



HUB Financial Inc.

3700 Steeles Avenue West, 10th Floor
Woodbridge, Ontario L4L 8M9

Tel: 905-264-1634

FAX: 905-264-5463

Toll Free: 800-561-2405

Toll Free FAX: 866-479-1701

andrew.fink@hubfinancial.com

www.hubfinancial.com

February 22, 2024

Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, Ontario
M2N 6S6

Via email: tim.miflin@fsrao.ca

Re: Consultation on Proposed Guidance: Life Insurance Agent & MGA Licensing Suitability

Dear Sirs/Mesdames,

HUB Financial Inc. welcomes the opportunity to provide comments to the Financial Services Regulatory Authority of Ontario ("FSRA") pertaining to its consultation on the Proposed Guidance relating to Life Insurance Agent & MGA Licensing Suitability ("Guidance"). We are hopeful our input will highlight important factors which could impact the definition of an MGA and the compliance system requirements for advisor oversight.

HUB Financial Inc. ("HUB") is one of the largest MGAs in Canada and is licensed in all provinces and territories. HUB is a full-service MGA, representing all major Canadian brokerage companies. HUB is the largest MGA that is not carrier owned and this gives us a unique perspective on our distribution channel. HUB is at the forefront of the industry, with senior representation in Canadian Association of Independent Life Brokerage Agencies (CAILBA), Canadian Life and Health Insurance Association (CLHIA), APEXA Strategic Governance, Canadian Life Insurance EDI Standards (CLIEDIS) and FSRA's Stakeholder and Technical Advisory Committees. In addition, HUB leadership consists of those with senior positions previously held within some of the Insurers it currently represents as an MGA, and many are individually licensed with their provincial regulator.

HUB strongly supports FSRA objectives to improve licensee screening standards and to strengthen the regulatory framework. FSRA proposed Guidance intends to set out the requirements for individual and corporate applicants to be suitable to hold a life insurance agent licence and provide a good reference for existing licensees to understand how past and current conduct may affect their suitability to hold a life insurance agent licence. Agents should have the benefit of a clear outline of suitability requirements, the skills necessary and understanding of regulatory obligations to holds a licence. It is HUBs position that MGAs and Insurers should not use materially different criteria in determining agent suitability than that of the Regulators who authorize and grant the agent licence.

FSRA indicates it has authority to determine whether an MGA is suitable to be licensed. Is this an indicator that FSRA plans to implement an MGA licence regime for those agencies that fit FSRA's definition of an MGA? If not, how will FSRA identify which corporate or partnership agency licensees are contracted as an MGA as defined within the Guidance?

In this Guidance, Managing General Agencies ("MGAs") are defined as licensed corporate or partnership agencies, which perform activities for insurers such as recruit, screen, train, supervise or monitor agents,

review applications, and functions historically performed by Insurers when they had an exclusive sales force. The Guidance definition of an MGA refers to virtually all types of contracted Agencies and could apply to National Accounts, AGAs and Corporate Brokers.

A key difference FSRA should consider is a business-to-business relationship instead of business-to-consumer relationship. Corporate Brokers and National Accounts will have business-to-consumer relationships. In addition to their recruitment activities, they would have contractual obligations relating to the suitability and oversight of those agents employed to conduct business on their behalf. Although not all models are the same, MGAs and AGAs generally do not maintain business-to-consumer relationships and act in a different capacity on behalf of Insurers through business-to-business relationships with independent licensed agents and agencies. As a result, HUB believes this to be an important distinction in the definition of an MGA.

FSRA indicates its future Guidance will describe Insurers obligation to maintain a system to ensure that agents acting on their behalf are compliant and, regardless of whether oversight functions have been delegated, the insurer retains its responsibility and must each take reasonable steps to ensure their individual agents comply. HUB looks forward to the clarity this additional guidance may offer.

The life insurance industry and its products are complex and effective regulation will only come from an in-depth knowledge and understanding of the landscape of all its stakeholders. Insurers and consumers enjoy the benefits of distribution through multiple channels. HUB agrees that Insurers and Distribution, including MGAs, should work collaboratively towards a practical solution in maintaining compliance systems that provide for fair outcomes for consumers and positive direction for industry stakeholders regarding oversight requirements.

Of concern to HUB, is the consistent reference to the oversight faults of the MGA channel within insurance distribution. FSRA reference to functions historically performed by Insurers, implies a potential bias in favour of Insurer Distribution, and perhaps Insurers do a better job of oversight of agents within their captive agent channels. Before proposing potentially substantial changes to responsibility and regulatory requirements there should be a clear understanding of what consumer harms are occurring and how the existing regulatory regime is not sufficient to address these concerns. HUB encourages FSRA to apply the Guidance to all forms of Distribution including, but not limited to, captive agents, National Accounts, call centers, deal direct arrangements, MGAs, and online sales.

HUB is aware of and reviewed the various FSRA enforcement notices relating to MGAs operating with a tiered recruitment model, in which FSRA identified concerns with the suitability, oversight, and sales practices of associated agents. These MGA models included a concentration of sales with one or two insurers and a single product recommendation to consumers with absence of suitability considerations. It would seem reasonable that the patterns easily identified by FSRA should also have been identified by the Insurer(s) through the significant connection between with the Insurer(s) and MGA(s) and addressed those concerning practices accordingly. This appears to be a shared lack of oversight between these specific MGAs and Insurer(s) and accountabilities should be equally applied.

HUB supports efforts to enhance market conduct oversight and would expect that any rules and/or guidance drafted would be reasonable, clearly defined and evenly applied across all Distribution channels. It should be recognized that oversight is a shared responsibility amongst all industry stakeholders and all Distribution channels would have the same oversight needs and challenges.

It is not reasonable or sustainable that Insurers contractually download full and all responsibility of its oversight obligations to MGAs. Insurers are best positioned to design proper products and ensure that individual transactions are underwritten consistent with product design and intended use and should remain ultimately responsible for the suitability of their products sold. It would seem reasonable that Insurers must

remain actively involved in agent and MGA suitability, and the oversight of those intermediaries they contract. Licensees must also be held responsible and accountable for their licence obligations and behaviours. In addition, Direct to Insurer platforms developed to make it easier to facilitate sales and other transactions, means ability to gather data to monitor for needs-based decisions and the quality of advice given to consumers is more difficult for MGAs to assess.

Currently, responsibilities among Insurers, MGAs, AGAs (and similar entities) are unclear and Insurer interpretations of FSRA requirements have led to inconsistent approaches and requirements, making it challenging for MGAs to maintain reasonable and consistent compliance processes. A few examples of these interpretations include: close supervision of every contracted advisor with a credit score below X# with no other indicators of suitability or conduct concerns; assess the suitability of redemptions which incur DSC fees of any amount (now that DSCs are banned), with no indication of consumer lack of understanding or concern; or MGA to confirm suitability of sale through an attestation and in absence of the Insurer review of the information obtained. Inconsistent criteria and uncertain approaches make it impossible for Distribution to deliver on the key functions it performs and expected outcomes of a reasonably designed compliance program.

Finally, it is our observation that all channels have the same compliance challenges. The steps that each party takes to address requirements might differ, but it is important to ensure that market conduct rules are consistent and evenly applied to ensure fair treatment of consumers. Following FSRA distribution of the additional Guidance document and the industry understanding of its rules and requirements, FSRA should allow industry stakeholders opportunity to develop and implement reasonable compliance processes in support of the Guidance principles.

HUB is supportive of FSRA's focus on regulatory effectiveness and efforts taken by FSRA to create guidelines for development of compliance and regulatory procedures that support consumer protection and increase their confidence of the insurance sales process. HUB looks forward to continued involvement in this process and will be pleased to provide comment relating to the guidance for Insurers and Distribution outlining what FSRA considers to be a reasonable system for the oversight of agent compliance once this additional section is released for consultation. HUB comments are given in the absence of this additional Guidance document.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Fink". The signature is stylized with a large, looped initial "A" and a cursive "Fink".

Andrew Fink
President