



NEWS RELEASE

For Immediate Release

Canadian Council of Insurance Regulators
Canadian Insurance Services Regulatory Organizations

CCIR and CISRO statement on Deferred Sales Charges and upfront commissions in segregated fund sales

February 10, 2022

TORONTO – The Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) are announcing today their position on the use of Deferred Sales Charges (DSCs) in segregated fund contract sales, and their intention to consult on other upfront commissions in individual variable insurance contracts (IVICs).

Segregated fund contracts and mutual funds are products with certain similar characteristics, including some compensation and fee structures. A lengthy review of DSC compensation has led the Canadian Securities Administrators (CSA) to ban DSCs in mutual funds effective June 1, 2022.

The CCIR and CISRO are of the view that there is a high risk of poor consumer outcomes associated with DSCs in segregated fund sales and this form of sales charge is not consistent with treating customers fairly. Further, insurance regulators urge insurers to refrain from new DSC sales in segregated fund contracts in line with the June 1, 2022 ban in securities, and expect a transition to a cessation of such sales by June 1, 2023.

Upfront commissions in segregated funds may present similar concerns to the sale of other financial products in terms of the potential for conflicts of interest and alignment in cost and services provided in situations where the consumer is relying on an advisor to sell them a suitable product and the advisor is being paid by the product manufacturer for the sale. The CCIR and CISRO are committed to improving outcomes for segregated fund customers and are contemplating what other changes may be needed in upfront commissions for segregated funds. As segregated funds and mutual funds are investment products with similar characteristics, insurance regulators are concerned about keeping the regulatory regimes for these products as harmonized as practical and appropriate, to avoid any regulatory arbitrage in the sale of these products and to provide similar investor protection for both products.

Later this year, the CCIR and CISRO will issue a joint consultation on upfront commissions in sales of segregated funds. The purpose of the consultation will be to fully understand:

- What other changes to upfront compensation may be needed, including understanding the impacts of a complete ban of upfront commissions or other measures that could be taken to improve consumer outcomes;
- Potential impacts for consumers, intermediaries, and insurers; and

- What would be a reasonable period of time for the industry to adapt to any other changes.

The consultation will give consumer advocates, the insurance industry, and other stakeholders the opportunity to share their perspectives on this matter. It will also serve as a checkpoint for the industry to provide a progress update with regard to ending the use of DSCs for new segregated fund contract sales.

In the meantime, CCIR and CISRO are open to informal engagement with stakeholders on both DSCs and other upfront commissions as they relate to segregated fund contracts. After this consultation, CCIR and CISRO intend to move forward swiftly with a policy position and guidance on upfront commissions in sales of segregated funds.

About CCIR

The Canadian Council of Insurance Regulators is an inter-jurisdictional association of insurance regulators. The mandate of the CCIR is to facilitate and promote an efficient and effective insurance regulatory system in Canada to serve the public interest. CCIR members work together to develop solutions to common regulatory issues.

About CISRO

The Canadian Insurance Services Regulatory Organizations is a forum of Canadian regulatory authorities who are dedicated to consistent qualifications and conduct of business standards for insurance intermediaries. CISRO members collaborate on initiatives that support a consistent approach to consumer protection through the regulation of insurance intermediaries.

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