitivities relative to the matters before a Council at a given point in time. Having a Council’s membership be comprised of all categories of stakeholders on a proportional basis is an important consideration and an approach that would ensure that the Council represents the interests of all stakeholders and permits a fair and informed approach to the oversight of all regulated entities.

Based on these considerations, we recommend that -- in conjunction with designing and introducing an RIA regime in BC -- the Ministry of Finance initiate an overall review of the Insurance Council of BC’s structure and membership to ensure that its composition is structured appropriately, given its new oversight responsibility for incidentally-offered insurance products and to ensure that RIA licensees are represented appropriately in accordance with the principles of administrative law.

To be more specific, CAFII believes that the Insurance Council of BC should be structured and operated in a “channel neutral” manner. That is, the Council should be designed and populated such that the interests of all distribution channels are well-served and the representatives of any particular channel are not in a position to make decisions which could negatively impact consumers’ access to competing distribution channels.

This principle should, in our view, be incorporated into a Restricted Insurance Agent licensing regime in BC; and that will likely necessitate the creation, at a minimum, of an RIA Advisory Committee to the Insurance Council. CAFII is working with the Canadian Life and Health Insurance Association (CLHIA) on recommendations to the Insurance Councils of Saskatchewan on such an RIA Advisory Committee, and we would be pleased to provide additional information on our progress on this key initiative to the BC Ministry of Finance.

### **Other Optimal Features**

We would also highlight the following two features as being part-and-parcel of an optimal RIA regime: one which strikes the “right balance” between achieving consumer protection through appropriately detailed and rigorous licensing, while not burdening business with overly restrictive requirements or red tape:

- ensuring sufficient clarity as to which insurance products may be offered under each RIA licence category; and
- implementing an online licensing/registration portal and digital platform, with timely electronic reminders and notifications to RIA licensees.