

2020/2021 Market Conduct

**Life and Health
Insurance Sector
Key Areas of
Assessment**

FSRA

Financial Services Regulatory
Authority of Ontario



Ontario

Introduction

The Financial Services Regulatory Authority of Ontario (FSRA) is sharing its F2020-2021 key areas of market conduct assessment for the Life and Health (L&H) Insurance Sector. The purpose of this initiative is to strengthen the distribution chain in Ontario.

FSRA identified two key areas in the L&H sector where it will focus its review activities. The areas of assessment described in this document support FSRA's vision of financial safety, fairness and choice for Ontarians. This initiative aligns with the L&H Insurance Sector priorities stated in FSRA's [2020-2023 Annual Business Plan](#).

All FSRA-licensed life insurance companies in Ontario may be subject to a supervisory or thematic review.

Key Areas of Assessment

In F2020-2021, FSRA's key areas of assessment are:

1. Implementation of Fair Treatment of Customers (FTC) principles across distribution channels, in collaboration with the Canadian Council of Insurance Regulators (CCIR) and its member regulators.
2. Review of the relationship between insurance companies and Managing General Agencies (MGAs).

Rationale

FSRA continually evaluates ongoing and emerging issues and trends in the L&H sector. As such, FSRA is focusing on two areas that greatly impact consumers: the adoption of FTC principles by insurance companies and changes in the insurance distribution system.

Adoption of FTC Principles

Insurance regulators across the globe increasingly expect insurers to adopt FTC principles throughout an insurance product's lifecycle.

In 2018, CCIR and the Canadian Insurance Services Regulatory Organizations (CISRO) jointly issued [Guidance Conduct of Insurance Business and Fair Treatment of Consumers](#) (FTC Guidance). It is based on international standards and sets out conduct expectations for insurers and intermediaries such as MGAs. FSRA works with other regulators to review how insurance companies are implementing FTC principles throughout their organization and the product lifecycle.

Evolving Distribution System

Insurers appear to be increasingly outsourcing a variety of functions to MGAs. These functions include agent onboarding, training, as well as compliance and supervision. According to the Canadian Life and Health Insurance Association (CLHIA), although a relatively new channel, MGAs account for a large proportion of new life insurance premiums in Canada¹. This trend was also observed from the recent data that insurers submitted through the Annual Statement of Market Conduct.

FSRA does not currently regulate MGAs. However, it will assess the MGA distribution channel by reviewing the relationship between insurance companies and MGAs. This review will help FSRA gain a better understanding of how insurers, agents and MGAs interact with the public during the sales process. One of our goals will be to determine whether the public interest is being well-served.

FTC Reviews of Insurance Companies

Co-operative Supervision Approach

FSRA has collaborated with other regulators through the CCIR's Co-operative Supervisory Oversight Committee (CSOC) to conduct FTC reviews of federally-incorporated insurance companies. Since 2017, FSRA and other regulators have been jointly conducting reviews starting with Tier 1 insurers. This co-operative approach has continued into F2020-2021.

¹ As per [Guideline 18: Insurer-MGA Relationships](#)

Key Areas of Review

Though the FTC Guidance applies to insurance companies and intermediaries, it states that the insurance company is the ultimate risk carrier. Regardless of the distribution channel used, the insurance company is responsible for FTC throughout the lifecycle of the insurance product².

The areas of scope for FSRA's FTC reviews of insurance companies include:

- Corporate Governance
- Agent Training and Outsourcing Arrangements
- Incentives and Remuneration
- Product Marketing and Advertising
- Information Provided to Customers
- Claims Handling
- Complaint Handling and Dispute Settlement

To learn more about the review elements, please refer to some [sample questions](#) (not exhaustive) in relation to in-scope areas above.

Outcomes

Each area of the FTC review above aims to prevent consumer harm, and supports:

- adopting FTC principles throughout the entire product life cycle and consumer journey
- establishing the right tone at the top, which sets the organization's corporate culture and values
- building strong agent onboarding, training and supervision programs that put consumers' needs first
- providing adequate information to consumers at different stages of the sales process
- handling claims and complaints in a fair and efficient manner

FSRA and CCIR members have focused on reviewing Tier 1 insurers to date. Insurance companies have responded well to recommendations and developed detailed remediation plans. FSRA also understands that insurance companies have delegated some of their supervision responsibilities to MGAs. Therefore, FSRA is in the process of undertaking a thematic review of the relationship between insurance companies and MGAs, as outlined below.

² As per the [ICP 19: Conduct of business section 19.0.8](#)

Distribution Channel Compliance Reviews

Risk-Based Selection Approach

FSRA will take a risk-based approach to select insurance companies to review, including both Tier 1 and Tier 2 insurers. Together, this will make up a large proportion of Ontario's total individual life insurance market share (based on individual net written premiums).

Key Areas of Review

FSRA will review the relationship between insurance companies and MGAs. This will allow FSRA to better understand how insurance companies are distributing their life insurance products. FSRA will also look into the number of MGAs and independent life agents contracted, and the due diligence that insurers complete. The scope of the review will focus on several key areas and activities of the insurance company, including:

- Distribution Channels
- Screening and Onboarding of MGAs and Agents
- Agreements and Contracts between Insurance Companies and MGAs
- Supervision and Monitoring of Outsourced Functions

To learn more about this review, including areas of focus, please refer to the [FSRA Insurer-MGA Relationship Review Program](#).

Outcomes

Through this review, FSRA aims to:

- gain a more in-depth understanding of the Insurer-MGA relationship
- assess effective governance and risk management of MGAs
- identify potential gaps in roles and responsibilities between the insurance company, MGAs, and independent agents
- set expectations for insurance companies' board and senior management to oversee MGA conduct and help protect consumers

**Financial Services Regulatory
Authority of Ontario**

5160 Yonge Street,
16th Floor
Toronto, Ontario
M2N 6L9

Telephone: 416-250-7250

Toll free: 1-800-668-0128

Email: contactcentre@fsrao.ca

FSRA

Financial Services Regulatory
Authority of Ontario

