

ELIMINATION OF DEFERRED SALES CHARGES

GUIDELINE NO. G2/2024

2024

Financial and Consumer Affairs Authority of Saskatchewan – Insurance

Guideline No.: G2/2024

Title: Elimination of Deferred Sales Charges (DSC)

Date: January 2024

INTRODUCTION

This Guideline is issued pursuant to s. 10-3 of The Insurance Act (the “Act”). The information contained in the guidelines posted on this website is an accurate representation of the Superintendent’s interpretation on the date the information is published but is subject to change and may be replaced by more recent guidelines. The legislation is also subject to interpretation by a Court of competent jurisdiction.

PURPOSE

The purpose of this Guideline is to confirm the expectation of the Superintendent of Insurance that all insurers licensed to issue life insurance policies in Saskatchewan will forthwith discontinue the use of DSCs in the sale of individual variable insurance contracts (“IVICs”, also known as “segregated funds”), an insurance product that has similar investment characteristics to mutual funds. DSCs are sales charges that customers pay if they withdraw their own money invested with the insurer pursuant to a segregated fund contract before the end of a time period specified in the contract.

BACKGROUND AND APPLICATION

On February 10, 2022, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) announced their view that there is a high risk of poor consumer outcomes associated with DSCs in IVIC sales and that the sales charge is not consistent with treating customers fairly. At that time, insurers were urged to refrain from new sales of IVICs containing DSCs with the expectation that they would transition to a complete cessation of the use of DSCs in new IVICs by June 1, 2023. This followed the Canadian Securities Administrators’ (CSA) announcement of its ban on DSCs in mutual funds that was effective June 1, 2022.

The Superintendent of Insurance is a member of CCIR and agrees with the stated views and proposed steps to provide protection for consumers of these types of financial products. It is the Superintendent’s view that there is a reasonable expectation of harm to the interests of consumers where DSCs are utilized in connection with IVICs. The conflict of interest that arises between the intermediary and the consumer in these cases significantly increases the risk of negative outcomes for consumers.

Sections 7-10, 7-12(1)(c), 8-2(2), and 9-23 of The Insurance Act prohibit insurers and intermediaries from engaging in any unfair practice or using any form of policy or contract of insurance that is unfair or not in the public interest. It is the Superintendent’s position that these provisions prohibit, or provide the Superintendent with the authority to prohibit, the use of DSCs in IVICs. Going forward, the Superintendent will generally consider the use of DSCs in IVICs to be unfair and contrary to the public interest and may make such orders and take such enforcement steps as deemed appropriate where insurers continue to issue IVICs with DSCs.

ADDITIONAL INFORMATION

If you have any questions or would like to request a meeting to discuss the application of this Guideline to specific transactions or factual circumstances, please contact the FCAA's Insurance and Real Estate Division at:

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