

COMPLIANCE

ADVISOR MONITORING AND REPORTING OF IRREGULARITIES POLICY

This document is addressed to:

All Authorized Individual or Incorporated Brokers doing business under Optimal Financial Centre Inc.

JANUARY 2017

TABLE OF CONTENTS

PREAMBLE SECTION 1: ADVISOR SCREENING

1. License
2. Conviction of a financial crime, such as theft or fraud, misconduct, forgery or falsification, tax evasion, drug trafficking and money laundering
3. Pending criminal case relative to a crime listed in paragraph 1
4. Disciplinary measures taken by a regulatory agency or an insurance council.
5. Pending cases or investigation by a supervisory authority or an insurance council
6. Bankruptcy and/or consumer proposal
7. Third party and professional liability insurance
8. Business practices Persistency
9. Financial situation
10. Refusal to sign the authorization for disclosure of information
11. Authorization to work in Canada
12. Exceptions

SECTION 2: REPORTING OF IRREGULARITIES

- A) Any criminal act committed while performing his duties
- Theft or fraud
 - Misappropriation of client funds
 - Counterfeiting and falsification
 - Money laundering
- B) Any violation to rules or other inappropriate practices
- Licensing violation
 - Privacy or confidentiality breach
 - Holding out
 - Conflicts of interest
 - Tied sales
 - Premium rebating
 - Replacements
 - False declarations and non-disclosure of information
 - Non-respect of the “Know Your Client ” rule
 - False declaration, reticence or misrepresentation that is harmful
 - Coercion or undue influence
 - Use of inducements
 - Incompetence
 - Dishonesty
 - Nominee
 - Other unacceptable practices

SECTION 3: PROCEDURE

APPENDIX 1:REPORT OF IRREGULARITIES FORM

PREAMBLE

This policy addresses standards for the screening of candidates and advisors as well as reporting of irregularities in their conduct and fitness to practice.

As a Managing General Agency (MGA), we must have reasonable grounds to believe that a candidate is fit to practice in the life insurance, or other insurance, field before contracting him. When determining if a candidate is fit to perform his duties, meeting the criteria defined in this policy is not sufficient for a candidate to be contracted as he may be rejected for other reasons.

We also must have reasonable grounds to believe that a candidate or an advisor is not fit to practice in the insurance field before reporting him to the supervisory authorities. This measure is justified when the information we hold allows us to think that a reasonable person would come to the same conclusion, using normal and honest judgment.

We are also responsible for supervising all questions put forth by the competent authorities (Regulators, insurers) in order to determine if the advisors are fit to perform their duties, and to communicate all conduct issues to concerned insurers.

This policy is intended to be a tool to help us detect factors that may have a significant influence on a candidate/advisor's fitness to perform his duties. Also, it is important to note that this policy is not a comprehensive method allowing us to recruit and/or screen candidates and it does not enumerate all practices that must be considered.

Our policy mainly addresses behaviors that may raise doubts about the candidate and/or advisor's ethical sensibility and judgment as well as the trust that might be accorded regards with finances, and especially, but in a non-limiting manner, as it concerns the sale of financial products and related services. The degree of rigor of the provisions contained herein reflects the seriousness of the described behavior.

As a MGA, when we screen candidates, we must ensure that they are fit, at all times, to perform the duties that they claim they are authorized to perform. Thus, strict monitoring must be set in place, which means an initial and permanent check of candidates and/or advisors to ensure that they are, and remain, competent in their field of practice.

To facilitate this monitoring, the implemented system may include the following steps:

1. Acquisition of necessary detailed information, through reasonable investigations;
2. Detailed documentation of applicable criteria and procedures;
3. Establishment of proficiency standards for product placing and the use of production concepts;
4. Establishment of written procedures to verify that advisors are still fit to practice;
5. Implementation of appropriate procedures in order to communicate the name of the advisor who has become unfit to perform his duties to authorities.

SECTION 1: ADVISOR SCREENING

Here is a non-exhaustive list of information that must be specifically verified and analyzed in order to justify rejecting a candidate.

1. License

If the candidate does not hold a license issued by competent authorities, we must reject his application.

2. Conviction of a financial crime, such as theft or fraud, misconduct, forgery or falsification, tax evasion, drug trafficking and money laundering

If the candidate has been found guilty under a law other than the *Young Offenders Act* of any of the crimes listed above in the 10 years before his application and that he has not been pardoned, his application must be rejected.

3. Pending criminal case relative to a crime listed in paragraph 1

The review of an application submitted by a candidate faced with criminal charges will be delayed until the case has been judged and the MGA's decision will take the outcome of the proceedings into account.

4. Disciplinary measures taken by a regulatory agency or an insurance council.

A candidate who has been sentenced to a fine or whose license has been suspended or revoked by a regulatory agency or an insurance council because of the violation of a law or provincial or territorial regulation will have to be thoroughly investigated in order to determine if, based on the information the MGA holds, he is fit to practice.

5. Pending cases or investigation by a supervisory authority or an insurance council

The review of an application made by a candidate who faces criminal charges or is under investigation will be delayed until the case has been judged or the investigation is over, and the MGA's decision will take the outcome of the proceedings into account.

6. Bankruptcy and/or consumer proposal

The candidate's application will be rejected if available information seems to indicate that the bankruptcy and/or consumer proposal, whether discharged or not, is tied to unacceptable practices in the course of his duties as a financial sector advisor.

7. Third party and professional liability insurance

If the candidate does not have liability insurance as required by law, he cannot make insurance transactions and his application will be rejected.

8. Business practices

We must inform ourselves on the candidate's business practices with the supervisory authorities and other companies for which the candidate has worked. When available information seems to reasonably indicate that the candidate performed unacceptable practices as an advisor, his application must be rejected, whether or not his practices were reported to authorities.

In certain cases, the first irregularity will be serious enough to suggest, in a reasonable measure, that the candidate is unfit to perform his duties. In other cases, it will be necessary to observe the candidate's tendencies before dismissing his application. By "tendency", we mean wrongdoing that is not an isolated case and for which there is reason to believe that the behavior is a reflection of how the candidate normally performs his duties.

Unacceptable practices for a candidate include the following:

- Criminal act committed by the candidate while performing his duties;
- Practice as an advisor without having a license or breach of practice conditions;
- Practice as an advisor without having professional liability insurance, if required by law;
- Breach of privacy or confidentiality laws or rules;
- Violation of holding out laws or rules;
- Failure to disclose a material conflict of interest;
- Tied selling;
- Premium rebating, unless prohibited by law;
- Undisclosed replacement;
- Systematic replacement;
- Twisting;
- Churning;
- Poor disclosure or material non-disclosure;
- Misuse of, or material changes to, insurer products;
- Incomplete comparisons;
- Poor needs analysis or failure to ensure that the product is suitable for the client;
- False declaration, reticence or misrepresentation that is harmful to the insurer;
- Coercion or undue influence;
- Use of inducements;
- Incompetence;
- Dishonesty (candidate has been dismissed for just cause);
- Commission-sharing with an unlicensed individual;
- Unnecessary delay in delivering policies or failure to deliver policies;
- Trafficking in insurance policies, where prohibited by law.

We must also inform ourselves of the reasons for any dismissal, or revocation of prior contracts, as well as compare the information we obtained with those provided by the candidate. If the information obtained differs and suggests that the candidate used unacceptable sales practices, which led to his dismissal, his application must be rejected.

9. Persistency

When available information suggests that the low rate of persistency stems from unacceptable practices, such as systematic replacement or poor needs analysis, the application must be rejected.

10. Financial situation

Candidates who have important debts may be in financial difficulty, which may lead them to give more importance to their own needs than to those of their clients.

If available information suggests that a candidate's debts with a financial services entity, regardless of the type, are related to unacceptable practices, the application must be rejected.

11. Refusal to sign the authorization for disclosure of information

The authorization to disclose information form that our contracting process includes was designed to help us carry out our screening of candidates for our business and reporting of irregularities responsibilities. It respects applicable confidentiality rules and is an integral and mandatory part of the application. Refusal to sign the authorization will result in the application being rejected, save for some exceptions.

12. Authorization to work in Canada

All candidates must be legally authorized to work in Canada.

13. Exceptions

There may be exceptions to the screening process if authorized by the CEO and president, Guylaine Gauvin

SECTION 2: REPORTING OF IRREGULARITIES

There are two categories of irregularities committed by an advisor that require us to open an investigation:

A) ANY CRIMINAL ACT COMMITTED WHILE PERFORMING HIS DUTIES

There are many criminal acts other than those mentioned below, but the following are specifically related to financial crimes. If our investigation reveals that the allegation of irregularity falling into one of the categories mentioned hereafter is grounded, we **are obligated** to report the violation to the competent and/or supervisory authorities.

1. Theft or fraud - Intentional deception or misrepresentation made in order to harm the other party's interest and to eventually result in an advantage for its author or another person.

2. Misappropriation of client funds - Use of funds or assets received from a client for a purpose other than what it was intended for.

3. Counterfeiting and falsification - The act of counterfeiting or altering a document in order to:

- Have it be taken for an authentic document, to the prejudice of a person, or
- To induce someone, who thinks the counterfeit or altered document is genuine, to do or refrain from doing something.

4. Money laundering - Transferring property or proceeds of the property with the intent to conceal the origin and ownership of the property, by an individual who knows that the property, in whole or in part, comes directly or indirectly from the commission of a criminal or drug offence, or from the proceeds of crime.

B) ANY VIOLATION TO RULES OR OTHER INAPPROPRIATE PRACTICES

1. Licensing violation - All advisors must hold a valid license in each of the jurisdictions where they carry out business. We **must** report any violation of this rule, as well as any failure to respect the conditions of the license, to supervisory authorities, for example if the advisor renews his license without respecting continuing education requirements.

We **must** also provide the authorities with the name of any advisor who does not have liability insurance **in good standing** for his operating field.

2. Privacy or confidentiality breach - We must report any intentional privacy or confidentiality breach. However, we will investigate any no intentional breach and decide if the incident must be reported to the authorities pursuant to our confidentiality breach (failure to protect) policy.

3. Holding out - We must report all cases where an advisor tried to mislead consumers through his business card, letterhead, or advertising, by claiming to have certain credentials or professional titles, or the necessary competency to provides advice or services. We will also investigate all information that is not intentionally misleading and take appropriate measures.

4. Conflicts of interest - The advisor must advise his client or potential client of any existing conflict of interest, or appearance of conflict of interest, that may arise from a specific transaction or recommendation. Any failure to disclose an important conflict of interest **must** be reported.

5. Tied sales - It is prohibited to oblige a client to purchase a certain product as a condition to purchasing another product. This practice **must** be reported to authorities.

6. Premium rebating - Advisor making an agreement for reducing the premium set forth in the policy. Advisors cannot pay or offer to pay the premium set forth in the policy, in whole or in part, nor offer any consideration or thing of value that could result in a premium rebate. This practice **must** be reported to authorities where prohibited by law.

7. Replacements

i) Undisclosed or systematic replacements:

Provincial and territorial laws prescribe well-defined formalities as it concerns replacements. We must report any "tendency" an advisor may have of not respecting these rules or not declaring replacements.

The replacement as such is not necessarily an inappropriate practice, but it is only appropriate when it is not detrimental to the client. We must declare and report any systematic replacement of contracts, no matter which insurer they are issued by, that is detrimental to the client.

ii) Twisting:

This is when an advisor encourages the insured to terminate his policy for the sole purpose of purchasing another one, without taking into account any possible prejudice to the client. It can also involve using the values of one policy to purchase another, either through a policy loan or through the re-direction of dividends. This practice, which is contrary to ethics rules, **must** be reported to authorities.

iii) Churning:

Churning occurs when an advisor, exercising control over the volume and frequency of trades, abuses a client's confidence for personal gain by initiating transactions that are excessive in view of the character of the account and the client's personal objectives. Churning is generally used with securities and commodities, but can occur with annuity-type contracts as well and **must** be reported to supervisory authorities.

8. False declarations and non-disclosure of information

i) Misleading statements:

When presenting insurance transactions or advertising, advisors must take care not to make misleading statements and provide the client with complete and accurate information that will help him make the right decision before the transaction is carried out. Thus, we **must** report any advisor "tendency" to not provide accurate information to clients or any serious case of non-disclosure of information.

ii) Abusive use of illustrations:

Advisors must also provide complete and accurate information about the products they are offering, honestly and using simple language. The client must have all the necessary information required to make an informed choice regarding his insurance needs and the product being offered. We **must** report all cases where the advisor has brought important changes to the illustrations provided by the insurer or if the advisor has manipulated the software to create unreasonable expectations for the client.

iii) Incomplete comparisons:

We must signal cases where the advisor has made an incomplete comparison of a policy with that of another insurer, with the aim to convince the client to lapse or surrender his insurance contract.

9. Non-respect of the "Know Your Client" rule - We will insure that our advisors are diligent and professional when analyzing client needs, objectives and financial situation, in order to offer the product which best suits their needs. We **must** report any advisor "tendency" to make insufficient analysis or any situation where he has a client make a purchase without taking his needs into account.

10. False declaration, reticence or misrepresentation that is harmful - The advisor must provide us with complete and accurate information. We **must** declare all misrepresentation, reticence or false declaration that is detrimental to us.

11. Coercion or undue influence - This happens when an advisor takes advantage of a client when he knows, or should know, that the client is unable to understand the nature, sense of effect of a transaction. We **must** report any advisor "tendency" to exert pressure on clients or any undue influence when proposing a product.

12. Use of inducements - We **must** report all cases where an advisor has paid a sum of money, given a gift, directly or indirectly offered a sum or valuable article in order to persuade a potential client to purchase a contract.

13. Incompetence - If we observe, on more than one occasion, that an advisor has shown incompetence in the course of his activities, or have reasonable grounds to believe so, we **must** report it to authorities.

14. Dishonesty - Other than the aforementioned practices, any action that demonstrates a lack of honesty on the advisor's part **must** be investigated and reported to authorities if we believe that the advisor is not apt to perform his duties.

We **must** report any "with cause" dismissal of the advisor, or any case where we would have been ready to take such measures.

15. Nominee - There is a nominee scheme when:

- An advisor, who holds a license, allows another advisor, who in no way participates in the transaction, to sign as agent of record (for example, advisor A, who holds a license, has advisor B sign and send an application to the insurance company because advisor A does not have a contract with that insurance company. Advisor B has never met the client, but signs as agent of record) **OR**
- A person who does not hold a license for a certain discipline, carries on business, and arranges for an advisor who holds a license to sign and send in the documents in his place without ever having met the client.

This practice is prohibited in all forms and will result in the termination of the offending advisor's contract. We will also report any breach to the authorities.

16. Other unacceptable practices - There are other practices that should be reported, such as commission sharing with someone who does not hold a license, unnecessary delay in delivering policies, and trafficking of life insurance policies, where prohibited.

SECTION 3: PROCEDURE

We have provided staff with an internal process intended to handle allegations of misconduct brought against an advisor. This process allows anyone to report problems related to an advisor's conduct or make a complaint about the latter to the Compliance Officer.

The procedure includes the following steps:

- 1) The advisor must meet the Compliance Officer Guylaine Gauvin or any other person designated by him, in order to shed light on the situation and discuss it;
- 2) The insurer must be advised of the misconduct allegations against an advisor within five (5) days of being made aware of the situation as concerns the sale of the insurer's products or services;
- 3) Declare the potential risk of error and/or omission concerning misconduct allegations to our professional liability insurance provider, as well as to the advisor's, in a timely manner;
- 4) The National Compliance Officer or any other person designated by him, must immediately be advised so that the case can be presented to the audit committee who will make a recommendation to Financial Horizons Group's executive committee for approval;
- 5) As soon as the recommendation is endorsed by the committee, all insurers will be advised of Optimal Financial Centre's position;
- 6) The Provincial regulator and other regulatory authorities will have to be advised, depending on the severity of the case;
- 7) It will then be decided if the advisor is to be supervised or if his contract is to be revoked, depending on the severity and nature of the case.

We have also created a Report of irregularities form, attached to this document, which can be sent to supervisory authorities, concerned insurers, the complainant and the advisor.

APPENDIX 1: REPORT OF IRREGULARITIES FORM

Date: _____

Name of advisor: _____

Complainant: _____

Advisor license number: _____ Issuing province: _____

ALLEGED IRREGULARITY:

- | | | |
|---|---|---|
| ☐ Churning | ☐ Incompetence | ☐ Privacy/Confidentiality breach |
| ☐ Coercion | ☐ Licensing violation | ☐ Premium rebate |
| ☐ Conflict of interest | ☐ Misappropriation | ☐ Replacement |
| ☐ Counterfeiting/falsification | ☐ Tied sale | ☐ Twisting |
| ☐ Theft or fraud | ☐ False declaration than information | |
| ☐ Holding out (title/function) | ☐ Money laundering | ☐ Dishonesty |
| ☐ False declaration/ Non-disclosure of information | | |
| ☐ Use of inducements | ☐ inadequate product | |
| ☐ other: _____ | | |

Investigation carried out by insurer: Yes ☐ No ☐

Revocation of advisor contract: Yes ☐ No ☐

Contact: _____ Telephone: _____

Email: _____

RESERVED FOR USE BY THE SUPERVISORY AUTHORITY:

This report is submitted in compliance with the provisions concerning the release from liability set out in the applicable insurance regulations:

- ☐ Supervisory authority copy
- ☐ Insurer copy
- ☐ Complainant copy
- ☐ Advisor copy