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May 22, 2017

Brian Mills  
Chief Executive Officer and Superintendent of Financial Services  
Financial Services Commission of Ontario  
5160 Yonge Street, Box 85  
Toronto ON M2N 6L9

Submitted by email: [priorities@fSCO.gov.on.ca](mailto:priorities@fSCO.gov.on.ca)

Dear Mr. Mills:

**Subject: FSCO Draft Statement of Priorities 2017**

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to comment on FSCO's 2017 draft Statement of Priorities.

Introduction

IFB is a national, not for profit association representing approximately 4,000 licensed financial advisors. IFB members are not career insurance agents or employees of a financial services institution. They are typically self-employed, and operate small to medium-sized financial firms in their local communities. The majority of IFB members are licensed to provide consumers with advice and products related to life and health insurance, and mutual funds. Many also hold other financial licenses or designations to better address their clients' financial needs, such as estate planning, financial planning, long term or critical care protection, mortgages, and deposit instruments.

IFB supports enhanced professional standards in the financial services industry. It does so by providing high quality educational events, webinars, comprehensive individual and corporate professional liability insurance, regulatory updates, and compliance tools and resources for members.

Most IFB members are licensed in Ontario, through the Financial Services Commission of Ontario (FSCO). As such, the activities of FSCO in the marketplace have direct impact on our members.

Our comments generally focus on FSCO's Priorities as they relate to insurance intermediaries in the life insurance sector.

### 1. Ensure financial services industry compliance with laws and regulations

IFB was an active participant in the FSCO, DICO and FST mandate review and looks forward, with interest, to participating in the development of the Financial Services Regulatory Authority (FSRA). In the interim, however, we will continue to support FSCO to meet its legislative responsibility to protect consumers through oversight of those it regulates.

IFB supports FSCO's goals to emphasize industry compliance, and improve its regulatory responsiveness and effectiveness. IFB assists FSCO by ensuring members receive updated compliance information, and working alongside regulatory bodies and industry stakeholders to develop informative guidance, tools and other materials to help advisors meet their compliance obligations.

In its recent spring Budget, the Ontario government indicated its intention to require greater collaboration between financial services regulators, including the OSC and FSCO. We support the work FSCO has done to enter into information sharing agreements with other regulators and jurisdictions. Those who engage in financial fraud or wrong doing threaten public confidence in this market, and undermine value of the sound advice that the majority of consumers receive from their advisor.

FSCO needs to be seen as an effective and visible regulator. In the past year, FSCO has taken action to increase its enforcement activities. More frequent use of bulletins and other types of targeted communication to industry, agents, and stakeholders would be helpful in order to raise awareness of important issues.

Market intelligence allows FSCO to respond to current and evolving market trends. The findings from the new CCIR Annual Statement on Market Conduct should help shed light on insurer practices. We encourage FSCO, and other CCIR members, to make the findings publicly available, so all industry stakeholders can better address any deficiencies or opportunities for improvement.

IFB supports the principles-based approach to regulation generally adopted by insurance regulators. We believe this provides the flexibility for the industry to develop and promote compliant practices for our various constituents in a harmonized manner; thereby reducing the burden on regulators.

### 2. Provide adequate disclosure of information to enable informed decisions by consumers and pension plan members.

Consumers of financial products and pension plan members should have the information they need to make informed financial choices. The Fund Facts and Key Facts provide summary information allowing consumers to compare products, risks and costs before a purchase is made. The CSA has produced an interactive Fund Facts document to help consumers. A comparable approach for consumers of insurance products would be helpful. IFB will continue to work with insurance regulators to update current disclosure information for segregated funds.

While disclosure is an important tool to help inform consumers, current research indicates that disclosure alone may not achieve the results regulators are looking for - leading them to seek additional measures to present complex information in a more accessible and effective manner. The Investor Office of the Ontario Securities Commission (OSC) published a report in March on Behavioural Insights (BI) that examined the key principles of BI and how these concepts can be used to improve government policy, regulation, address financial market issues and improve

investor outcomes.<sup>1</sup> This is a growing area of interest that can supplement more traditional understanding of how investors make decisions, and the impediments to deliberate and rational decision-making.

Improving financial literacy also helps to empower consumers. Financial literacy has been the subject of significant focus in recent years, supported by the FCAC's appointment of a National Financial Literacy Leader. In addition, provincial regulators, industry stakeholders (like IFB), and consumer groups have all worked to make financial information more widely available and more accessible to consumers by employing a plain language format.

IFB members directly contribute to financial education through their day-to-day interactions with clients. Through discussions regarding financial options and future planning for families and individuals, this dialogue becomes both individual and personalized.

### 3. Raise awareness of FSCO's actions in the financial services marketplace.

FSCO's agent and insurer e-newsletters are important tools to communicate FSCO's current and future activities to licensees. We note that the Expert Panel's report on FSCO's mandate identified the need for enhanced public engagement and communications in order to help market participants and consumers stay on top of its activities.<sup>2</sup> Expanding the content and frequency of updates offered through FSCO's Subscription Centre could help to facilitate greater engagement.

IFB supports FSCO's actions by ensuring our members receive regular updates on regulatory and compliance issues. Member communications include regulatory bulletins, targeted emails, and downloadable compliance tools. The participation of FSCO staff at IFB educational events is an example of the kind of partnership that also helps raise awareness of FSCO's actions within the industry.

### 4. Create common and integrated processes enabled by integrated technology solutions.

Technology is greatly expanding opportunities to streamline processes that can increase efficiency, transparency, and identify potential market risks at an earlier stage. In financial services, distributed ledger technology, or blockchain, has the potential to reduce the regulatory burden for industry participants and regulators, as well as create new ways of doing business.

To-date, securities regulators have been more active in creating fintech opportunities, such as the OSC's LaunchPad and the CSA's Regulatory Sandbox. However, there is no doubt that technological change will have similar impacts on the insurance and other financial sectors as well.

FSCO, and other financial regulatory bodies, will need to have the expertise to evaluate these new trends, and encourage innovation, while meeting their public protection mandate. This will require a cooperative approach to sharing intelligence, and underscores the need for principles-based regulation that relies on desirable outcomes, rather than on rigid rules that may quickly become outdated.

<sup>1</sup> OSC Behavioural Insights Review. 7. 2017. Available at: [http://www.osc.gov.on.ca/documents/en/Securities-Category1/sn\\_20170329\\_11-778\\_behavioural-insights.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category1/sn_20170329_11-778_behavioural-insights.pdf)

<sup>2</sup> Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal, and the Deposit Insurance Corporation of Ontario. 60. March 31, 2016. Available at: <http://www.fin.gov.on.ca/en/consultations/fSCO-dico/mandate-review-final-report.pdf>

#### 5. Enhance the collection, use and sharing of market intelligence.

Sharing information amongst regulators is fundamental to consumer protection. In 2014, Ontario's Auditor General's report commented that FSCO lacked sufficient "information-sharing mechanisms with other regulators to ensure it is notified when an agent is disciplined by another entity."<sup>4</sup> IFB supports expanding the Canadian Insurance Participant Registry (CIPR) to better address these gaps, and notes that FSCO has made strides, since the Auditor General's report, to improve its oversight of intermediaries by implementing information sharing agreements with other regulators.

As noted above, we expect the results of the CCIR's Annual Statement on Market Conduct will contribute to a more comprehensive view of life/health insurers' governance, practices and policies regarding the fair treatment of customers.

Many mergers and acquisitions have occurred, and continue to occur, in the life insurance industry leading to greater consolidation of companies and MGAs. Greater economy of scale, to adapt to the changing marketplace, is often cited as the major contributing factor behind this consolidation. However, these changes also impact insurance intermediaries, including those who operate as independent life insurance agents.

Many independent agents are older, having transitioned out of the former captive agency model. IFB is concerned that some regulatory proposals, including the CSA's proposed ban on embedded commissions, will have a greater detrimental effect on lower income clients, clients with smaller accounts, and their advisors, if enacted. We look forward to working with regulators and industry to ensure this does not happen.

#### 6. Be an agile and adaptable organization.

Consumers, and industry participants alike, expect to have timely access to new and innovative products, within a regulated environment that works to protect consumers from undue risk. FSCO must be appropriately resourced and able to address such challenges in a timely manner.

Early warning on new products and services can help keep FSCO abreast of impending regulatory issues.

#### 7. Influence the development of provincial, national and international regulatory policy.

In today's interconnected financial markets, it is essential that FSCO has a key presence both within Canada, and internationally. FSCO's participation on the CCIR and with the International Association of Insurance Supervisors (IAIS) helps to ensure Ontario's regulation is aligned with its provincial insurance counterparts, and with internationally recognized market conduct and core principles.

As previously noted, the Ontario government has indicated its support for greater cooperation amongst financial regulators so consumers are better protected across regulatory platforms. The FSCO mandate review suggested that provincial regulators should also work with federal regulators (such as the Financial Consumer Agency of Canada) to ensure that consumers can expect like products to be regulated similarly, even if they fall under both provincial and federal jurisdiction.<sup>6</sup>

<sup>4</sup> Mandate Review Preliminary Position Paper.24. November 4, 2015. Available at: <http://www.fin.gov.on.ca/en/consultations/fSCO-dico/mandate-review-november15.pdf>

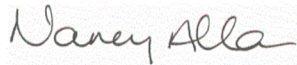
<sup>6</sup> ibid.22.

Despite this, IFB is concerned with the lack of coordination surrounding some regulatory initiatives underway in various jurisdictions, from different financial regulators and self-regulators, on similar topics, but taking different approaches. Examples include a statutory/regulatory Best Interest Duty, managing conflicts of interest, restricting titles, proficiency requirements, and compensation practices. Given the similar concepts underlining many of these consultations, we are concerned that the outcome may be a greater divergence from the regulatory goal of harmonization, which will not benefit consumers or advisors.

Finally, IFB believes that anyone selling life/disability insurance should be licensed. Accordingly, we believe Ontario should follow other jurisdictions which have introduced a licensing regime for sales of incidental insurance. British Columbia, Alberta, Saskatchewan and Manitoba have implemented a restricted insurance agent license for the sale of incidental insurance products. While licensing the entity, rather than individuals, is not optimal in our view, it provides protection for consumers who purchase such products by offering regulatory oversight and recourse in the event of a complaint.

Thank you for the opportunity to provide our comments on FSCO's Priorities and strategic direction. IFB looks forward to continuing to work with FSCO in the coming year.

Yours truly,

A handwritten signature in cursive script that reads "Nancy Allan". The signature is written in dark ink on a light-colored background.

Nancy Allan  
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