



Questions and Answers (Q&A) – CCIR and CISRO Incentive Management Guidance (IMG)

1. **Q: How does the IMG connect with the FTC guidance?**

A: The IMG complements the FTC guidance by setting expectations and outcomes for insurers and intermediaries to develop incentive arrangements which align with Fair Treatment of Customers (FTC). The IMG builds on the expectations outlined in section 6.2 of the FTC guidance. Insurers and intermediaries are expected to put in place policies, procedures, and controls to meet their obligations, and avoid or properly manage conflict of interest risks in their incentive arrangements.

2. **Q: Why does the guidance address conflicts of interest (2.10) when these are already addressed in another guidance?**

A: Expectation 2.10 does not introduce a new process. It rather clarifies the connection between the IMG and the FTC Guidance expectations to avoid or manage conflicts of interest.

Since the release of the FTC Guidance in 2018, industry participants have indicated to regulators that more clarity is needed regarding the overarching expectations for how insurers and intermediaries conduct insurance business, more specifically on section 6 of the FTC Guidance respecting remuneration and conflicts of interest. As a result, CCIR and CISRO developed additional guidance specific to the alignment of compensation and incentive structures with FTC Guidance principles.

3. **Q: Do insurers and intermediaries have to satisfy expectations contained in the IMG?**

A: The IMG is principle-based guidance; it provides each insurer and intermediary with the necessary latitude to determine the requisite strategies, policies, processes, procedures and controls to achieve the IMG principles and FTC outcomes depending on the nature, size, and complexity of their activities. The IMG provides the industry with the flexibility to assess their own risks, according to their specific situation, and to meet regulators' expectations.

4. Q: Why does the IMG not separate expectations for insurers and intermediaries?

A: The IMG applies to the activity of paying compensation and/or designing incentive arrangements. The IMG provides principles and expectations for incentive management that align with FTC, regardless of the entity (insurer/intermediary) who is engaged in the activity. As such, the IMG does not separate expectations between insurers and intermediaries.

That said, the IMG may apply to insurers and intermediaries in different ways. The IMG provides insurers and intermediaries with the necessary latitude to determine the requisite strategies, policies, processes, procedures, and controls to satisfy the IMG according to their respective natures, sizes, and complexity of their activities.

At the same time, the insurer remains responsible for FTC throughout the life-cycle of the insurance product, as it is the insurer that is the ultimate risk carrier. The insurer's ultimate responsibility does not absolve intermediaries of their own responsibilities for which they are accountable. Treating Customers fairly is a mutual responsibility when insurers and intermediaries are both involved.

5. Q: Do CCIR/CISRO expect insurers to direct the incentive arrangements of intermediaries?

A: The IMG is not intended to imply that insurers should direct the incentive arrangements of intermediaries. Since the IMG complements the FTC guidance, CCIR and CISRO do not see the expectations under the IMG as being different from the FTC approach: insurers should obtain reasonable assurance that the actions of intermediaries, and any other persons acting on the insurer's behalf in offering the insurer's products, enable the fair treatment of customers. The guidance documents provide CCIR's expectation that insurers implement processes and controls to manage FTC risks. Section 4 of the FTC guidance and footnote number 5 of the IMG provide further information.

6. Q: Does the IMG apply to advisors (representatives)?

A: The FTC and IMG guidance documents define "Intermediary" as individual agents, brokers, and representatives, as well as the business entities that are authorized to distribute insurance products and services, including managing

general agencies, third party administrators, and national accounts. Within this definition, the FTC and IMG indicate the term “representative” includes individual agents, brokers, and representatives.

The IMG provides guidance on specific activities: paying compensation and/or designing incentive arrangements. The IMG applies to persons who are engaged in this activity. As mentioned in the Scope section, the IMG applies to intermediaries who pay compensation and/or design incentive arrangements. If an intermediary, including a representative, pays compensation and/or designs incentive arrangements, they are subject to the IMG. If an intermediary, including a representative, does not pay compensation and/or design incentive arrangements, then they are not subject to the IMG.

If a representative does not pay compensation and/or design incentive arrangements, the representative is expected to comply with the FTC guidance by avoiding or properly managing conflicts of interest and their duty to prioritize Customers’ interests. To assist with this expectation, the IMG expects insurers and intermediaries to inform representatives of the incentive arrangements applicable to the representative (2.3). A representative would use this information when managing their conflicts of interest as set out under the FTC guidance. The IMG does not have an expectation that the person being incentivized investigate the program, though a representative may wish to do so to better manage their conflict of interest.

7. Q: What are examples of intermediaries that are paying and/or designing incentive arrangements?

A: The IMG provides principles and expectations for incentive management that align with FTC, regardless of the entity, insurer or intermediary who is engaged in the activity. However, it only applies to the entity that pays compensation and/or designs incentive arrangements.

Incentive arrangements are not always monetary. Non-monetary incentive include, for example, non-cash benefits, rewards and privileges such as

- travel,
- goods,
- hospitality,
- entertainment,
- titles,



- memberships,
- contest entry,
- insurer client referrals, and
- access to services that are related to performance targets.

Accordingly, as an example, an intermediary who designs a contest to win a trip is covered under this guidance. Another example would be an intermediary who chooses to use overrides received from the insurer to promote a contest or provide extra bonuses to representatives.

8. Q: What does CCIR/CISRO mean by “independent” in section 4.1.2?

A: While it would be ideal for an insurer or intermediary to have the person performing controls separate from the function of selling or servicing insurance, regulators understand that some intermediaries might not be large enough to have a separate compliance or oversight function. In these situations, the word “objective” rather than “independent” may better serve this expectation. Intermediaries are in the best position to determine where and how to apply this guidance to their practices, however the person an intermediary assigns to perform controls described in section 4.1.2 should remain objective during the performance of these functions.

9. Q: Is the IMG banning any practice?

A: The IMG does not prohibit any incentive practice. It is a guidance document which sets CCIR’s and CISRO’s expectations and expected outcomes for insurance incentive arrangements to align with FTC.

Within the guidance, the IMG appendix provides some examples of incentive arrangement components that may, without proper design, management, and controls, increase the risk of unfair outcomes to Customers. As mentioned in the appendix introduction paragraph, the examples are not exhaustive, may not apply to all type of insurance or business models, nor are they intended to be prohibitive.

10. Q: How is the implementation of the IMG harmonized between provincial jurisdictions?

A: In Canada, the conduct of business in insurance is regulated by individual provinces and territories, where each jurisdiction has its own regulatory approach based on its legal framework and culture.

As such, each Canadian jurisdiction will determine an approach for implementing the IMG accordingly. The expectations in this guidance do not supersede the legislative and regulatory imperatives of jurisdictions; they are intended to support insurers and intermediaries in achieving FTC while respecting existing laws and regulations.

11. Q: What is the effective date of the IMG?

A: The effective date of the IMG is the date of its public release, November 30th 2022. CCIR and CISRO expect insurers and intermediaries to begin efforts to incorporate the IMG into the design and management of their incentive arrangements.

12. Q: Where could industry stakeholders obtain further information on the IMG interpretation and regulators' expectations?

A: Some industry associations are currently working on plans to assist their members with satisfying the guidance expectations. To help with these efforts, CCIR and CISRO members prepared this document. If there are further questions that arise, please contact the CCIR or CISRO Secretariat directly.

While working on these plans, CCIR and CISRO encourage industry associations to:

- review previous CCIR documents related to FTC, as listed below, to get additional insights from regulators on FTC:
 - the [annual market conduct reports](#) and
 - the CCIR [Cooperative Fair Treatment of Customers \(FTC\) Review – Consolidated Observations Report, October 2021](#), and
- review any subsequent documents CCIR and CISRO release relating to FTC and FTC supervisory reviews.

While some of the reviews may be for a different class of insurance or focus on a different entity (insurers vs intermediary), industry associations may obtain a better understanding of regulators' FTC expectations by reviewing these reports.



Finally, CCIR and CISRO note FTC initiatives and approaches will keep evolving in an ever-changing insurance market. CCIR and CISRO expect insurers and intermediaries to regularly review their compliance processes and make necessary changes to maintain FTC at all times. As such, while we recognize and support the work industry associations are undertaking to assist members with complying with the FTC and IMG guidance documents, the outcomes of such work should not be viewed as a checklist exercise for complete compliance with FTC. Insurers and Intermediaries should continue to exercise judgement when considering compliance with the IMG.

13. Q: What insurance sectors, products and business models are subject to the IMG?

A: As with the FTC Guidance, the IMG applies to all insurance products, types of insurance and distribution models.

14. Q: Is the IMG applicable to the commercial sector?

A: Yes. As with the FTC Guidance, the IMG is applicable to commercial insurance sectors.

15. Q: What are CCIR's and CISRO's expectations for using the key indicators of potential risks of unfair outcomes to Customers under expectation 2.4?

A: The guidance provides a non-exhaustive list of examples of information and indicators which may enable the insurer or intermediary to identify risk factors to take into account, in particular, in its implementation of controls (4.2.2).

There is no expectation to incorporate every indicator listed. The guidance gives insurers and intermediaries the flexibility to establish and apply the required strategies, policies, processes, procedures and controls based on the nature, scale and complexity of their business. The same applies to indicators. These examples do not necessarily apply to all types of insurance or services offered or provided. Insurers and intermediaries should consider whether a listed indicator, or an indicator not listed, is applicable and develop controls to manage the risk.