

## Final Public Report

REVIEW OF IMPLEMENTATION  
OF THE  
THREE PRINCIPLES  
FOR  
MANAGING CONFLICTS OF INTEREST

LIFE INSURANCE and P&C INSURANCE

DECEMBER 2008

**Table of Contents**

- 1. INTRODUCTION ..... 1
  
- 2. BACKGROUND ..... 1
  
- 3. REVIEW OF IMPLEMENTATION OF THREE PRINCIPLES ..... 2
  - a. Review of Industry Associations ..... 2
  - b. Surveys of Market Participants ..... 2
    - Survey of Agents and Brokers ..... 3
    - Survey of Insurers ..... 4
  
- 4. CONCLUSIONS ..... 5

## 1. INTRODUCTION

In June 2006, the CCIR formally endorsed three principles for managing conflicts of interest in the insurance industry. The Industry Practices Review Committee (IPRC) was given a mandate to monitor the implementation of the three principles in the market place, assess the degree to which they were being implemented in a harmonized and appropriate manner and propose next steps, if any, for CCIR and CISRO to consider.

This report presents the findings and recommendations from the reviews conducted to measure the extent to which intermediaries and companies have implemented the three principles.

## 2. BACKGROUND

### **Review of Insurers' Relationships with Brokers, Agents and Other Sales Intermediaries**

In 2004, the Canadian Council of Insurance Regulators (CCIR) developed a risk-based market conduct questionnaire to obtain information from insurers about their relationships with brokers, agents and other sales intermediaries in Canada. The objective of that review was to gather information that would provide regulators with a comprehensive understanding of:

1. the environments and controls around compensation to sales intermediaries, and
2. the financial linkages between insurers and sale intermediaries.

### **Establishment of the Industry Practices Review Committee (IPRC)**

The Industry Practices Review Committee (IPRC) was formed in October 2004 to ensure a coordinated national approach to regulators' review of insurance practices regarding the relationship between insurers and sales intermediaries.

### **Announcement of Three Principles for Managing Conflicts of Interest**

As a result of the review that commenced in 2004, in June 2005, the IPRC released its first consultation paper on managing conflicts of interest entitled "Relationships between Insurers and Sales Intermediaries". In November 2005 it released a second paper entitled: "Summary of Responses: Achieving Best Practices". Finally, in February 2006, the IPRC released its third paper on managing conflicts in the insurance industry ("A consultation Paper on

Enhancing and Harmonizing Best Practices”). The 2006 consultation paper requested comments on the following three principles designed to promote consumer confidence in the insurance industry:

1. Priority of Client’s Interest
2. Disclosure of Conflicts or Potential Conflicts of Interest, and
3. Product Suitability

In June 2006, after considering the responses received, the CCIR formally endorsed the principles which focus on outcomes rather than specific practices. The CCIR also acknowledged the industry’s efforts to support the achievement of the three principles in the marketplace.

### **IPRC’s Mandate**

In June 2006, the CCIR and CISRO indicated their intention to focus on the consistent application of these principles across the insurance industry. CCIR and CISRO agreed to extend the mandate of the IPRC to monitor the implementation of the three principles in the market place and propose next steps for the CCIR and CISRO to consider.

## **3. REVIEW OF IMPLEMENTATION OF THREE PRINCIPLES**

In the spring of 2007, the IPRC began the implementation review. The IPRC conducted a two prong review: first, the actions of industry associations to implement the principles were reviewed, and, second, surveys were conducted to address the level of activity of market participants in achieving the three principles.

### **a. Review of Industry Associations**

The period for receiving submissions to the third consultation paper ended in March 2006. The IPRC reviewed the submissions and selected eleven national industry associations for a more detailed review. In March 2007, the IPRC reported to the CCIR and CISRO on the results of its review of the eleven national industry associations as of October 2006. While the report indicated that the IPRC found that there was general support for all three principles, it found that there was work to be done to ensure the implementation of the principles by the associations. The IPRC stated that it intended to continue to monitor the implementation of the three principles in the marketplace.

### **b. Surveys of Market Participants**

The review then moved on to surveys of a sample of intermediaries and all insurance companies. Questionnaires were developed in consultation with

industry associations to assess ranges of practices by intermediaries and insurers to manage conflict of interest based upon the three IPRC principles. All surveys were hosted on the CCIR website, with a link to a web-based electronic survey tool (SurveyMonkey). The company questionnaire was national in scope and covered both the life and property and casualty companies. The aggregate results of the surveys are posted on the CCIR web-site ([www.ccir-ccra.org](http://www.ccir-ccra.org))

### Survey of Agents and Brokers

First, regulators collaborated together and consulted industry associations to develop a questionnaire to assess the practices of intermediaries in managing conflicts of interest. This intermediaries' questionnaire was designed to determine the extent to which the principles were being applied and the manner in which they were being applied and documented.

Ontario – In February 2007, the Financial services Commission of Ontario (FSCO) wrote to all insurance agents in Ontario advising them of the three principles. This letter also informed that FSCO planned to review the use of the three principles by insurers, agents and brokers in the marketplace.

In June 2007, FSCO sent the questionnaire to a randomly selected sample of 1,400 Ontario agents. Responses to the questionnaire were mandatory for the agents selected in Ontario.

Saskatchewan – In February and March 2008, the Life Insurance Council of Saskatchewan in collaboration with the Superintendent of Insurance distributed the survey to all life agents in the province of Saskatchewan. Responses were voluntary and 323 agents responded to this survey.

Registered Insurance Brokers of Ontario (RIBO) – In November 2007, RIBO sent the survey to all broker firms registered in Ontario. Broker firms' responses to the survey were voluntary, with 379 broker firms responding to this survey.

### *Findings and Recommendations*

The results of the survey of agents indicated a high level of implementation of activities and practices at the point of sale which tend to support the three principles. 85% or more intermediaries answered "Always or Most of the times" to all questions in the questionnaire. While most of the activities and practices of agents support the three principles, the results of the survey indicated some areas for improvement in practices related to the disclosure of conflicts and potential conflicts of interests. Given that the format of the disclosure may be flexible and tailored to different products and distribution

channels, the survey results for the most part support the finding that there is a high level of implementation at the agent level. Since the survey results represent a snapshot of the level of implementation by agents at a point in time, companies and associations may want to encourage their agents to enhance the quality of disclosure so as to improve the level of implementation in the future.

### Survey of Insurers

In February 2008, on behalf of the IPRC, FSCO requested insurers across Canada to complete a survey, developed in consultation with industry associations, to collect information about their current practices for managing conflicts in the marketplace. The survey was designed to gather information about a company's corporate governance for managing conflicts or potential conflicts of interest as they relate to each of the three IPRC principles.

FSCO collected this information on behalf of the regulators of Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland & Labrador. All Chief Executive Officers and Chief Agents were requested to certify that the responses provided in the questionnaire represented the current practices of their respective companies.

In June 2008, round table meetings were again held with industry associations to review the results of the questionnaires.

### *Findings and Recommendations*

Most companies have systems of corporate governance and internal controls to manage conflicts of interest as they relate to the principles although not necessarily designed solely for that purpose. Policies are documented, approved and communicated with staff. The content of the policies are adequate for managing conflicts of interest and properly monitored for adherence.

Efforts should be made to ensure that all companies have a system of corporate governance for management of conflicts of interest. This questionnaire has been an effective tool to promote this. Regulators urge industry associations to develop best practices for documenting company policies and monitoring for adherence to the three principles, particularly with respect to disclosure requirements.

Complaints resolution processes should be prominently displayed on all companies' web-sites to facilitate intermediaries providing this information to clients.

#### 4. CONCLUSIONS

Overall, the surveys indicated that support of the three principles was high. The results of the surveys indicated that policies and governance practices at the insurers' level were consistent with the outcomes at the agents' level. This suggests that the three principles are widely recognized by the marketplace. It appears that no further steps by regulators are necessary at this time to promote general acceptance, except to encourage associations and insurers to increase their efforts in support of the three principles.

While the survey results indicated a high and broad level of uptake of the three principles, the same results did indicate areas for improvement. Associations and Insurance companies should increase their efforts to support intermediaries to improve the quality of their disclosures to consumers. Where companies have policies, procedures or practices that might result in conflicts of interest, they should be disclosed by the company, not only at the point of sale.

Even though the uptake in support of the three principles was high, there may be individual cases that need to be reviewed by individual regulators. Individual jurisdictions may wish to follow up with their own market conduct reviews on a case by case basis, if deemed necessary.

Given that managing conflicts of interest is an important objective, we recommend that individual regulators continue to monitor support of the three principles in the marketplace on a going forward basis.

The IPRC acknowledges the industry's efforts to support the achievement of the three principles for managing conflicts of interest in the marketplace. The IPRC appreciates the industry's continued support of this important initiative.