

Life and Health Insurance Stakeholder Advisory Committee

FSRA

Financial Services Regulatory
Authority of Ontario

Date: April 17, 2024



Agenda

1. Welcome
2. 2024-2025 L&H Insurance Priorities
3. Updates on FSRA Activities in L&H Insurance:
 - Life Agent Team Initiatives
 - Life Insurer Intelligence Questionnaire on MGAs
 - Update on IAIS Initiatives
4. Roundtable Discussion



2. 2024-2025 L&H Insurance Priorities

2024-25 L&H Insurance Priorities

6.1 Strengthen MGA regulatory framework		6.2 Strengthen protection for consumers who invest in segregated fund contracts	
6.1.A	Issue the final Life Insurance Agent & MGA Licensing Suitability guidance and implement it through a supervisory framework.	6.2.A	Work with the Canadian Council of Insurance Regulators (“CCIR”) and Canadian Insurance Services Regulatory Organizations (“CISRO”) to create consolidated national guidance relating to the design, distribution, issuance, sale, and administration of individual segregated fund contracts.
6.1.B	Identify remaining gaps in the regulatory framework for Life and Health Insurance MGAs, consult with relevant stakeholders on gap closure, develop a plan for gap closure (which may include a proposed rule), and start implementation of the plan.	6.2.B	Complete public consultation on the proposed Total Cost Reporting Rule for individual segregated fund contracts (and supporting guidance, if required) to be consistent with the CCIR national guidance to address related gaps in consumer protection.
6.1.C	Continue the development of a plan and associated capabilities to effectively oversee new regulatory standards.	6.2.C	Begin development of a rule and interpretation guidance on other matters related to individual segregated fund contracts to be consistent with the CCIR and CISRO consolidated national guidance to address related gaps in consumer protection.

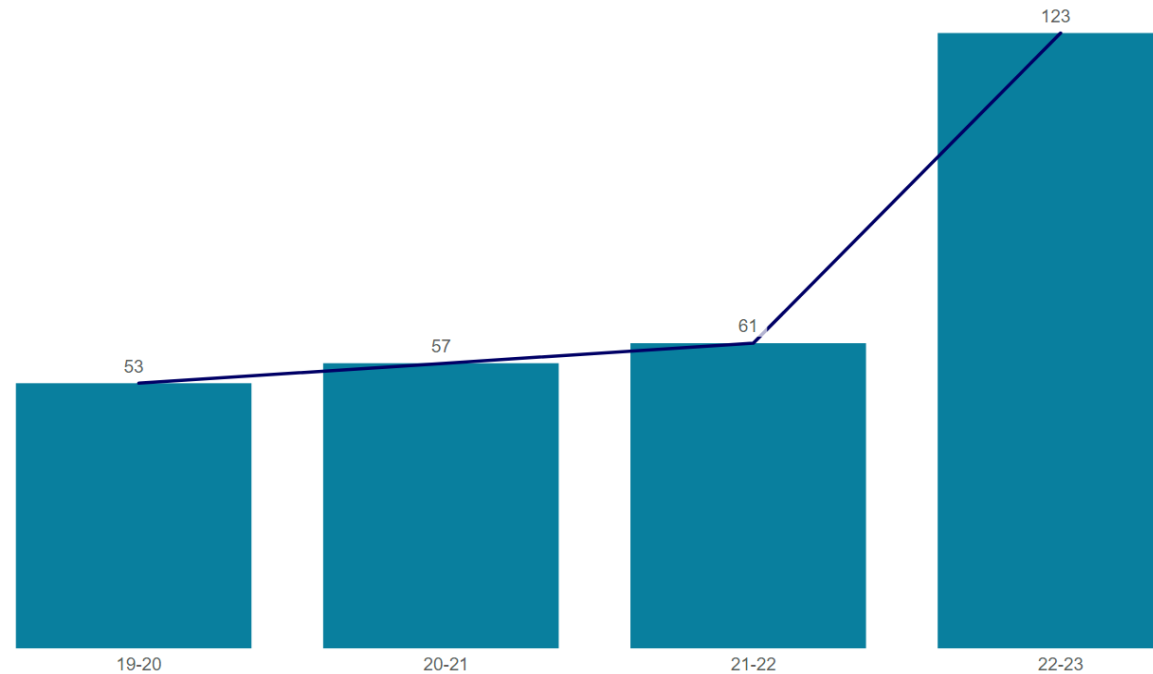
3. Updates on FSRA Activities in L&H Insurance

Life Agent Team Initiatives

1. Supervision Report (LAMRs)

- For 2021-22 a total of 61 LAMRs were received. For 2022-23 a total of 123 LAMRs were received (102 percent increase).

Number of LAMRs received (Year to Year Comparison)

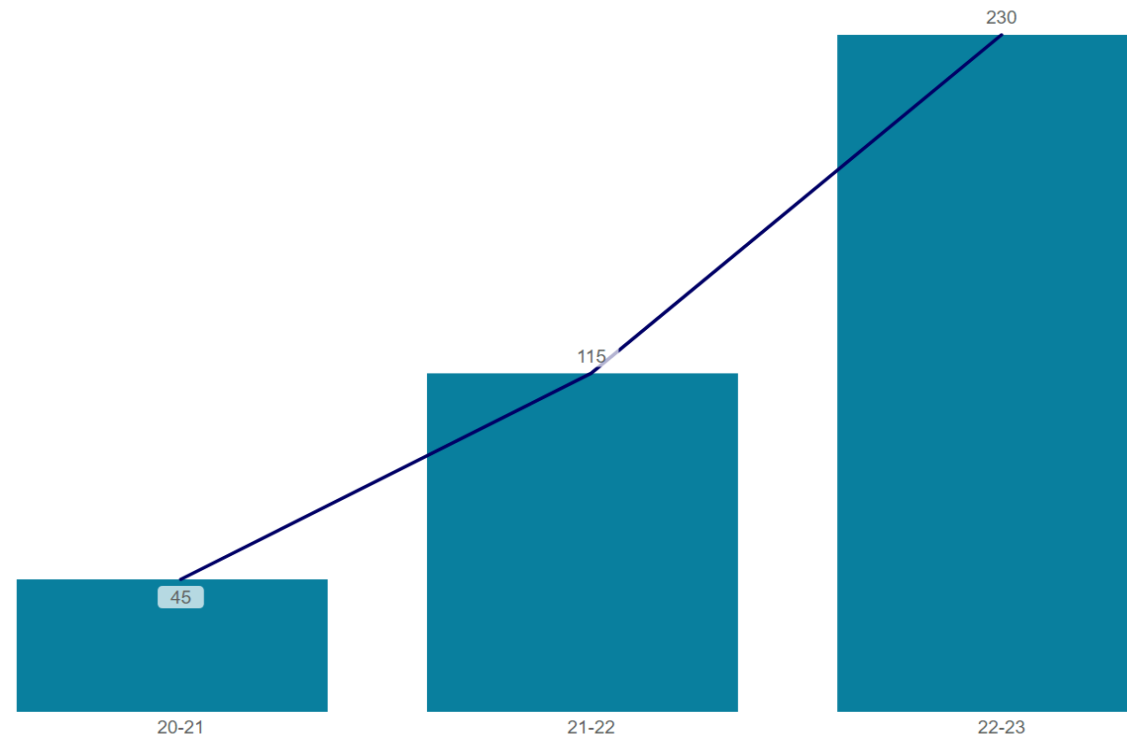


Life Agent Team Initiatives (Contd.)

2. Supervision Report (Examinations)

- For 2021-22, a total of 115 life agent examinations were conducted. For 2022-23, a total of 230 life agent examinations were conducted, marking a 100 percent increase in proactive examinations.
 - The 230 life agent examinations conducted in 2022-23 included the review of 782 client files. Of the 230 examinations cases, 148 (61 percent) of life agents were identified as having best practices issues.

Number of Exams conducted (Year to Year Comparison)



Life Agent Team Initiatives (Contd.)



3. BPAC Questionnaire

- FSRA is taking steps to promote life insurance agent accountability and raise industry standards to better protect consumers.
- In the coming months, FSRA will distribute a questionnaire about agents' business practices and compliance behaviours.
- The results from the questionnaire will give FSRA a broad snapshot of typical agent behaviours and help us identify the areas where further supervision and education are required to raise industry standards.
- Randomly selected agents must complete the mandatory questionnaire. FSRA will verify the truthfulness of the responses by selecting a sample of agents to examine.
- FSRA plans to publish the results.
- The questionnaire results will serve as an educational tool for agents and help to promote accountability and raise industry standards. They will also bring to light the sector's strengths and weaknesses and further support FSRA's risk-based supervision activities.

Life Insurer Intelligence Questionnaire on MGAs



- FSRA conducted multiple reviews between 2020 and 2024 to better understand Ontario's distribution landscape. Given MGAs are the most prevalent distribution channel among reviewed Insurers, we found that Insurers delegate a variety of agent-related functions to MGAs.
- FSRA intends to launch an online Life Insurer Intelligence Questionnaire on MGAs to help us better understand the relationship between Insurers and their MGAs, such as how Insurers distribute their products through their MGAs and how they oversee them.
- By enhancing its supervision of Insurers and MGAs, FSRA can promote consumer safety, fairness and choice through stronger accountability and oversight of MGAs.

Life Insurer Intelligence Questionnaire on MGAs (Contd.)

The questionnaire will be comprised of three sections focusing on some key aspects of an Insurer's relationship and business practices with their MGAs:

Distribution

To understand the relationship between the Insurers and their MGA distribution channel

Product Distribution

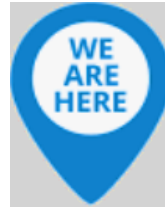
To obtain the information related to Life & Health product types and proportion of business by MGAs

Compliance

To assess the Insurers' oversight activities of their MGAs and agents, including delegated functions

Life Insurer Intelligence Questionnaire on MGAs (Contd.)

Next Steps



Design
Develop the
Intelligence
Questionnaire
on an online
portal



Socialize
Socialize the
Questionnaire
with internal
and external
stakeholders
seeking input



Launch
Launch the
Questionnaire
requesting
response by
the stated
timelines



Analyze
Analyze the
responses
received to
determine next
steps

Update on IAIS Initiatives



Mark White (FSRA CEO) chairs the Market Conduct Working Group (MCWG) at the International Association of Insurance Supervisors (IAIS). FSRA has been actively involved in the following MCWG projects since 2022:

1. DEI Application Paper

- In December 2022, IAIS published a [Stocktake Report](#) to showcase the DEI work being done by insurance supervisors and the industry globally. The Stocktake Report revealed that DEI is a growing focus in many jurisdictions
- IAIS launched two projects to advance their focus in this area: **(1)** exploring how DEI can improve insurers' governance, risk management and corporate culture; and **(2)** applying a DEI lens to ensure fair treatment of diverse customers who can be vulnerable, under-served, or have specific needs.
- The MCWG has undertaken the second project and is developing a conceptual approach to applying ICP 19 to drive better outcomes for diverse consumer groups, to be developed into an Application Paper. It offers advice, recommendations, and examples of good practice to supervisors, insurers, and intermediaries on how to implement [ICP 19 requirements](#) with consideration towards DEI.
- FSRA is co-leading the project with other international jurisdictions to develop the Application Paper, which is expected to be opened for public consultation from June to September 2024, with the publication stated for the **first half of 2025**.

Update on IAIS Initiatives (Contd.)

2. Conduct Indicators Implementation Guide

- In 2019, MCWG initiated a project to provide guidance to IAIS Members regarding the use of conduct indicators in assessing insurers' conduct.
- FSRA provided several supervisory examples based on information collected from insurers through the [Annual Statement on Market Conduct questionnaire \(ASMC\)](#), which collects data from insurers about their FTC governance practices and policies.
- The final output of the project was a Member-only report on the Use of conduct indicators in insurance published in June 2023.
- As a next step, IAIS is hosting two member webinars on **April 24, 2024**, where several jurisdictions will present case studies on their use of conduct indicators. FSRA will participate in administering these webinars.
- FSRA's contribution to the Guide highlights how Canadian regulators use conduct indicators and data to assess risks. Regulatory insights we have gained from global regulatory bodies can inform our own supervisory activities in the future.

4. Roundtable Discussion

Roundtable Discussion

FSRA's Board of Directors is seeking input from the L&H Insurance SAC on forward- looking items related to L&H Insurance supervision and is asking the following questions, which the SAC has previously considered:

- What factors or changes in the L&H Insurance sector are you actively monitoring?
- What are the top risks in L&H Insurance from your perspective and how do you assess/mitigate them?
- What are the opportunities and critical success factors in L&H Insurance?
- The FTC guidance has been in place for more than five years:
 - How has this principles-based guidance changed your approach to compliance?
 - What can FSRA do to be more effective as a principles-based regulator?

Roundtable Discussion

Other issues we've heard from you

- **Cybersecurity:** As the risk grows, clarity on how to manage it is required, and Errors & Omission availability may have an impact on advisors.
- **Advisor Education & Compliance:** How can we work together to improve business practices?
- **Advisor Succession & Orphaned Clients:** Aging advisor workforce, so new advisors must be recruited, and succession plans implemented in order to support clients and the industry growth.



Questions?

Appendix

Segregated Funds – Completed Projects

Segregated Fund Workstream	Regulatory Approach	Key Deliverable	Planned Outcomes
Deferred Sales Charges (DSC)	FSRA Rules (Summer/Fall 2023)	FSRA Rules in effect as of June 1, 2023 (rule #1) and February 14, 2024 (rule #2) that: (i) ban DSCs for new segregated fund contracts, (ii) prevents insurers from amending existing contracts to make DSCs more onerous for customers, (iii) prevents insurers from accepting deposits on a DSC basis if the segregated fund contract allows the insurer to remove the DSC option and instead accept deposits under a different option, and (iv) otherwise requires the insurer to give customers information to help them decide whether further DSC deposits are suitable.	<ul style="list-style-type: none"> Segregated fund customers are treated fairly and better informed about sales charges. Use of DSCs in segregated fund sales banned for new contracts.
Total cost of segregated fund contacts	Final CCIR / CISRO Guidance (April 2023)	<p>National guidance on total cost reporting requirements for segregated funds was published April 20, 2023.</p> <p>The CCIR and CSA continue to meet with industry to support implementation of new requirements.</p>	<ul style="list-style-type: none"> Segregated fund customers are treated fairly and better informed about relevant costs. Industry has a clear understanding of the information they must send customers about the total cost of investing in these contracts.

Segregated Funds – Ongoing Projects

Segregated Fund Workstream	Regulatory Approach	Key Deliverable	Planned Outcomes
Total Cost Reporting Rule	Public Consultation on FSRA Rule (Spring 2024)	Complete public consultation on the proposed Total Cost Reporting Rule for individual segregated fund contracts (and supporting guidance, if required) to be consistent with the CCIR national guidance to address related gaps in consumer protection.	<ul style="list-style-type: none"> Customers receive the information required to make informed decisions about investing in individual segregated fund contracts
Design, distribution, issuance, sale and administration of individual variable insurance contracts (also known as IVICs or segregated fund contracts)	Public Consultation on CCIR / CISRO Guidance (Jan-Mar 2025)	Consult on national guidance on the design, distribution, issuance, sale and administration of individual IVICs.	<ul style="list-style-type: none"> IVIC customers are treated fairly throughout the product life cycle. Industry has a clear understanding of regulatory requirements with respect to the design, distribution, issuance, sale and administration of IVICs.
Upfront compensation paid for the sale of segregated funds	Public Consultation on CCIR/CISRO Guidance (Jan-Mar 2025)	Expectations relating to upfront compensation, primarily the advisor chargeback sales charge option, paid for the sale of IVICs are built into the national guidance on the design, distribution, issuance, sale and administration of IVICs, so it will be included in the public consultation on that national guidance.	<ul style="list-style-type: none"> Negative customer outcomes relating to the advisor chargeback sales charge option in the sale of IVICs are more effectively managed.

Proposed Guidance: Life Insurance Agent & MGA Licensing Suitability (Stakeholder consultation closed in February 2024)



Summary of stakeholder comments provided during the consultation:

- **Guidance Objectives**

- Stakeholders provided support for overall goal of helping applicants, agents and MGAs understand how past and current conduct may affect their suitability to hold a life insurance agent licence

- **Accountability and Responsibilities**

- Stakeholders commented that the guidance doesn't adequately clarify roles and responsibilities of MGAs & insurance companies in the distribution chain
- Many industry stakeholders recommended the section on principal-agent relationship be removed from the guidance, arguing the relationship to be outside FSRA's authority as an agency relationship is a determination made by courts or legislature, not FSRA

- **Recommended Regulatory Changes**

- Recognize MGAs in the Insurance Act to ensure consistent standards for accountability and oversight
- A separate MGA license class should be introduced, given the different roles Agents and MGAs play in the distribution of insurance products

Stakeholder Advisory Committee Membership



Name	Organization
Ali Ghiassi	Canada Life
Ali Salam	Sun Life Financial
Cathy N. Hiscott	PPI
Chris Donnelly	Manulife
Dennis Craig	RBC Insurance
Eric Wachtel	Canadian Association of Independent Life Brokerage Agencies (CAILBA)
Harris Jones	Advocis
Jamie Greenfield	HUB Financial Inc.
Jim Mavroidis	Cigna Life Insurance Company of Canada
Keith Martin	Canadian Association of Financial Institutions in Insurance (CAFII)
Lyne Duhaime	Canadian Life & Health Insurance Association (CLHIA)
Moirra Gill	TD Insurance
Neil Paton	Third Party Administrators Association of Canada
Rosie Orlando	Primerica
Susan Allemang	Independent Financial Brokers of Canada
Yasmin Visram	iA Financial Group