



Reminder of obligations and responsibilities to clients in sales with upfront commissions

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A number of publications from regulators have been published which outline concerns relating to incentive management and upfront commissions in the sales of segregated funds, as well as informing licensees of the June 1, 2023 ban on the use of deferred sales charges (DSCs) in individual variable insurance contracts (IVICs). The Insurance Council of Manitoba would like to remind licensees of their obligations under the Life Insurance and Accident and Sickness Agent's Code of Conduct.

A DSC is a back-end fee that is charged to the client if the client redeems their investment prior to the length of time set out in their contract term, or if the client changes the sales charge option within their segregated fund contract. Specifically, this compensation structure can create conflicts of interest by incentivizing advisors to favour products with this charge option over more suitable products for their clients. IVICs, also known as individual segregated fund contracts, are investment products with features similar to mutual funds including remuneration and fees. An IVIC is an individual life insurance contract under which the insurer's liabilities vary in amount depending upon the market value of a specified group of invested assets in segregated funds. IVICs include a provision in an individual life insurance contract under which policy dividends are deposited into segregated funds.

Licensees are reminded of their obligations under the Life Insurance and Accident and Sickness Agent's Code of Conduct and how it relates to the sale of IVICs and segregated funds. The Life Insurance and Accident and Sickness Agent's [Code of Conduct](#) communicates standards of conduct and expectations for licensees including that the client's interests take priority over the agent's interests and must not be sacrificed to the interests of others, that the agent must be both candid and honest in advising the client or consumer, and act with integrity, competence and utmost good faith. Agents are expected to ensure the client is aware of the different commission structures and that the agent recommends the policy that best suits the client's needs which may not be the commission structure the agent prefers. Section 6 of the Life Insurance and Accident and Sickness Agent's Code of Conduct outlines "Conflicts of Interest" which further assists licensees in understanding issues relating to conflicts of interest and provides direction on how to plan for and address situations when a conflict of interest arises.

Additional resources and regulatory publications

The [Canadian Council of Insurance Regulators](#) (CCIR) and the [Canadian Insurance Services Regulatory Organizations](#) (CISRO) — the two national organizations for Canadian insurance regulators — initiated a consultation on upfront commissions in sales of segregated funds and were intending for insurers to completely cease the use of DSCs in segregated funds by June 1, 2023.

Following the CISRO/CCIR consultation, the publication titled [CCIR-CISRO Position on the Discussion Paper on Upfront Compensation in Segregated Funds](#) was released and summarizes the consultation findings addressing concerns with upfront commissions in segregated funds. The paper outlines recommendations and expectations for insurers on standards of care for the sale and servicing of segregated funds. It also includes expectations that insurers put a number of control measures in place with a particular focus on the handling of all sales charge options, as well as advisor chargebacks.

Additionally, CCIR and CISRO released the [Incentive Management Guidance](#) along with a [Q&A for Incentive Management Guidance](#) to provide insurers and intermediaries additional details to complement the *Conduct of Insurance Business and Fair Treatment of Customers* guidance.

The Insurance Council collaborates on initiatives with other provincial and territorial regulatory authorities of insurance intermediaries across Canada through the forum of [Canadian Insurance Services Regulatory Organization \(CISRO\)](#). This collaboration has the goal of supporting a consistent approach to consumer protection. Similarly to CISRO, [CCIR](#) (Canadian Council of Insurance Regulators) is a forum of Canadian regulators overseeing insurance companies and other insurance regulatory authorities.

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