

Consumer Advisory Panel (CAP)

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Delivered electronically

Financial Services Regulatory Authority of Ontario
25 Sheppard Ave W, Suite 100
Toronto, ON
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Re: Consultation on Proposed Rule 2025-001 – Life & Health Insurance Managing General Agents (L&H MGAs)

Background: Regulatory Context and Insurance Sales Pyramid

The Proposed Rule 2025-001 follows amendments to Part XIV.1 of Ontario's *Insurance Act* (R.S.O. 1990, c. I.8), which established a licensing framework for Managing General Agents (MGAs) in life and health insurance. The proposed Rule targets the following outcomes:

1. Fairness to Consumers: Ensure that consumers are treated fairly and consistently and receiving advice from well-trained, and properly supervised agents;
2. Enhanced Compliance: Improved conduct of L&H MGAs and agents based on delineated roles and responsibilities and regulatory requirements for insurers using L&H MGAs; and
3. Consistent Treatment for Similar Participants: Consumers purchasing products from an agent contracted with a L&H MGA are afforded the same level of compliance.

This reform aims to address systemic risks in a distribution model where insurers delegate critical oversight functions to MGAs, who in turn often subcontract to sub-MGAs or Associate General Agents (AGAs), creating a multi-tiered sales pyramid:

Tier	Role	Regulatory Oversight
Insurer	Product manufacturer, risk bearer	Licensed and regulated by FSRA; retains ultimate accountability for consumer outcomes
MGA	Distributor, recruiter, trainer	To be licensed under Rule 2025-001; oversees sub-MGAs/AGAs and agents

Sub-MGA/AGA	Sub-distributor, may handle recruitment	Supervised by MGAs; no direct licensing requirement under current framework
Agent	Sells insurance directly to consumers	Licensed by FSRA; supervised by MGAs/insurers

According to industry, this tiered structure improves market access. If true, this access comes at a high price because it presents consumers with a complex sales structure with confusing and fragmented accountability. The Proposed Rule does not clarify the chain of accountability and may actually contribute to the confusion by introducing additional operational complexity and costs. CAP questions whether the benefits to consumers—the potential of better-trained agents and consistent oversight—outweigh the normalization of a multi-tiered sales pyramid, particularly without addressing fundamental issues like conflict-ridden compensation models.

Cost-Benefit Concerns

In addition to introducing more process to an already complex insurance sales process, the Proposed Rule imposes layered compliance systems, licensing fees, and audit requirements on MGAs and insurers. FSRA estimates 40+ entities will require licensing, with smaller MGAs facing disproportionate costs to implement systems for screening, training, and monitoring "prospective agents" (undefined in the Proposed Rule). While FSRA claims the Proposed Rule ensures "consistent consumer outcomes", it provides no evidence that it will directly reduce harms like mis-selling or agent unsuitability. Furthermore, it is not at all clear to CAP that the costs associated with implementing this proposed rule would not be better deployed in initiatives designed to more directly promote consumer protection in the insurance sector.

Key questions for FSRA:

1. What measurable consumer harm (e.g., policy lapses, complaints) will this Proposed Rule mitigate, and how?
2. Why prioritize structural licensing over reforming tiered compensation models that incentivize recruitment over consumer needs?

1. Ambiguity in Accountability and Delegation

It is CAP's understanding that, in accordance with national and international standards, the Proposed Rule is intended to maintain ultimate responsibility for consumers' outcomes with insurers, regardless of distribution channel. Nevertheless, the rule's "shared responsibility" framework (Section 10) fails to clearly set out how liability is

apportioned when failures occur (the inclusion of an accountability chain in the Proposed Rule or Guidance would be extremely helpful). For example:

- If an MGA's compliance system inadequately screens agents, does the insurer face penalties, or only the MGA?
- Can insurers fully delegate training (Section 14) yet avoid accountability for poorly trained agents?

Example: The Proposed Rule requires insurers to have "sufficient controls" over MGAs (Section 8) but does not define "sufficient," leaving enforcement subjective.

2. Undefined Terms and Operational Challenges

Critical terms are not defined, creating compliance uncertainty:

- **"Prospective agent"** (Sections 1(5), 1(7)): If only licensed agents can sell insurance, why regulate non-licensed individuals under this label? Are they permitted to shadow agents or attend sales meetings?
- **"Reasonable grounds"** (Sections 8(1), 9(1)): What thresholds trigger reporting to the Chief Executive Officer? A single complaint? Repeated violations?
- **"Material non-compliance"** (Section 1(8)): Is a missed training session equivalent to fraudulent sales practices?

Without clear definitions, MGAs and insurers risk either over-compliance (incurring unnecessary costs) or under-compliance (facing enforcement).

3. Overreliance on Chief Executive Officer Referrals

The Proposed Rule mandates reporting to the Chief Executive Officer for:

- Agent/MGA unsuitability (Sections 8(1)(iii), 9(1)(vii))
- Material non-compliance (Section 1(8))

However, it does not specify:

- What actions the CEO will take upon referral (e.g., fines, licence suspension).
- Timelines for resolving reports.
- How consumers will be notified of outcomes.

This creates a "black box" enforcement mechanism, undermining transparency and trust.

4. Compensation and Incentive Risks Ignored

The Proposed Rule, very consciously, does not address how tiered commission structures (e.g., rewards for recruiting "downline" agents) conflict with consumer protection. This issue was determined to be out of scope for this rule making process. CAP considers this an unfortunate, if not critical, exclusion since FSRA's own reviews found MGAs derived most income from recruitment-linked bonuses. CAP is left to wonder why the Proposed Rule focuses on administrative compliance rather than reforming incentives.

Recommendation: Integrate standards from Quebec's *Incentive Management Guideline*, which prohibits compensation models that prioritize recruitment over suitability.

5. Impractical Requirements for Smaller MGAs

A Proposed Rule that is designed to improve consumer access to insurance products, should not feature an unintended consequence of forcing smaller MGAs out of business. For this reason, CAP wishes to draw attention to potentially onerous requirements in the Proposed Rule. Sections 8–17 demand annual compliance assessments, client service continuity plans, and "risk-based monitoring." For small MGAs with limited resources, these requirements are overly prescriptive. For example:

- **Section 9(3):** Annual sub-MGA assessments may be redundant if the MGA has only one sub-contractor.
- **Section 7:** Surety bond/insurance requirements lack proportionality (e.g., a 5-agent MGA vs. a 500-agent MGA).

Conclusion and Recommendations

CAP urges FSRA to:

1. **Clarify accountability:** State that insurers retain ultimate liability for consumer outcomes, regardless of delegation.
2. **Define key terms:** Provide explicit thresholds for "material" non-compliance and permissible activities for "prospective agents."
3. **Reform incentives:** Address compensation structures that prioritize recruitment over consumer needs.
4. **Simplify compliance:** Allow proportional requirements for smaller MGAs (e.g., streamlined reporting).
5. **Detail enforcement:** Explain how CEO referrals will be actioned and how consumers will be informed.

Without these changes, the rule risks imposing costly burdens without meaningfully advancing consumer protection.

Sincerely,

FSRA Consumer Advisory Panel (CAP)