



Fair Treatment of Customers Communiqué

June 21, 2019

In September 2018, Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulatory Organizations (CISRO) jointly released the *Guidance Conduct of Business and Fair Treatment of Customers* (Guidance), documenting the common principles that regulators will use in evaluating fair treatment of customers (FTC) by insurers and insurance intermediaries.

How do we keep dialogue open?

In keeping with the collaborative approach to regulation, regulated entities expect to be part of the consultation process when regulators consider implementing new or revised requirements. The joint CCIR-CISRO Fair Treatment of Customers Working Group (FTCWG) invites insurers and intermediary representatives to participate in quarterly in-person meetings.

These meetings provide a safe environment where industry and regulators exchange information and views on their respective FTC related actions, as well as seek clarification or interpretation of the Guidance's principles. The meetings allow for discussion on topics that regulators want to convey and for matters specific to each industry representative. For the meetings held on March 27th and 28th, 2019, the following is a summary of the discussions.

Regulator Topics

As indicated at the initial meetings in November 2018, the focus of the FTCWG moving forward is incentives management. The FTCWG identified four incentives categories that give rise to conflict of interest concerns.

- I. **Incentives which create an obvious conflict by their very nature** – incentive programs such as the awarding of travel/trips for top selling intermediaries.

- II. **Incentives which potentially place the intermediary's interest ahead of the customer's interest** – incentive programs such as volume bonuses and sales campaigns.

- III. **Incentives which restrict access to markets** – insurers set sales quotas for intermediaries to access or maintain contracts, which in smaller markets may mean that intermediaries have access to a limited number of markets.
- IV. **Incentives which impede servicing the customer** – original seller compensation only, no compensation provided for a new “agent of record” servicing an “orphan” policy.
 - Regulators advised stakeholders that the above priority incentive categories are under consideration.
 - Regulators stated they would appreciate continued sharing of information on stakeholder initiatives being undertaken to promote and advance FTC.

Industry Topics

- Stakeholders are open to regular meetings to ensure consistent messaging and interpretation of FTC principles;
- Adjusting incentives tied to volume of sales may have unintended consequences for smaller markets;
- Some stakeholders have formally made FTC a priority and have commenced reviews on current practices, both at the association level and member level;
- Stakeholders, collectively and individually, view FTC as a priority; and within individual member companies, they have various initiatives underway to continue to promote and advance FTC;
- Several stakeholders agreed to provide the FTCWG a high level summary of initiatives undertaken that identify gaps or enhance current business practices reflecting the fair treatment of customers;
- Associations are reviewing ways to promote FTC at an association/industry-wide level;
- A clarification of a “best interest” concept is expected to be added in the FTC Guidance;
- Incentive programs are different from one sector to another and need to be viewed holistically through the FTC lens;
- It can be challenging to measure objectively and demonstrate an existing, evolving, and ongoing commitment to FTC; and
- More communication is needed to inform the broker community as there may be a disconnect/awareness of the FTC Guidance.

What do we mean by...

The following are FTCWG responses to some of the questions posed to date.

1. In section 5, under **Relationships with Regulatory Authorities**, how often are insurers and intermediaries expected to “make available their strategies, policies and procedures dealing with the fair treatment of Customers”?

Answer

Policies and procedures relating to FTC are generally required to be produced to regulators upon request, unless otherwise prescribed by a jurisdiction.

2. In section 5, under **Relationships with Regulatory Authorities**, what is meant by “major operational incident”?

Answer

A major operational incident refers to faults or inadequacies in processes, people, and systems, or from external events that would have a material negative effect on customers. It may have, for example, any of the following characteristics:

- Material impact to customers' data, including confidentiality, integrity or availability of such data;
 - Significant operational impact to internal users that is material to customers or business operations;
 - Significant levels of system / service disruptions;
 - Extended disruptions to critical business systems / operations;
 - Number of customers impacted is significant or growing;
 - Negative reputational impact is imminent (e.g., public/media disclosure);
 - An insurer or intermediary incident has been reported to the Office of the Privacy Commissioner or local regulatory authorities.
3. In section 6.6, under **Disclosure to Customer**, what is meant by “full range” and “limited range” of products?

Answer

It is generally required that intermediaries disclose to customers and prospective customers information about the insurers they represent and the relevant products they are authorized to offer.

Each regulator has its own regulatory approach for that disclosure in terms of conditions, format and point in time, based on its unique local culture, traditions and legal regime.

4. In section 6.8, under **Advice - Expectations to achieve this outcome (Insurers and Intermediaries)**, what is meant by information about a customer’s “ability to afford the product”? In the P & C sector, it is not necessary, if not illegal, to request information about customers’ income.

Answer

For some insurance products, it is not necessary or may even be illegal to request information about a customer's income or credit score for the purpose of providing a quote (e.g. automobile insurance). For this reason, the Guidance includes a proviso ("This information may differ depending on the type and the complexity of the product...") before listing the information that may be requested.

Where permissible by the law of a jurisdiction, certain personal information may be required to evaluate the suitability of a particular insurance product. In no way does the FTC Guidance supersede a legal prohibition. Furthermore, any request by an insurer for personal information should be explained to the customer in simple terms.

What's next?

- The FTCWG will work with industry to gain a better understanding of current incentive practices in the market and their alignment with FTC principles.
- Regulators will seek to increase intermediary and consumer awareness regarding FTC.