

NEWSLETTER

Summer 2004

LLQP follow up: Course provider results released

As reported in the last newsletter, Life License Qualification Program (LLQP) test results were identified as a key measurement tool of LLQP course providers. Test results give course providers feedback about their effectiveness in teaching their courses, and enable them to zero-in on areas that need improvement.

The CCIR-CISRO (Canadian Insurance Services Regulatory Organizations) LLQP Integrity Committee, in conjunction with participating jurisdictions, has released national reports of the success rate of the LLQP examinees, by course provider.

Releasing these results serves two purposes. One is to benchmark the success of students, and the other is to benchmark the effectiveness of course providers.

The Committee will continue to focus its efforts on maintaining the high standards for the LLQP, the national standard for life licensing that was first implemented early in 2003.

To view the reports, please go to the CCIR website (www.ccir-ccrra.org). Other questions pertaining to licensing requirements should continue to be addressed to the licensing authority in individual jurisdictions.

The Canadian Council of Insurance Regulators (CCIR)

CCIR is an inter-jurisdictional association of insurance regulators from each of the Canadian provinces, territories and the federal government.

Through CCIR, members work to develop solutions to the common regulatory issues they face as insurance regulators. They make recommendations to their governments to implement these solutions.

The overall goal of CCIR is to promote simplification, coordination and harmonization of insurance regulation across Canada.

Market conduct regulation: Risk-based approach to focus greatest strengths on improving greatest weaknesses

The CCIR has asked the Risk-based Regulation Committee to look at opportunities to apply risk-based approaches to market conduct regulation.

The Committee's approach to market conduct regulation is driven by the resource limitations of regulators. How can we as regulators focus our efforts to obtain the best regulatory outcome? The CCIR believes the answer is to take a risk-based approach: focus on areas of high risk in the industry. The Committee is looking at ways for regulators -- as well as insurance companies themselves -- to identify areas of high risk and, in turn, ways to deal with them.

As a first step, the Committee is undertaking research including a survey of models and approaches used by regulators of financial services in other countries. The Committee has also shared its challenges and research with individual stakeholders.

The Risk-based Regulation Committee produced a report: "Risk-based Market Conduct Regulation: A Survey of Approaches" which reviewed the risk-based supervisory models of insurance supervisors in nine jurisdictions (United States, Australia, New Zealand, France, Germany, Italy, Spain, Sweden & United Kingdom) and securities regulators in Canada and the United States. The review finds a wide range of approaches and risk assessment techniques used by supervisory authorities. A copy of this report is available on the CCIR website at www.ccir-ccrra.org.

In all modern economies, insurance is subject to regulation and supervision. The nature of intervention varies considerably from country to country and is influenced by several factors, including public policy objectives and the structure of the financial system. Regulators oversee a wide range of company practices, including transparency and disclosure requirements, marketing of insurance products, the rating and underwriting of insurance products and claims processing and payment. The tools used to help protect the public from unfair market practices include licensing, consumer education, responding to consumer complaints, on-site examinations and in auto insurance, reviewing rates and policy wordings.

Regulatory practices have a significant impact on the performance of insurers. Industry representatives have expressed concerns about the complexity and cost of regulation in Canada. Not surprisingly, the interest from industry stakeholders in the Risk-based Regulation Committee's work has been very strong. A number of parties detailed their preferences for the Committee. What has become very clear during this phase is the fact that there are numerous models and approaches that could be adopted to deal with market conduct regulation.

Now, in an era when both companies and regulators need to focus their scarce resources on opportunities that are cost-effective, it should not come as a surprise to anyone if the risk-based solutions have a greater technical component than in the past. Computer technology enables information transfer and analysis. Access to consumer complaint data, for example, provides information about problems that have occurred. The Committee needs to look at all sources and opportunities to open up the information flow.

In the coming months, the Committee will also continue to work and share research with stakeholders. Currently, extensive research is being conducted in the area of market conduct examination approaches in other jurisdictions. This, and other research, is expected to inform regulators in developing a regulatory model that leverages regulatory resources effectively and efficiently to achieve the best level of consumer protection.

Auto Insurance: CCIR working group develops new governance structure for the Statistical Agent

Provincial auto insurance statistical plans have been in place in many provinces since the 1930s. They give governments a way of accessing information regarding auto insurance, a product that is compulsory under their separate jurisdictions.

All provinces with private auto insurance programs require every insurance company to provide premium and claims data to a database called the Auto Insurance Statistical Plan. The information collected is used by governments for regulatory and public policy purposes. Regulators rely on services of the "Statistical Agent" to gather and report on auto insurance data in the Auto Insurance Statistical Plan.

The CCIR Working Group on Automobile Insurance Statistical Plan Governance was established to develop a formal reporting structure to govern the relationship between the appointed Statistical Agent and each of the provinces, except Quebec. The proposed structure would see the creation of an independent entity, overseen by regulators, with defined accountability requirements and performance measures.

Implementation details are under review.

Field-testing of application form is underway

At the Spring Meeting in Quebec City, the Reciprocal Licensing Standards Committee (previously known as the Working Group on Agent and Broker Licensing Issues) was given the go-ahead to field-test new application forms for both life and general agents and brokers. The purpose is to facilitate reciprocal licensing of insurance intermediaries in Canada. In addition, the Committee will carry on with its examination of continuing education requirements.

Discussion on inducements, rebating and tied selling now under review

If you would like to read what stakeholder groups had to say on various options related to inducements, rebating and tied selling or bundling of financial services products, look for their responses to the consultation on the CCIR website at www.ccir-ccrra.org. The CCIR Working Group on Market Conduct and Other Issues is now reviewing and analyzing the results and will prepare recommendations for presentation at an upcoming meeting.

Joint Forum: New CAPs guidelines to deliver accountability, harmony and flexibility

Regulators of pensions, insurance and securities across Canada released new guidelines for the operation of Capital Accumulation Plans (CAPs) on May 28, 2004.

The new guidelines reflect both the expectations of regulators and industry best practices. They allow for a high degree of harmonization across sectors and across the country, and they provide the industry with the needed flexibility to adapt to continuing changes in the CAPs marketplace.

Most importantly, the guidelines will ensure that CAP members have the information and assistance they need to make informed investment decisions when investing assets for retirement and other purposes. In addition, the guidelines outline and clarify the rights and responsibilities of CAP sponsors, service providers and CAP members, and aim to ensure that, regardless of the applicable regulatory regime, there is a similar regulatory result for all CAP products and services.

The Joint Forum of Financial Market Regulators

Was created in 1999 by:

- the Canadian Council of Insurance Regulators (CCIR),
- the Canadian Securities Administrators (CSA) and
- the Canadian Association of Pension Supervisory Authorities (CAPSA).

It also includes representation from the Canadian Insurance Services Regulatory Organizations (CISRO).

The Joint Forum's mission: pro-actively facilitate and coordinate the development of harmonized, cross-sectoral and cross-jurisdictional solutions to financial services regulatory issues.

Over three million Canadians have accumulated approximately \$60 billion of assets in over 40,000 CAPs established across the country. CAPs include defined contribution pension plans, group registered retirement savings plans, deferred profit sharing plans and group registered education savings plans.

These plans are usually offered by employers for the benefit of their employees and permit the employees to make investment decisions among two or more options offered within the plan. A 19-month transition period has been established for CAP sponsors and service providers to make any necessary revisions to the operation of their capital accumulation plans. Regulators expect the guidelines to be followed in full by December 31, 2005.

The guidelines were developed by the Joint Forum of Financial Market Regulators with the assistance of an industry task force. Copies of the guidelines can be viewed at www.jointforum.ca or www.ccir-ccrra.org.

Joint Forum: Uniform, Voluntary Practice Standards for Financial Services Intermediaries

Why can't consumers be treated the same way - whether they're dealing with an insurance adjuster or salesperson, or a securities or mutual fund salesperson, or mortgage broker? Well, they can.

A Joint Forum Sub-committee has been working closely with representatives of financial services intermediaries to develop a document known as "Principles and Practices for the Sale of Products and Services in the Financial Sector". These are more generally known as the Practice Standards and the plan is that industry associations and representative bodies will adopt these on a voluntary basis. These standards establish a baseline for consumers in their dealings with intermediaries in financial services. The Sub-committee has also developed a parallel consumer's guide. The project is near completion. Please watch the Joint Forum website at www.jointforum.ca or the CCIR website at www.ccir-ccrra.org for details.

Fall 2004 Meeting: Whitehorse

CCIR's fall meeting will take place in Whitehorse, Yukon on Thursday and Friday, September 23 and 24, 2004. The agenda flows directly from CCIR's Strategic Plan. Shortly following the meeting, highlights will be available on the CCIR website at www.ccir-ccrra.org.