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*CCIR Secretariat*
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**Re: CCIR-CISRO – Incentives Management Guidance (The Draft Guidance)**

The Investment Industry Association of Canada (IIAC) is the leading national association representing investment firms that provide products and services, including insurance products to Canadian retail and institutional investors. This response represents the views of IIAC insurance dealers, who are authorized to distribute insurance products and services, and are correspondingly defined as Intermediaries[1] in the Draft Guidance.

Executive Summary

The IIAC supports the principles articulated in the Draft Guidance. IIAC insurance dealers believe their incentive practices would align with these principals.

In addition, we recommend further enhancements to incentive practices that will benefit the client, and industry. In order to realize the benefits we outline below, the Insurers' must be required to modify their incentive arrangements, as Intermediaries are limited in how they develop their incentive practices.

**Overview:**

The IIAC supports the CCIR-CISRO's initiative to develop guidance to enhance the alignment of incentive arrangements related to the sale and servicing of insurance products by Insurers and Intermediaries, with their obligations to provide the client with fair treatment. In addition to being licensed with various provincial regulatory bodies for insurance purposes, these Intermediaries, have affiliated companies, who are registrants of the Investment Industry Regulatory Organization of Canada (IIROC) and have been subject to extensive rules with respect to incentive arrangements, including conflicts of interest, and disclosure requirements, related to the sale of securities. These rules have also been applied to certain

[1] Terms such as Intermediary and Insurer will have the same definition provided in the Draft Guidance

related insurance products and services, like segregated funds. Consequently, IIAC insurance dealers have developed policies and procedures related to incentive arrangements that are client-centric and we believe generally align with the principles outlined in the Draft Guidance.

We do believe that improvements can be made to address some of the concerns articulated in the Draft Guidance, such as servicing of clients for the life of the insurance product.

**Recommendations:**

In order to make meaningful changes to incentive arrangements for products, such as life and living benefit insurance, at the Intermediary level, the Insurers must be required to change their incentive arrangements. For life and living benefit insurance products, the Intermediaries structure their incentive practices based on contractual arrangements, and the payment schedules received from the Insurer.

1. **Require more balanced incentive payments from Insurers**

We believe payments and bonuses (override percentages etc.) from Insurers should be more balanced in how they are paid out to the Intermediary and consequently how compensation is provided to the agent and/or insurance specialist. This recommendation reflects the principle articulated in Design 2.1.1 "any incentive paid is consistent with the level of service expected and provided through the product's lifecycle".

Currently, a disproportionate amount of the total compensation is paid by the Insurer in the first 2 years of the product's contract, which could be 10 years or longer, depending on the product. This limits how the Intermediary can design its own incentive arrangements and distribute compensation to its advisors, and insurance specialists etc. In some instances, after a certain number of years, there is no compensation paid by the Insurer to the Intermediary, despite the insurance product still beings in effect and the client still requiring servicing by the Intermediary. In other instances, it may be a low percentage compensation, such as 1% of the premium.

2. **Compensation should be linked to the servicing agent for the lifetime of the product**

Further, we believe the compensation should be tied to the servicing agent for the lifetime of the product. We disagree with Insurer's practice of "vested contracts" and "vested commissions". The Draft Guidance states, "the Insurer is responsible for FTC throughout the life-cycle of the insurance product as it is the Insurer that is the ultimate risk carrier. Treating Customers fairly is a shared responsibility when Insurers and Intermediaries are both involved." However, the Insurer typically delegates that responsibility to the Intermediary. Consequently, the Intermediary (and any new servicing advisor) should receive compensation for the lifetime of the product, as it required to assign a servicing agent to the client for the lifetime of that product.

It is not clear how those current practices are beneficial to the client, and the Intermediary is limited in their ability to alter the contractual arrangements between the agent and Insurer. Further, this policy negatively impacts Intermediaries when agents leave the business or transfer dealers. The initial agent may still receive compensation from the Insurer, but the contract remains with the initial Intermediary and a new agent is required to service the Insurer's contact for no compensation.

We believe this practice is problematic from both a client service and industry growth perspective. It adds barriers for Intermediaries to attract new agents, as they deserve compensation for their services rendered. Without balancing the incentive payments from the Insurer and linking payment to service of the client, we believe that the number of "orphan clients" will increase. The servicing of "orphan clients" is typically delegated to the Intermediary and it is becoming more challenging to manage.

### 3. Compensation from Insurers should be consistent

It has been noted that compensation from Insurers can be inconsistent depending on the distribution channel they are paid to. We believe incentive arrangements (i.e. total compensation) should be applied consistently across distribution channels.

Intermediaries also noted that Insurers may use different terms, and interpretations in their contracts and it can further complicate how Intermediaries may develop their own incentive practices.

The IIAC would be pleased to meet with CCIR-CISRO staff to discuss this issue in more detail. Thank you.

Sincerely,

Investment Industry Association of Canada