

PRINCIPAL BROKER

DIRECTION AND SUPERVISION REQUIREMENTS

To fulfill your obligations you must be familiar with the RIB Act, Regulations and By-laws as well as the Code of Conduct Handbook.

Principles and Considerations

- (i) **TO ENSURE THAT ALL REGISTERED INSURANCE BROKERS WHO ARE EMPLOYEES OR PARTNERS COMPLY WITH THE ACT, REGULATIONS AND BY-LAWS**

Guiding Principles

- The obligation of the Principal Broker is to support and supervise compliance efforts by **all RIBO registered individuals associated with the brokerage**, including owners, partners and shareholders.
- This obligation also extends to all locations where registered persons conduct insurance business, including but not limited to full branches, sales offices, service offices and home offices.
- The Principal Broker is responsible for making certain that current office policies and procedures including a plan of supervision are in place and that all registered staff are aware of them. These policies and procedures should be consistent with the requirements set out in the RIB Act, Regulations and By-laws (included under Supplementary Resources).
- In the event an individual RIBO registrant is **suspended**, procedures should be in place to ensure that the suspended individual complies with the suspension. Individuals who are suspended are no different than individuals who are unlicensed. Please refer to “Unlicensed Individuals” in the Supplementary Resources section.
- The Principal Broker should take all reasonable steps to ensure compliance with brokerage policies and procedures.

Considerations

- Do current office policies and procedures include a plan of supervision of all individuals associated with the firm at all locations?
 - Key considerations:
 - Do all brokerage staff know who has been appointed Principal Broker?
 - Are all individuals at all locations familiar with the brokerage's management and organizational structure?
 - Are periodic reviews being done to ensure the policies and procedures remain relevant?
 - Are there binder controls in place and are they being monitored (this includes temporary liability or pink slips)?
 - Do staff (licensed and unlicensed) understand the proper handling of trust monies including receipt procedures and controls?
 - Does the firm have abeyance and diary controls in place? Are they being monitored?
 - Has the firm addressed file ownership and acceptable file maintenance (including where hard copies of client files may be kept, security, confidentiality and privacy issues)?
 - Are training sessions on brokerage software and systems provided to registered staff?
 - Has the firm detailed a position on acceptable secondary occupations for staff? Is there an approval process in place, including RIBO notification?
 - Would the appointment of a Deputy Principal Broker(s) better assist your compliance efforts? (Remember: The Principal Broker retains ultimate responsibility for the actions of the brokerage despite the appointment of a Deputy Principal Broker.)

- (ii) **TO ENSURE THAT ALL REGISTERED INSURANCE BROKERS WHO ARE EMPLOYEES OR PARTNERS ARE PROVIDED WITH AND USE ALL INFORMATION RESPECTING INSURANCE NECESSARY FOR THEM TO ACT IN ACCORDANCE WITH THE CODE OF CONDUCT AND WITHOUT MISCONDUCT OR INCOMPETENCE AS DEFINED OR DESCRIBED IN THE ACT AND/OR REGULATIONS**

Guiding Principles

- The Principal Broker must remain current on:
 - regulatory requirements
 - industry trends
 - insurer requirements
 - market requirements
- The Principal Broker should share this information, as appropriate, to all registered persons and if necessary, unlicensed persons, within their brokerage.
- The Principal Broker should pay particular attention to information that could impact the business of the brokerage and ensure this information is highlighted to all concerned.

Considerations

Principal Broker should make the following information available to all staff:

- Current documentation and forms
- RIBO Bulletins and other industry publications
- Availability of a resource library including, for example, an office intranet and/or internet (see On-line Information Resources in these Guidelines)

Training

- Consider addressing the training needs of representatives through accredited continuing education courses/seminars, including:
 - In-house training
 - Regular internal training
 - Insurer/market training
 - External training
 - Provide information about accredited continuing education courses/seminars

- Is time given/allowed to attend/participate in continuing education courses?
- Are staff allowed to utilize brokerage computer for accredited on-line learning?
- Consider creating education opportunities by combining resources with other brokers to bring in a facilitator/speaker

(iii) TO ENSURE THAT ALL REGISTERED INSURANCE BROKERS WHO ARE EMPLOYEES OR PARTNERS KNOW AND ACT IN ACCORDANCE WITH THE CODE OF CONDUCT SET FORTH IN THE REGULATIONS

Guiding Principles

- The Code of Conduct is designed to bolster and enhance the public protection regime set out in the RIB Act, Regulations and By-laws.
- It is also designed to enhance the professionalism of the property and casualty brokerage industry.
- The Code of Conduct Handbook should be available to all registered persons. They should be encouraged to review the document and keep themselves current.
- The Code of Conduct Handbook provides useful information and examples on how to best avoid a situation that may lead to an act of misconduct.
- The Principal Broker must report to RIBO serious breaches of the Code of Conduct and any other relevant regulatory requirements as soon as is reasonable under the circumstances.
- Procedures should be in place to ensure that complaint queries from RIBO are responded to within a reasonable time frame. The Principal Broker should follow up with the individual broker to ensure queries have been responded to.

Considerations

- Is the Code of Conduct Handbook accessible and available to all registered persons within the brokerage?
- Does the firm monitor revisions to the Code of Conduct and Code of Conduct Handbook through RIBO Bulletin articles and RIBO website?
- Is the Code of Conduct Handbook included in internal training initiatives?
- Consider a regular confirmation from registered persons that they have reviewed the Code and have acted in accordance with it.
- Are there procedures in place to ensure compliance with the Code of Conduct, especially, but not limited to, protecting client's confidential information, disclosure protocols and the managing of actual or potential conflicts of interest?
- Do the firm's procedures include guidelines for staff on reporting compliance issues to the Principal Broker?

**(iv) TO ENSURE THAT ALL TRUST ACCOUNTS AND BOOKS,
RECORDS AND ACCOUNTS ARE MAINTAINED IN ACCORDANCE
WITH THE REGULATIONS**

Guiding Principles

- Good financial process and control will enable a Principal Broker to have an accurate and current snapshot of the brokerage's trust position.
- The Member must be able to meet **all of the trust obligations at all times** in accordance with Regulation 991, Section 16(6).
- The Trust Account must be maintained in accordance with the RIB Act, Section 32 and Regulation 991, Sections 16, 17, 18 and 21.
- Books and records must be maintained on a current basis.
- Equity requirements must be maintained in accordance with Regulation 991, Section 19.
- All queries from RIBO relating to trust accounts and books and records must be responded to within the time frames established by RIBO.

Considerations

- Principal Broker should ensure that individuals responsible for maintaining trust accounts and books have working knowledge of accounting fundamentals and in particular, how it relates to a property and casualty brokerage.
- Principal Brokers considering external support for maintaining books and records should engage professionals familiar with property and casualty brokerage.
- Firms using a brokerage management system (e.g. Applied Systems, Power Broker, Signassure) are encouraged to learn and utilize the full potential of the software for its management reporting abilities and to be able to establish the firm's trust position at any given moment.
- Complete an internal Form 1 on a monthly basis
 1. bank reconciliation bank balance = G/L account balance
 2. premium receivable list = G/L account balance
 3. insurer payable sub-listing = G/L account balance
 4. over 90 days receivables
- Use the Three Step Approach prior to transferring commissions.
- Books and records are maintained in accordance with Canadian generally accepted accounting principles.

- Trust account requirements:
 - Are all trust monies received by the brokerage deposited into the trust account within the required three (3) banking days after being received?
 - Bank trust accounts and trust investment vehicles must be clearly denoted “IN TRUST” at all times.
 - Trust investments **must be** “redeemable/cashable” on demand and not “saleable”
 - Regulation 991, Section 16(5) outlines acceptable trust investments and where such investments can be made including:
 - guaranteed investment certificates up to 5 years
 - treasury bills
 - mutual funds that invest only in short-term money market instruments
 - banker’s acceptances
 - short-term debt securities, with a rating of the highest credit or superior credit quality from the Dominion Bond Rating Service, issued by non-financial corporations
- Maintain books and records including customer records for 6 years plus current fiscal year (Regulation 991, Section 16 (9)).
- Consider commercial line records for at least 10 years to manage liability exposure.
- Ensure qualified staff are assigned to carry out these responsibilities.
- Maintain adequate Corporate equity comprised of paid up share capital, direct shareholder loans and/or contributions and retained earnings.
- **The firm should have a business recovery and disaster plan in place which include a backup of all books, records and accounts.**

- (v) **TO ENSURE THAT ALL ERRORS AND OMISSIONS INSURANCE, AND/OR OTHER FORMS OF FINANCIAL GUARANTEE, AND ALL FIDELITY INSURANCE ARE MAINTAINED IN ACCORDANCE WITH THE REGULATIONS**

Guiding Principles

- The brokerage's E&O and Fidelity Bond must be maintained in accordance with Regulation 991, Section 20 and approved by RIBO.
 - Minimum policy limits:
 - E & O - \$1,000,000 / \$2,000,000 aggregate & RIBO endorsement
 - Fidelity - \$100,000 & RIBO endorsement.
- Minimum equity requirement must be maintained in accordance with Regulation 991, Section 20.

Considerations

- File with RIBO **within 30 days** (in accordance with RIBO By-law No. 20, Section 3(a)) any changes to E&O and/ or fidelity coverage, including but not limited to, changes in carriers, deductibles and names.
- Include with filing supporting documents that evidence changes (e.g. certificates of insurance, endorsements).
- Corporate equity is comprised of paid up share capital, direct shareholder loans and/or contributions and retained earnings.
- Sole proprietorship and partnership equity can be calculated as equity as of last fiscal year-end plus earnings/losses for current year less proprietor's/partner's drawings.

(vi) TO ENSURE THAT ALL REQUIRED FILINGS ARE MADE AND PRESCRIBED FEES AND ASSESSMENTS ARE PAID IN ACCORDANCE WITH THE REGULATIONS

Guiding Principles

- Principal Broker should have some mechanism to ensure that RIBO is notified of any changes within 30 days in accordance with By-law No. 20, Section 3(a).
- These may include but are not limited to:
 - change of address
 - change in employment
 - change in name of individual or operating name of brokerage
 - change in fiscal year end.
- Mandatory filings include position report and renewal applications.
- All filings are to be made with the approval of the Principal Broker who will be responsible for the accuracy therein.
- Failure to comply with required filings and fees may be a reflection of other more serious concerns/issues within the firm which may impact brokerage operations from both a business and regulatory perspective.
- All queries from RIBO must be responded to within the time frames established by RIBO in each query.

Key Dates

<u>Item</u>	<u>Deadline/Due Date</u>
Form 1 Position Report	90 days after most recent fiscal year end and 90 days after 6 months after fiscal year end
Financial Statements (if exemption granted)	90 days after most recent fiscal year end
Renewal application form and fee	August 31st
Continuing education hours	September 30th
Any change in information (i.e. employment, address, name, E&O and Fidelity Bond)	Within 30 days of change

(vii) TO ENSURE THAT NO DIRECTOR, PARTNER OR EMPLOYEE WHO IS NOT A REGISTERED INSURANCE BROKER ACTS AS AN INSURANCE BROKER

Guiding Principles

- All employees that have direct contact with the public acting in the capacity of an “insurance broker” must be registered with RIBO and maintain that registration in accordance with the RIB Act, Regulations and By-laws.

Considerations

- “Insurance broker” as defined in the RIB Act is:
any person who for any compensation, commission or other thing of value, with respect to persons or property in Ontario, deals directly with the public and,
 - (a) acts or aids in any manner in soliciting, negotiating or procuring the making of any contract of insurance or reinsurance whether or not the person has agreements with insurers allowing the person to bind coverage and countersign insurance documents on behalf of insurers,
 - (b) provides risk management services including claims assistance where required,
 - (c) provides consulting or advisory services with respect to insurance or reinsurance, or
 - (d) holds himself, herself or itself out as an insurance consultant or examines, appraises, reviews or evaluates any insurance policy, plan or program or makes recommendations or gives advice with regard to any of the above.
- Any unlicensed person acting as broker may be committing an offence under RIB Act, section 33(2) and may be prosecuted under the Provincial Offences Act or subject to other court proceedings.
- **Such person may be exposing brokerage clients, insurers, the E&O policy and the brokerage itself to increased risks for which the Principal Broker may be held accountable.**
- For additional guidance, refer to “Unlicensed Individuals” under Supplementary Resources on the types of activities an unlicensed employee can perform within the brokerage.

(viii) TO ENSURE THAT PROCEDURES ARE ESTABLISHED AND FOLLOWED SUCH THAT THE REQUIREMENTS OF SUB-PARAGRAPHS (I) THROUGH (VII) ARE MET

Guiding Principles

- The Principal Broker should aim to establish and maintain a supervisory environment that fosters the business objectives and professionalism of the brokerage and promote the self-regulatory process.
- Accordingly, the brokerage through the Principal Broker should place a high priority on and take all reasonable steps to ensure compliance.
- Where deficiencies in procedures are noted by RIBO staff during any review or investigation, a plan to address these deficiencies must be prepared, filed with RIBO and implemented as identified in the plan submitted to RIBO in the established time frame.
- These plans should be reflected in the brokerage's policy and procedures.

Considerations

- Is there a current policies and procedures manual for the brokerage and does it include a plan of supervision of staff (licensed and unlicensed)?
- Is all relevant information/material available and known to all registered staff (e.g. central library, intranet).
- Are the responsibilities of the Deputy Principal Broker prescribed in writing?
- Does the firm monitor for compliance with brokerage policies and procedures?
- Are staff required to report instances of non-compliance to the Principal Broker?
- Are there procedures in place to ensure that complaint queries are responded to within a reasonable time frame? Does the Principal Broker follow up with the individual broker to ensure queries have been responded to?
- A firm which has had significant deficiencies identified may be subject to increased reporting requirements, more frequent spot checks or other sanctions.