

# Regulators ramping up on the fair treatment of customers in the life insurance sector

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## AUTHORS



Jill E. McCutcheon



Melissa Prado



Kelly Morris

In recent years, there has been an increased focus by insurance regulators across Canada on the fair treatment of customers, as well as on market conduct oversight of insurers and intermediaries.

In October 2018, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations released a joint guidance applicable to insurers and intermediaries on the fair treatment of customers. Shortly afterwards, the Financial Services Commission of Ontario (FSCO), now the former Ontario insurance regulator, separately published its own guidelines on this issue. The guidelines set out conduct expectations for insurers and intermediaries and are based on international standards on the fair treatment of customers (FTC).

Although the FTC guidelines do not have the effect of law, since 2017 the Financial Services Regulatory Authority of Ontario (FSRA), which took over Ontario's insurance oversight from FSCO in June 2019, has been collaborating with other regulators through CCIR to conduct FTC reviews of federally-incorporated insurance companies. The purpose of these reviews, which started with the largest life insurers, is to assess how insurance companies are implementing FTC principles throughout their organizations and the entire lifecycle of their products.

FSRA recently published its *2020/2021 Market Conduct Report on Life and Health Insurance Sector Key Areas of Assessment* (Report), in which it clearly indicated that in F2020-2021, FSRA's key areas of assessments will be 1) the implementation of FTC principles across distribution channels through the lifecycle of the insurance product and 2) a review of the relationship between insurance companies and managing general agents (MGAs) in the context of a continuously evolving distribution system.

## Fair treatment of customers

FSRA will be reviewing insurance companies with respect to:

- **Corporate governance** – to ensure that reporting relationships between management and senior officers allow for effective oversight, and that FTC is reflected in the insurer's culture and values
- **Agent training and outsourcing arrangements** – to evaluate policies and procedures, agent suitability and agent training. In connection with outsourcing arrangements, FSRA looks at the screening and selection process for an MGA, as well as the content of the MGA contract and whether it clearly sets out roles and responsibilities, and how insurers monitor and evaluate if the MGAs meet those requirements
- **Incentives and remuneration** – reviewing agent compensation structures and incentives, and confirming that the insurer periodically assesses risks to ensure appropriate products are sold to consumers

- **Product marketing and advertising** – ensuring that the insurer provides sufficient product information to allow a customer to make an informed decision at time of sale
- **Information provided to customers** – reviewing information provided to customers, including insurer policies and procedures, and ensuring the customer information process incorporates FTC principles
- **Claims handling** – ensuring that claims handling process and standard processing times incorporate FTC principles
- **Complaint handling and dispute settlement** – reviewing complaint handling and dispute settlement policies and procedures and ensuring that the insurer informs customers of its complaints processing service and its response timelines.

Similar reviews of industry performance with respect to FTC principles are being conducted in Québec and also more generally through the forum of the Canadian Council of Insurance Regulators.

## Managing general agencies

Although FSRA does not currently regulate MGAs, FSRA is undertaking a review process (the MGA Relationship Review) in order to gain a deeper and more up-to-date understanding of how life insurers are distributing their products in the marketplace through the MGA distribution channel, and how MGAs interact with the public during the sales process. The objective of this review process is to determine whether the public interest is being served. These MGA Relationship Reviews aim, among other things, to assess the effectiveness of governance and risk management of MGAs, and to identify potential gaps in roles and responsibilities between the insurance companies, MGAs, and independent agents.

According to the Report, the MGA Relationship Review will focus on the following key activities and areas:

- **Distribution channels** – exploring the different types of distribution models insurers use, including the proportion of business written through each channel, the number of contracted agents, and the overall product delivery strategy;
- **Screening and onboarding of MGAs and agents** – reviewing the insurer’s practices when screening and onboarding an MGA, its strategy for selecting MGAs, and its due diligence, policies and procedures around recruitment and onboarding;
- **Agreements and contracts between insurance companies and MGAs** – reviewing the insurer’s written agreements with MGAs, including contractual conditions and scope, performance measures and obligations, outsourced functions and responsibilities, and agent oversight functions; and
- **Supervision and monitoring of outsourced functions** – reviewing the insurer’s supervision and monitoring of its outsourced functions to MGAs, particularly agent oversight functions and responsibilities typically delegated to MGAs.