AGA Compliance Structure:

Policies and Procedures

Carte
RISK MANAGEMENT INC.

Your compliance structure (program) is part of the foundation of your organization and is essential to its success. As your business partner, Carte Risk Management is committed to supporting you in the implementation and enhancement of your compliance structure.

As such, this compliance tool is being provided to guide you through several requirements for the development of your compliance policies and procedures, supported with examples.

The intention behind this compliance tool is not for it to stand as or otherwise replace your compliance structure but rather to guide you through the drafting process of the main policies and procedures that you shall have in place as an AGA for Carte Risk Management Inc.

This document does not constitute a legal opinion nor should it be used as such. You are invited to seek your own legal advice with regards to your compliance structure.

Once the drafting process is completed, as the AGA, you are expected to apply and update these policies and procedures on an ongoing basis. Regulators and insurers will monitor accordingly.

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FOR ANY ASSISTANCE, CONTACT US AT:
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1. SELECTING ADVISORS SCREENING PROCEDURE

The selection process for your advisors is essential to ensure that they fulfill your selection criteria and will limit exposure to potential risks (e.g. monetary, legal and reputational) for you and the insurer.

Your written screening procedure shall include the concrete steps or measures that you are systematically taking to review the suitability of each advisor, before recommending them to the insurer. Tools such as the CHLIA Advisor Screening Questionnaire could be useful as a starting point to collect the necessary information, but said document is not enough by itself.

You must also verify the responses provided by the advisor and retain a record of further steps taken. The following contains examples of additional steps or measures which are commonly part of an AGA's screening procedure.

a. **Complete background check with advisors' previous employers / insurers:** Interview the advisor, request contact information and formal reference letters.
b. **Third party credit check:** Consult Mintz, Greengrass Group or APEXA report to ensure that the advisor meets the requirements to be contracted with the MGA and/or the insurer.
c. **Current debts to any insurer or MGA or other financial services stakeholder:** Consult APEXA report or contact insurers.
d. **Complaints and disciplinary history:** Conduct a screening of regulators' decision records (CISRO), consult APEXA and contact insurers as needed.
e. **Licences:** Validate the licence (expiry/renewal date, conditions of exercise), obtain and keep a copy of licence on file.
f. **E&O Insurance:** Ensure that the E&O coverage meets requirements of the jurisdiction(s), and obtain and keep copies of the active E&O insurance on file
g. **Criminal record:** Investigate to ensure that the advisor has not been found guilty of any specific infractions (MGA/Insurer contract) and is not currently subject to criminal proceedings. Consult Mintz, Greengrass Group or APEXA report to ensure that the advisor meets the requirements to be contracted with the MGA and/or the insurer.

2. MONITORING PROCEDURE

As an AGA for Carte Risk Management Inc. you must assess and monitor your advisors' sales practices on an ongoing basis.

Like the screening procedure, your monitoring procedure shall include the concrete steps taken as well as the nature and the frequency of the verifications. It shall also take into account the level of risk associated with each advisor as well as the verification methods implemented.

The following contains examples of information commonly included in AGA's monitoring procedures. **At all times, CRMI expects you to document and keep records of the activities conducted as per your monitoring procedure.**

N.B. If you use the CAILBA procedure template, please ensure that you amend the document to reflect the actual procedure implemented in your organization. In other words, you are expected to amend the document so that it is personalized to your organization.

1. APPOINTMENT OF THE INDIVIDUAL(S) RESPONSIBLE FOR THE AGA'S MONITORING ACTIVITIES

You shall appoint a specific person for this role or indicate that you have a compliance officer fulfilling your monitoring duties.

2. ONGOING MONITORING OF SALES RESULTS

Your monitoring procedure shall include a formal process whereby sales results are being monitored to identify, at an early stage, any irregular sales trends that would be suggestive of an unacceptable sales practice by an advisor.

The CLHIA guideline G8 provides a list of unacceptable sales practices, including the following:

— **Money Laundering/Terrorist Financing:** Money laundering is the processing of criminal proceeds to disguise their illegal origin. Terrorist financing is the collection or distribution of funds with the intent or knowledge that the funds will be used by a terrorist or to carry out a terrorist act.

— **Premium Rebating:** A promise or agreement for the premium to be paid for a policy in a lesser amount than the premium set forth in the policy, or paying (or offering to pay) a rebate of the whole or part of the premium stipulated by the policy, or any consideration or thing of value intended to be in the nature of a premium rebate, except to the extent permitted by law.

— **Systematic replacements:** Systematic internal or external replacements that are detrimental to the client.

— **Twisting (replacement):** Persuading a client to terminate a policy solely for the purpose of selling another policy without regard to possible disadvantages to the client. It can also involve using the values, either through loans or through the re-direction of dividends, of one policy to purchase another.

— **Churning:** Initiating transactions for personal gain, so that the volume or frequency of trades is excessive for the type of account and the client's personal objectives.

Your monitoring procedure shall indicate to the individual(s) who are performing the monitoring the frequency of such monitoring as well as an exhaustive list of the elements to be checked and situations requiring further investigations. **On this last topic, CRMI recommends that a special attention be paid to the following irregularities:**

— Low persistency

— Sudden increase in sales

— Sudden change in an advisor's practice (e.g. type(s) of products or coverage being sold, type of clients being serviced, repetitive coverage amount, etc.)

Example

We may consider the following when selecting the advisors and transactions to be reviewed:

— persistency levels under 85%

— history of client complaints

— sales variation over 100% (compared to the previous year for instance)

— business practices (client files)

— high premiums over $35,000

— history of disciplinary proceedings, etc.

3. TRANSACTION REVIEW

Here again, AGAs are invited to consult the CLHIA Guideline G8 for a listing of unacceptable sales practices which will help them in raising legitimate concerns with regard to an advisor's business practice during a transaction review (e.g. unsuitable sale).

a. Ongoing transactions review

You shall include in your monitoring procedure a section about sales transactions that are being reviewed on an ongoing basis using a risk-based approach. Said section shall specify the types of transaction being selected (e.g. new sales, coverage increase, transfers out, replacements, etc.), the method for selecting transactions and the frequency (e.g. weekly, monthly or quarterly). It is not expected that all transactions be selected for a review, but rather a reasonable sampling in view of the total transactions submitted through the AGA. CRMI recommends selecting a minimum of 10% of the overall transactions submitted through the AGA.

Example

Each month, our compliance officer will select a sample of 5 advisors and recent transactions that they have submitted to be reviewed. The following elements will be considered in the course of our review: Financial Needs Analysis, Reason Why Letter, Investor Profile, etc.

Evidence of such reviews will be documented and retained in our records.

b. Ad hoc transactions review (specific investigation)

Your monitoring procedure shall provide for the review of one or more transactions following a reporting of unfair business practices on the part of one of your advisors. Said reporting can come from a client, an advisor, another MGA, an insurer or a regulator. It can also originate from another of your monitoring measures like the ongoing monitoring of sales, sales trends, specific transactions, persistency levels, etc.

Example

If we are made aware that an advisor has engaged in an unfair business practice, our compliance officer will review the transactions in question and another recent transaction.

The following elements will be considered in the course of this review: Financial Needs analysis, Reason Why Letter, Investor Profile, etc. Evidence of such reviews will be documented and retained in our records.

As a result of our investigation, we may take any disciplinary measure deemed necessary.

c. Elements to be taken into consideration when verifying transactions

In addition to the explanations that you will be collecting from an advisor, a transaction review shall be conducted using the information contained in the client file kept by the advisor. A client file shall include the following documents and information, where applicable:

— **Financial Needs Analysis:** Advisors must maintain records that demonstrate the extent and nature of the client's needs. Client records held by advisors must also demonstrate the validity of the recommendations that have been made or the advice given regarding the client's situation (based on fact-finding).

- ✓ **Personal information:** Name, date of birth, gender, status, address, contact, income,employment, nationality, etc.
- ✓ **Children and other individuals under care:** May include age/special needs
- ✓ **Financial goals:** Current or future (retirement). May include savings, insurance, etc.
- ✓ **Liabilities:** Mortgage, personal or commercial loans, etc.
- ✓ **Assets:** May include TFSA, RRSP, RESP, primary or secondary residence, rental buildings,vehicles, pensions, unregistered savings, etc.
- ✓ **Insurance in force:** May include amounts and specifications of life, loan, disability and critical illness insurance contracts
- ✓ **Needs:** Including in case of death (e.g. funeral expenses), disability, critical illness, emergency fund, retirement, etc.
- ✓ **Follow-up and expectations:** Will you follow up with the client and what are the client's expectations?

— **CRMI Investor Profile:** This questionnaire deals with several elements that must be taken into account regarding investments needs, such as risk tolerance, knowledge of investments, etc. It should be completed with the FNA or when a change occurs in the client's personal or financial situation.

✓ **The document must be complete (including information section):** Ensure the collected data is consistent with the client's profile results.

✓ **Investor profile results:** Validate subtotals and totals with the obtained profile/results.

✓ **Selected products:** Verify that the product meets the client's needs and profile. In case of discrepancies, there should be a clear justification/motive.

— **Illustrations:** Confirm that the contracted product corresponds to the client's needs. It should be consistent with the recommended product according to the FNA.

— **Reason Why Letter:** The Reason Why Letter must contain the following elements:

- ✓ Insurer's name, product selected (coverage, premium, term, any product details, etc.)
- ✓ Summary of the recommendation based on the FNA
- ✓ Unmet needs and justification, if applicable
- ✓ Explanation of discrepancies between selected product and recommendations, if applicable (if amount selected differs from amount recommended, an explanation must be provided)
- ✓ Opportunity for clients to ask additional questions or for more information about their financial situation
- ✓ IVIC fees (individual variable insurance contract), if applicable

— **Advisor Disclosure:** An advisor disclosure must be given to each client before each transaction, and a signed copy should be kept on file. The document shall contain the following:

- ✓ Licenses held and jurisdictions
- ✓ Companies represented
- ✓ Relationships with companies represented
- ✓ Modes of compensation
- ✓ Additional compensation
- ✓ Conflicts of interest
- ✓ Right of the client to ask for more information from the advisor regarding their qualifications

— **Replacement Disclosure:** Most jurisdictions require the advisor to provide both the client and the relevant insurers with regulated information in the event of a life insurance contract replacement. Such information shall be contained in two specific documents called the Life Insurance Replacement Declaration (LIRD) and a written explanation.

- ✓ The documents shall be dated and shall be signed by the client.

— **Advisor's Notes:** Meetings with clients must be documented. For this reason, it is recommended that advisors maintain detailed notes in client files, including a summary of items discussed with their clients. The notes shall include the date, location, time, needs discussed, other attendees, etc.

— **Advisor presentation:** Reviewing the client file provides an opportunity to observe how advisors present themselves to clients.

- ✓ The title(s) and presentation being used by advisors must be in line with the applicable regulations and the license(s) they hold.
- ✓ You can look at advisors' email signatures, business cards, social media accounts, websites,advertisements, etc.

4. VALIDATION OF ADVISORS' LICENSE AND ERRORS AND OMISSIONS (E&O) INSURANCE

Your monitoring procedure shall include a process for validating your advisors' license and E&O coverage upon expiry/renewal dates.

- ✓ Keep evidence of your validation in advisors' records (copies of license and E&O)
- ✓ Whenever an advisor fails to renew their license or E&O coverage on time, make sure that no transactions are made during the unlicensed or uninsured period.
- ✓ Immediately report to the appropriate insurer any transaction made during an unlicensed or uninsured period

5. REPORTING TO INSURERS

When conducted rigorously, the above-mentioned monitoring activities contribute to ensuring that clients are treated fairly. As such, your monitoring procedure shall include a process by which you will immediately notify the relevant insurers whenever you uncover an unfair or unacceptable business practice on the part of an advisor or otherwise, whenever you have concerns about an advisor's suitability.

3. PRIVACY POLICY

Your written privacy policy should indicate how you implement, as an AGA, the 10 fair information principles of the Personal Information Protection and Electronic Documents Act (PIPEDA) in Canada, and/or if applicable, the Alberta Personal Information Protection Act (ALPIPA), the British Columbia Personal Information Protection Act (BCPIPA) and the Act Respecting the Protection of Personal Information in the Private Sector (ARPPIPS) in Quebec.

This privacy policy should be written on your behalf and addressed to the public as well as your advisors/ employees.

1. ACCOUNTABILITY

— Appoint an individual to be responsible for your organization's compliance: You shall appoint a specific person for this role or indicate that you have a privacy officer or other individual fulfilling your privacy-related responsibilities.

— Provide a description of personal information: According to PIPEDA, personal information is considered as any factual or subjective information, recorded or not, about an identifiable individual.

— Indicate that you must comply with laws and regulation applicable in all jurisdictions, such as PIPEDA in Canada, ALPIPA in Alberta, BCPIPA in British Columbia and ARPPIPS in Quebec.

2. IDENTIFYING PURPOSES

Define your purposes for collecting data as clearly and narrowly as possible.

Example

We collect data from our clients to document their files and assess their financial needs and personal situations in order to recommend products and services based on their goals.

3. CONSENT

— Indicate that you need the individual's consent before or at the time of collection, as well as when a new use of their personal information is identified.

— Explain to individuals the implications of withdrawing their consent.

— Indicate how and when you can disclose personal information without consent.

Example

We will require clients' consent prior to the collection of any personal information as well as when a new use or adjustment of their personal information is required. Clients have the right to withdraw consent at any time by informing the privacy officer or their financial advisor. In that event, we will advise clients that without the necessary information, we may not be able to continue to provide our recommendations and services regarding their needs.

4. LIMITING COLLECTION

Indicate the type of personal information that you collect and use real examples.

Example

We may collect the following information from clients: age, status, salary, profession, age of dependents, assets, liabilities, necessary medical information, or any other data required in order to recommend products or offer services.

5. LIMITING USE, DISCLOSURE AND RETENTION

— Document any new purpose for the use of personal information, such as new product recommendations, additional client needs, personal information updates, etc.

— Indicate that you will securely dispose of personal information that does not have a specific purpose or no longer fulfills its intended purpose.

Example

When data no longer fulfills its intended purpose, we will completely and securely dispose of the data to ensure it cannot be recovered, whether it's a hard or electronic copy. We may use various methods, for example, shredding paper files and disintegrating hard disks.

In the event that we are unable to destroy the data, we will retain secured third-party service providers

6. ACCURACY

— Indicate the reasonable steps that you take to guarantee that the personal information collected and retained is accurate.

— Indicate how you will correct or amend any personal information if its accuracy and/or completeness are challenged and found to be deficient.

Examples

— To ensure that the collected personal information is accurate, we advise client to inform their advisors or the privacy officer if they notice incorrect information. New personal information or any update must be communicated directly by the client.

— Once notified that the information is inaccurate, it will be updated in all files and documents concerning the client. We may contact an insurer to correct the information if necessary.

— If we notice that we are missing information essential to providing services, we will inquire and collect the information from the client.

7. SAFEGUARDS

Indicate how you protect personal information against loss or theft

Example

We protect personal information against loss or theft by keeping our physical files in locked cabinets, limiting access to our offices, and implementing security measures on the premises.

As for information saved on technological tools, we use several measures such as login information, passwords and security patches to limit access. We also ensure that our staff receives periodic training regarding the best practices on protecting personal information.

8. OPENNESS

Indicate how you, as an AGA, make sure that your clients and employees have access to your privacy policy: your complete and latest privacy policy must be made available to current and potential clients, if applicable. You should also send by email your updated privacy policy on a yearly basis to all AGA staff (including advisors, administrative staff, etc.).

9. INDIVIDUAL ACCESS

— Indicate that individuals need to make a written request to access their personal information

— Indicate specific contact information for where to send the request to access personal information

— Indicate that you must respond no later than 30 days after receipt of the request

Example

Clients can request access to their personal information by sending a written request by email or mail to the privacy officer at the following email address/head office (address).

We will then respond no later than 30 days after receipt of the request and provide the client with the information. If the request is denied, we will inform the client of the available recourse.

10. COMPLAINT HANDLING PROCESS

Develop simple and easily accessible complaint procedures (you are required under PIPEDA, ALPIPA, BCPIPA and ARPPIPS to have a complaint handling policy for privacy matters).

Example

An individual can challenge the AGA's use of the fair information principles. Clients will be advised of the possible recourses available to them and each complaint received will be investigated by the MGA. We will inform clients of the outcome of their complaints.

If necessary, we will amend our written policies and procedures regarding personal information.

4. COMPLAINT HANDLING POLICY

Maintaining a written complaint handling policy, consistent with the guidelines for fair treatment of clients, is essential to ensure that each complaint is assessed fairly and in a timely manner.

Your written policy shall include the elements below, as applicable.

1. CAILBA AND BEST PRACTICE REQUIREMENTS

- Define what constitutes a complaint: sustained dissatisfaction received about the service and/or financial product provided by an insurer or an intermediary
- Appoint a person responsible for the complaint handling process: you shall appoint a specific person for this role or indicate that you have a compliance/complaint officer fulfilling your complaint handling process-related responsibilities
- Inform the relevant insurer if a doubt arises regarding the suitability of an advisor based on the service provided to the client
- Notify the advisor involved in the complaint and ask for their written explanation of the events that led to the complaint
- Advise clients with unresolved complaints about the ability to transfer their complaint to the insurance company's Ombudsman
- Respect all guiding principles and standards, such as timelines, commitment, consistency, accuracy, confidentiality, etc.
- Develop a simple and easily accessible complaint procedure available on a website or by providing a formal complaint document for clients

2. AMF REQUIREMENTS – QUEBEC

For AGAs active in the province of Quebec, you must comply with Quebec's regulatory requirements.

If you have business in the province of Quebec and other jurisdictions, industry best practices stipulate that you must maintain a written policy based on Quebec's regulatory requirements and apply it in the other jurisdictions where you are conducting business as well. This will ensure that all clients are treated equally.

- Outline the purpose of the complaint handling policy: the policy should be impartial, and the procedure should be equitable for all clients and complaints
- Indicate the name of the person in charge of the complaint handling policy.

4. COMPLAINT HANDLING POLICY

- Indicate what constitutes a complaint: according to the *AMF complaint examination and dispute resolution policy*, "a complaint is the expression of at least one of the following three elements: a reproach against the registrant; the identification of real or potential harm that a consumer has sustained or may sustain; or a request for remedial action"
- Describe the process for receiving complaints: complaints can be received by email, written notice, phone, in the office, etc.
- Advisors who receive a complaint must immediately forward it to the person in charge of the complaint handling policy
- The person in charge must acknowledge receipt of the complaint to the client (See AMF Acknowledgment notice)
- Create a record for each complaint which contains the following elements as listed in the *AMF complaint examination and dispute resolution policy*:
  - ✓ Complaint elements: The reproach against the registrant, the real or potential harm and the requested remedial action
  - ✓ Outcome of the complaint examination process (analysis and supporting documents)
  - ✓ Final written response to complainant with justifying reasons
- Describe the process for examining a complaint which can include:
  - ✓ Obtaining versions of events from the concerned advisor and client
  - ✓ Obtaining the supporting documentation: illustration, application, contract summary, monthly statements, complete client files (Financial Needs Analysis, Investor Profile, Reason Why Letter, LIRD, notes, etc.), etc.
  - ✓ Analyze documentation and contact insurer, client and/or related parties if applicable
  - ✓ Keep a record of the steps and measures taken throughout the examination process
  - ✓ Issue a final decision with a detailed reasoning and justification
- Describe the process for transferring a complaint to the AMF
- Prepare and file two complaint reports per year to be provided to the AMF. **Click this link to prepare and send your complaint reports to the AMF**
- Indicate the effective date of the policy

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