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**DELIVERED VIA EMAIL**

To: Canadian Council of Insurance Regulators (CCIR)  
Canadian Insurance Services Regulatory Organizations (CISRO)

**Re: CCIR and CISRO consultation on Incentive Management Guidance**

On behalf of the Conference for Advanced Life Underwriting (CALU), we are pleased to provide our comments on the Incentive Management Guidance (Guidance).

CALU commends the work of CCIR/CISRO in preparing the Guidance and strongly supports the objective of aligning incentive arrangements related to the sale and servicing of insurance products by insurers and their intermediaries with the fair treatment of customer (FTC) principles.

CALU collaborates closely with Advocis on tracking and consideration of public policy matters impacting the insurance industry in Canada. CALU has had the opportunity to review the submission provided by Advocis to CCIR/CISRO on the Guidance, and we are strongly supportive of the commentary provided therein.

The purpose of this separate submission by CALU on the Guidance is to fully endorse the Advocis commentary, while also highlighting issues of particular interest and concern for our members.

## About CALU

CALU is the only national professional organization dedicated to advanced planning issues related to life underwriting, tax planning and wealth management. CALU's industry leading members include insurance and financial advisors as well as accounting, tax, legal and actuarial experts.

We advocate on behalf of more than 600 members as leaders in the life insurance and financial services advisory industry and, in a strategic partnership with Advocis, we support fair and competitive public policies to grow and preserve the financial well-being of Canadian families and businesses.

Individuals and small business owners across Canada rely on our members to help protect and secure their financial futures.

Our members serve their clients with specialized services in insurance, business succession, estate and retirement planning and tax.



Our members also offer their clients advanced expertise in: employee benefits; disability, critical illness, and long-term care insurance and compassionate benefits; philanthropy and charitable giving strategies; cross border tax and estate planning.

CALU provides a collaborative community to our members – helping them connect, stay informed, and turn ideas into action. Together we share advances in strategies and practice, shape public policy and promote and protect the long-term financial well-being of Canadians.

## Summary of recommendations

1. **Professionalism standards:** CALU recommends that CCIR/CISRO continue to focus on the advancement of professionalism standards in the insurance sector in recognition of the foundational role professionalism plays in advancing positive FTC outcomes.
2. **Role of advisors:** CALU recommends that the Guidance be amended to distinguish advisors from the general definition of “intermediaries” to ensure the principles in the Guidance are understood and applied by regulators in manner commensurate with the specific role and responsibilities of advisors.
3. **Removal of Appendix as currently drafted:** CALU recommends that the Appendix as currently drafted be removed from the Guidance to permit further dialogue between industry and regulators on incentives specific to the life and insurance industry. In its approach and content, the Appendix suggests that all incentive structures inherently pose significant risks for customers without sufficient consideration for the context in which a particular incentive is used. As a result, the examples do not provide helpful insight or guidance to the industry on how a specific incentive arrangement may result in unfair consumer outcomes.

## Detailed comments

### Professionalism standards

CALU recommends that CCIR/CISRO continue to focus on the advancement of professionalism standards in the insurance sector in recognition of the foundational role professionalism plays in promoting fair outcomes for consumers. We believe that better FTC outcomes are assured through high standards of professional conduct as unfair consumer outcomes can generally be traced back to professional failure, whether on the part of an insurer or an intermediary.

High professionalism standards help ensure that market participants recognize potential conflicts of interest minimizing the risk that an intermediary will fail to serve the needs of their customers.

In recognition of this critical link between professionalism and FTC, CALU strongly supports continuing education requirements and ongoing efforts to advance professionalism standards for advisors. CALU supports legislative efforts in Ontario to require that individuals calling themselves a Financial Planner or Advisor have the appropriate credentials. We also support requiring advisors to receive professional designations (like Chartered Life Underwriter (CLU) or Certified Financial Planner (CFP)).



As we discuss in connection with recommendation #3, identifying professionalism as the basis for achieving better FTC outcomes also helps protect against inadvertently undermining the role that incentives play in ensuring access and diversity of insurance products necessary for the financial stability, security, and well-being of customers

Ultimately, it is the professionalism of advisors that ensures positive FTC outcomes. As described below, an advisor's role is to provide service to their clients over their lifetimes, maintaining long-term relationships to respond to a client's evolving needs. High standards of professionalism ensure positive FTC outcomes throughout an individual's lifetime.

### **Role of advisors**

CALU recommends that the Guidance be amended to distinguish advisors from the general, broad definition of "intermediaries" to ensure the principles in the Guidance are understood and applied by regulators in manner commensurate with the specific role and responsibilities of advisors.

As currently drafted, responsibility is assigned to intermediaries without distinction related to the specific role played by the intermediary in the sale and servicing of insurance products. Advisors play a defined role in developing and maintaining long-term relationships with their customers to understand, and respond to, their customers' evolving needs. Advisors spend a significant amount of time with a client at the front-end, developing the relationship, understanding the client's situation, needs and challenges. On the basis of a developed understanding of the client's requirements, an advisor will consider and vet possible solutions before making recommendations to the client and implementing solutions. The advisor maintains long-term relationships with their clients to meet their evolving needs as their families and businesses grow and change.

Advisors play a more limited role in the design and implementation of incentive arrangements. We ask that advisors be defined separately, and their specific responsibilities related to incentive arrangements be assigned commensurate with the role, responsibilities, and degree of control of the intermediary over the incentive arrangement. We believe that better FTC outcomes are supported by ensuring that each type of intermediary are appropriately guided to advance FTC in accordance with their role and responsibilities.

CALU would welcome the opportunity to work with CCIR/CISRO to delineate the specific responsibilities advisors should have in relation to incentive arrangements.

### **Removal of Appendix as currently drafted**

CALU recommends that the Appendix as currently drafted be removed from the Guidance to permit dialogue to continue on the use of incentives in the life and health insurance industry.

The Appendix threatens to undermine the integral role that incentives play in promoting diversity and accessibility of insurance products for customers without providing useful insight or guidance to the industry on how a specific incentive arrangement may result in unfair consumer outcomes.

In capturing virtually every incentive arrangement employed in the insurance sector today, the Appendix implies that all incentive structures pose significant inherent risks for customers without any consideration for the



context in which a particular incentive arrangement is used. This is particularly problematic when considering health and life insurance.

Life and health insurance products have characteristics which pose certain challenges for sale and servicing. Despite the critical role that life and health insurance plays in the financial stability and well-being of customers and their families, individuals often resist planning for the possibility of long-term disability or the certainty of death. Advisors in this space are compensated for building and maintaining long-term relationships with their customers and responding appropriately to the evolving lifetime needs of their customers.

Incentive programs and programs need to be assessed contextually to determine their compatibility with FTC principles. Factors such as the type of product being sold, the distribution channel used, and the responsibilities of the individuals and entities involved in the sale and servicing of the products are all relevant. The Appendix effectively paints every incentive program as increasing the risk of practices that adversely affects FTC without context.

We recognize the critical role that regulators play in identifying where there are concrete risks to the consumer. To the extent that CCIR/CISRO regulators have continuing concerns about specific incentive arrangements currently in use in the Canadian insurance marketplace, CALU would encourage regulators to engage with industry through CCIR/CISRO to address these concerns. CALU would welcome the opportunity to participate in these discussions.

## Conclusion

We look forward to continuing a dialogue with CCIR/CISRO in support of the CCIR/CISRO's work to ensure the fair treatment of customers. CALU collaborates closely with Advocis but also welcomes any opportunity to contribute our unique perspective on issues. We would welcome the opportunity to further discuss the proposed Guidance with you.

Should you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

Guy Legault  
President & CEO

Barry Pascal  
Chair, Board of Directors