Guideline G13
COMPENSATION STRUCTURES: MANAGING CONFLICTS OF INTEREST

This Guideline has been approved by the Board of Directors of the Canadian Life and Health Insurance Association Inc. (CLHIA). Member Companies are expected to adopt this CLHIA Guideline having regard to the company's structure, products and business processes, including distribution channels. Member Companies are urged to incorporate this Guideline into the company's ongoing compliance program.

Adopted December 2007, *effective January 1, 2009*

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1. INTRODUCTION

This Guideline complements and supports principles set out by Canadian and international insurance supervisors. The Canadian Council of Insurance Regulators (CCIR) adopted principles focused on outcomes in managing conflicts of interest in 2006. The International Association of Insurance Supervisors (IAIS) adopted Insurance Core Principles in 2011, including that insurers implement policies and procedures on the fair treatment of customers (FTC). One element of FTC is that remuneration and reward strategies take account of fair customer outcomes.

A robust compensation system is needed to attract and retain qualified professionals to offer, place and service life and health insurance products that meet the needs of the consumer. At the same time, it is important that well-designed compensation systems be alert to the risk that sales-related compensation could create conflicts of interest.

2. PURPOSE

This Guideline supports the broader objective of managing conflicts of interest that could arise due to sales-related compensation. "Sales-related compensation" refers to remuneration paid by an insurer, directly or indirectly, of either a monetary or non-monetary nature, with respect to the placement and/or ongoing servicing of a contract of insurance.

3. SCOPE

This Guideline applies to sales-related compensation for all individual life and health insurance products manufactured and/or distributed by member companies.

In the event of any conflict between the provisions of this Guideline and any applicable law, the law takes precedence over the Guideline to the extent of the conflict.

4. CONSIDERATIONS FOR SALES-RELATED COMPENSATION MANAGEMENT

Insurance company practices should consider the influence that sales-related compensation can have on advisors' sales practices as they pertain to the provision of products to consumers. This requires a focus on internal company practices related to the development of sales-related compensation structures.

A sales-related compensation management process should support the following outcomes:

a) Product design that considers implications of compensation structures on advisors' business practices in respect to their customers’ interests;

b) Monitoring to maintain sales practices that are not unduly influenced by sales-related compensation; and

c) A documented protocol to facilitate timely response to actionable items by responsible officers of the insurer.

The design and execution of an appropriate protocol for the above outcomes will vary from insurer to insurer, depending on business models and distribution channels. Remuneration practices differ across distribution channels and according to roles within an insurer. In each instance, consideration should be given to the potential influence that compensation may have on the appropriateness of the product sold to the consumer.