



Reference Document: ADVISOR DISCLOSURE

August 2005

When a consumer is considering the purchase of a life or health insurance product, it is important that they have good information about the product, how it meets their needs, the company offering the product, and the advisor and the advisor's business relationships. This chart focuses on disclosure about the advisor which should be given in writing to the client prior to the sales transaction.

The chart provides commentary and suggested wording for the six key disclosure items that should be included. It also provides notes (**in bold**) about regulatory disclosure requirements as well as suggestions from the Joint Forum of Financial Market Regulators' recently released "Principles and Practices for the Sale of Products and Services in the Financial Sector". The objective, in all cases, is to provide consumers with good and meaningful disclosure.

The suggested wording for each disclosure requirement is intended for illustration purposes and to provide a good starting point. Each advisor can, of course, tailor it to suit their own situation while still meeting the minimum disclosure requirements. Samples showing how this wording can be used are attached in Appendix 1.

This document was developed in cooperation with several intermediary organizations, including [Advocis](#), the [Independent Financial Brokers of Canada](#) and the [Canadian Association of Independent Life Brokerage Agencies](#).

Disclosure Item	Considerations	Sample Wording
<p>1. Company(ies) that the advisor represents</p>	<ul style="list-style-type: none"> • Should identify those companies with which the advisor places significant business. • Should reflect the advisor’s profile of business placement (for instance, a listing of 25 companies that the advisor is contracted with may not be meaningful if most business is placed with only 3 companies; disclosure that focuses on those companies used regularly, while making the full listing available, may be more useful; note that Ontario and Quebec require disclosure of all insurers the advisor represents). • Could be along product lines. • Should not be excessively complex. • If choosing to disclose companies that the advisor has placed business with over a period of time (e.g., the past 12 months), should not show companies with which the advisor has since ceased to have a contract. <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> • Ontario requires that advisors disclose in writing the name of all insurers and providers of financial products or services that the advisor represents [O.Reg 347, s.15(1), 15(2)]. • BC requires that advisors disclose the name of the financial institution providing the financial products or service that the consumer has chosen [BC Reg 573/2004, s.3(1)(a)]. 	<p><i>I represent <x #> of insurers, but I place the majority of my business with A, B, and C for life insurance products, C and D for Group, and E and F for disability products. I also represent <mutual funds dealer> and <bank>. I am associated with <abc> agency.</i></p> <p><i>or</i></p> <p><i>I have an exclusive contract with <insurer> and represent products available through them and through other companies associated with <insurer>, including <names of other insurers>. I also represent <mutual funds dealer> and <bank>.</i></p> <p><i>or</i></p> <p><i>Within the past year I have sold insurance or financial products issued by the following companies:.....</i></p> <p><i>or</i></p> <p><i>In the past year, 20% or more of the insurance or financial products that I have sold were issued by the following companies:</i></p> <p><i>And I have also, in that period, sold insurance or financial products issued by the following companies:</i></p> <p><i>or</i></p> <p><i>In the past 12 calendar months, the majority of the insurance or financial products that I have sold were issued by the following companies:</i></p> <p><i>In Quebec, include:</i> <i>With respect to this product, I am placing the business through <firm>.</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> • Quebec requires agents to disclose names of insurers whose products they are authorized to offer [R.S.Q.c.D-9.2, s.31] and, when making an offer of a particular product, to disclose the firm being represented [s.14]. • The Joint Forum suggests that advisors provide the names of organizations directly providing remuneration to the advisor. 	
<p>2. Nature of relationship with company(ies) represented (as noted in #1, above)</p>	<ul style="list-style-type: none"> • What does the consumer need to know about the advisor's relationship to understand if there are factors that may influence the advice given? • Does the advisor deal exclusively with one company? (see suggested sample wording in #1). • Does an insurance company have any ownership interests in your agency that you are aware of? If so, disclose. Alternatively, do you have any ownership interests in an insurance company? If so, disclose your ownership interests above a threshold of 10%. • Are there any other factors of the business relationship that are germane to the consumer's understanding of any biases that could affect advice? <p style="text-align: center;">* * * * *</p>	<p><i>If no ownership situation exists:</i></p> <p>(a) <i>stay silent;</i></p> <p><i>or</i></p> <p>(b) <i>No insurer holds an ownership interest in my business, nor do I hold an interest in any insurance company.</i></p> <p><i>If there is an ownership situation:</i></p> <p><i><Insurer(s)> has a <xx%> ownership interest in my business</i></p> <p><i>or</i></p> <p><i>I have a <xx%> ownership interest in <insurer></i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> • Quebec requires that agents disclose any business relationships (if an insurer holds any indirect or direct interest in the ownership of the firm) [R.S.Q.c.D-9.2, s.26]. • Quebec requires that if an agent is bound by exclusive contract with a single insurer, that must be disclosed [R.S.Q.c.D-9.2, s.32]. • B.C. requires that agents disclose the relationship between the financial institution and the agent offering to provide the service or product [BC Reg 573/2004, s.3(1)(b)]. • The Joint Forum of Financial Market Regulators suggests that the advisor disclose the relationship between him/herself and the firm whose product is being considered and any relationships among firms directly involved in a transaction. 	
<p>3. How the advisor is compensated</p>	<ul style="list-style-type: none"> • What information is needed for the consumer to understand the basic business relationship between advisor and insurer with respect to compensation? • The level of disclosure should provide consumer with basic understanding of how advisor is paid. • Specific dollar amounts not required. • If an advisor is placing business through an MGA and will be receiving compensation from both an insurer and the MGA, this should be disclosed. 	<p><i>Upon completion of this transaction, I will be remunerated by way of commission or other remuneration which will be paid to me by (insurer) or (agency).</i></p> <p>or</p> <p><i>If you choose to purchase a product through me, I will be paid by the company that offers that product. I am compensated by a sales commission at the time of sale, and may receive a renewal (or service) commission if you keep that policy in force.</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> This disclosure is also necessary for ASO-type sales. <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> BC requires disclosure of whether commission or compensation is to be paid by the financial institution to the agent offering to provide the service or product [BC Reg 573/2004, s.3(1)(c)]. Quebec requires that if an advisor will receive compensation from the insured, they must disclose the fact that they will also receive remuneration for the products sold [R.S.Q.c.D-9.2, s.17]. The Joint Forum suggests disclosure of the method of remuneration, any fees payable by client, and sources of “direct” compensation. 	
<p>4. If the advisor may be eligible for additional compensation (cash or non-monetary, such as travel incentives) based on other factors (e.g., volume of business placed in specific period of time)</p>	<ul style="list-style-type: none"> This builds on #3 to provide disclosure about the fact of possible additional compensation and other incentives. Although not a disclosure requirement, you should note that Quebec restricts conference incentives to those with a training focus. <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> Quebec prevents advisors from participating in contests or promotions as an incentive to sell a product unless the product meets the specific needs of the client [R.Q.c.D-9.2, r.1.3, Div III 5]. 	<p><i>I may also be eligible for additional compensation, such as bonuses, or non-monetary benefits, such as travel incentives, depending on various factors such as the volume or persistency of business that I place with a particular company during a given time period.</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> • Further to the above, Quebec allows an advisor to be reimbursed for the costs of attending a conference or convention provided its main purpose is training [R.Q.c.D-9.2, r.1.3, Div III 5]. • The Joint Forum suggests disclosure of any other benefits from sales incentive programs related to the transaction. 	
<p>5. Conflicts of interest</p>	<ul style="list-style-type: none"> • What information does the consumer need to assess whether or not a conflict of interest may be influencing the advice being given? • Note that the need to disclose conflicts of interest applies on an ongoing basis, with respect to each recommendation or transaction (and not just on an account-opening basis). • In determining whether or not a perceived conflict might exist which would require disclosure, the advisor should consider: <ul style="list-style-type: none"> • Would your advice or product offered have been different if the situation or incentive giving rise to the potential conflict of interest did not exist? • Would it appear to a reasonable, informed third party looking at all the facts that you acted in the best interest of your client? • Some perceived conflicts could be company relationships (i.e. if an ownership interest exists) or the very fact of compensation, both of which have already been covered (in #2 and #3). 	<p><i>If there is no conflict:</i></p> <p>a) <i>stay silent</i></p> <p><i>or</i></p> <p>b) <i>In my duty to disclose any conflict of interest with you as my client, I confirm that there is no conflict of interest in regards to the proposed sales transaction that you are considering, and that my overall recommendation takes into consideration and is based on my analysis and assessment of your financial and security needs”.</i></p> <p><i>If there is a conflict related to another occupation:</i></p> <p><i>My position/profession as _____ may be perceived to be a potential conflict of interest with respect to my recommendations to you. However, I confirm that my overall recommendation takes into consideration and is based on my analyses and assessment of your financial and security needs.</i></p> <p><i>If there is a conflict other than through compensation arrangements or other occupations (e.g. loan arrangements):</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> Loans from an insurer are another possible perceived conflict. A loan should be defined as a contractual arrangement which includes interest rates and a repayment schedule. Charge-backs of commissions do not automatically constitute a conflict of interest. If the advisor has a charge-back, they would need to ask themselves the two questions noted above to assess whether there is a conflict or perceived conflict requiring disclosure. Also included would be perceived conflict associated with prohibited occupations or other situational circumstances (for example, power of attorney, loans to and from clients, executor of client's will, etc.). <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> Ontario -- must provide written disclosure of any conflicts of interest [O.Reg 347, s.16]. Manitoba - if advisors are in a conflict of interest situation then they must avoid the conflict or remove themselves from the transaction, regardless of disclosure. [Manitoba Insurance Council Conflict of Interest Guidelines]. Alberta – conflict is based only on prohibited occupations and the conflict situation must be avoided, regardless of disclosure [AR 122/2001, s. 5(1)(g) and 5(2)(f)]. 	<p><i>The following situation may be perceived to be a potential conflict of interest with respect to my recommendations to you. However, I confirm that my overall recommendation takes into consideration and is based on my analyses and assessment of your financial and security needs.</i></p> <p>----- ----- -----</p> <p>For BC: <i>I, <client name>, have been informed of, and understand the implications of, the conflict of interest, or potential conflict of interest associated with my advisor <name of advisor> in relation to the transactions recommended. I agree to continue with my dealings with my advisor.</i></p> <p>Client Signature _____ date _____</p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> BC -- it is unethical for agents to place themselves in a conflict of interest with a client unless the client has approved of the conflict after full disclosure of the conflict, preferably in writing [Insurance Council of BC Code of Conduct for Insurance Agents, Salespersons and Adjusters, 1999, p.15]. 	
<p>6. Consumer has right to ask for more information</p>		<p><i>Should you require additional information about my qualifications or the nature of my business relationships, I would be pleased to assist you.</i></p>
<p>Other information that you might wish to include:</p> <ul style="list-style-type: none"> license(s) held signature of agent signature of client 		<p><i>I am licensed as a life and health insurance agent in the province of _____.</i></p> <p><i>I am also licensed/registered in the following fields:</i></p>

Appendix 1

SAMPLE DISCLOSURE STATEMENTS

Following are four sample disclosure statements showing how the “sample wording” in the *Advisor Disclosure Reference Document* can be used.

Independent Agent Samples

Samples #1 and #2 could be used by independent agents outside BC and Ontario. Agents working in BC and Ontario would need to adapt the listing of companies to show **all** the companies they represent.

For two components of disclosure, agents have the option of remaining silent if there is nothing to disclose. Sample #1 shows the agent explicitly referring to business relationships and conflicts of interests even though there is nothing to disclose. Sample #2 shows the agent remaining silent.

Career Agent Samples

Sample #3 could be used by a career agent working for a company that provides product from other insurers to complement its lines.

Sample #4 could be used by a career agent who only handles product from one company. This sample also shows the agent remaining silent on relationships.

Other Samples

Since disclosure statements will vary depending on the circumstances of the advisor, there is no best approach to using the Reference Document. Both Advocis (www.advocis.ca) and the Independent Financial Brokers of Canada (www.ifbc.ca) have sample disclosure statements posted on their websites.

SAMPLE ADVISOR DISCLOSURE #1

Independent Agent outside BC and Ontario

Companies I represent

I represent several insurers, but I place the majority of my business as follows:

Individual Life Insurance		Disability Insurance	
	Aaa Life Company		Bbb Life Company
	Bbb Life Company		Fff Life Company
	Ccc Life Company		
Group Insurance		Mutual Funds	
	Bbb Life Company		Ggg Company
	Eee Life Company		

Relationship with Company(ies) I represent

No insurance company holds an ownership interest in my business, nor do I hold an interest in any insurance company.

Compensation

If you choose to purchase a product through me, I will be paid a sales commission by the company that provides the product you purchase.

I may receive a renewal (or service) commission if you keep that policy in force.

I may also be eligible for additional compensation, such as bonuses, or non-monetary benefits, such as travel incentives, depending on various factors such as the volume or persistency of business that I place with a particular company during a given time period.

Conflict of interest

I take the potential of a conflict of interest seriously. I will notify you if there is a conflict of interest of which I become aware in regards to my recommendations to you. My overall recommendation will take into consideration, and will be based on my analysis of your financial security needs.

More information

Should you require additional information about my qualifications or the nature of my business relationships, I would be pleased to assist you.

Acknowledgement

I, <client's name> have been informed of, and understand the implications of, this disclosure including any conflict of interest or potential conflict of interest associated with <advisor's name> in relation to any recommendations made.

SAMPLE ADVISOR DISCLOSURE #2

Independent Agent outside BC and Ontario

Companies I represent

I represent several insurers, but I place the majority of my business as follows:

Individual Life Insurance		Disability Insurance	
	Aaa Life Company		Bbb Life Company
	Bbb Life Company		Fff Life Company
	Ccc Life Company		
Group Insurance		Mutual Funds	
	Bbb Life Company		Ggg Company
	Eee Life Company		

Compensation

If you choose to purchase a product through me, I will be paid a sales commission by the company that provides the product you purchase.

I may receive a renewal (or service) commission if you keep that policy in force.

I may also be eligible for additional compensation, such as bonuses, or non-monetary benefits, such as travel incentives, depending on various factors such as the volume or persistency of business that I place with a particular company during a given time period.

More information

Should you require additional information about my qualifications or the nature of my business relationships, I would be pleased to assist you.

Acknowledgement

I, <client's name> have been informed of, and understand the implications of, this disclosure including any conflict of interest or potential conflict of interest associated with <advisor's name> in relation to any recommendations made.

SAMPLE ADVISOR DISCLOSURE #3
Career Agent

Companies I represent

I offer a full range of insurance and investment products from Aaa Life Company.

In addition, to assist in meeting specific needs, certain products from the following companies are available to me through Aaa Life as follows:

Individual Life Insurance		Disability Insurance	
	Bbb Life Company		Ccc Life Company
	Ccc Life Company		Ggg Life Company
	Ddd Life Company		
Group Insurance		Mutual Funds	
	Ccc Life Company		Hhh Company
	Fff Life Company		

Relationship with company(ies) I represent

No insurance company holds an ownership interest in my business, nor do I hold an interest in any insurance company.

Compensation

If you choose to purchase a product through me, I will be paid a sales commission by the company that provides the product you purchase.

I may receive a renewal (or service) commission if you keep that policy in force.

I may also be eligible for additional compensation, such as bonuses, or non-monetary benefits, such as travel incentives, depending on various factors such as the volume or persistency of business that I place during a given time period.

Conflict of interest

I take the potential of a conflict of interest seriously. I will notify you if there is a conflict of interest of which I become aware in regards to my recommendations to you. My overall recommendation will take into consideration, and will be based on my analysis of your financial security needs.

More information

Should you require additional information about my qualifications or the nature of my business relationships, I would be pleased to assist you.

Acknowledgement

I, <client's name> have been informed of, and understand the implications of, this disclosure including any conflict of interest or potential conflict of interest associated with <advisor's name> in relation to any recommendations made.

SAMPLE ADVISOR DISCLOSURE #4

Career Agent

Companies I represent

I offer a full range of insurance and investment products from Aaa Life Company.

Compensation

If you choose to purchase a product through me, I will be paid a sales commission by Aaa Life Company.

I may receive a renewal (or service) commission if you keep that policy in force.

I may also be eligible for additional compensation, such as bonuses, or non-monetary benefits, such as travel incentives, depending on various factors such as the volume or persistency of business that I place during a given time period.

Conflict of interest

I take the potential of a conflict of interest seriously. I will notify you if there is a conflict of interest of which I become aware in regards to my recommendations to you. My overall recommendation will take into consideration, and will be based on my analysis of your financial security needs.

More information

Should you require additional information about my qualifications or the nature of my business relationships, I would be pleased to assist you.

Acknowledgement

I, <client's name> have been informed of, and understand the implications of, this disclosure including any conflict of interest or potential conflict of interest associated with <advisor's name> in relation to any recommendations made.

Advisor Disclosure Company Background and Follow-up

Background

In December 2004, CLHIA announced a five-point commitment intended to bolster consumer trust and confidence in the wake of Canadian media attention that had been given to the Spitzer allegations in the U.S., over the fall, and the subsequent review of Canadian insurance regulators into advisor/insurer relationships.

One of the commitments was for companies to work cooperatively with intermediaries to ensure that customers receive a brief, clear advisor disclosure statement.

In March 2005, CLHIA and associations representing intermediaries – Advocis, Canadian Association of Independent Life Brokerage Agencies (CAILBA) and Independent Financial Brokers of Canada (IFB) – released an Advisor Disclosure Reference Document to help advisors prepare their own disclosure statements.

In June 2005, Canadian insurance regulators released a consultation paper on the relationships between insurers and intermediaries. Among other things, the paper asked for comments on two approaches to improving advisor disclosure, i.e., regulated and industry-led. In discussion preceding and subsequent to the release of the consultation paper, regulators have questioned the extent to which the industry's disclosure commitment is being implemented.

Advisor Disclosure Implementation

The Advisor Disclosure Reference Document is intended to provide sufficient flexibility so that advisors can prepare a simple and concise description of their unique circumstances. The Document:

- identifies six components of disclosure;
- outlines existing regulation and other considerations relevant to each component; and
- suggests wording that advisors can use “as is” or adapt to their circumstances.

Because the Document is intended to be used by advisors in different jurisdictions and working in different business models, it is considerably more complex than the actual disclosure statements advisors need to prepare using the Document.

Since its release, Advocis, CAILBA, CLHIA and IFB have been trying to make the Document more user friendly and find other ways to facilitate implementation of the disclosure commitment. Each of these organizations has confirmed with regulators that implementation of the commitment is a top priority.

Company Role in Implementation

Companies have a role to play in at least three important aspects:

- increasing advisor awareness about the need for disclosure;
- providing, directly or indirectly, assistance to advisors in the preparation of disclosure statements; and
- monitoring implementation.

Awareness

Companies may wish to take advantage of any contact with advisors (e.g., regular mailings, product launches, special sessions, etc.) to remind them of the industry commitment and the need to provide customers with appropriate disclosure.

Where direct contact between companies and advisors is infrequent or limited, companies may wish to follow up with the direct contact (e.g., MGAs) to ensure that there is effective communication of this issue.

The attached Key Messages to Advisors suggests messages that companies can use in their communication with advisors or other intermediaries.

Note that the language in the Key Messages under “Consequences of Failing to Disclose” is fairly blunt. This is intended to impress advisors with the practical need for disclosure.

Assistance

The Reference Document has been updated to include four Sample Disclosure Statements. Two are for independent agents working through MGAs and the other two are for career agents. These samples are intended to help advisors visualize the end product and better understand how the Reference Document can be utilized. Advocis and IFB have also prepared additional and somewhat different samples

Some companies have prepared disclosure statements that they expect their advisors to use or adapt. Generally, the less time and effort required to prepare the disclosure, the more likely the implementation. Wherever feasible and appropriate, concrete examples should be provided to advisors.

Some of the MGAs are currently organizing workshops to help advisors prepare their disclosure statements. While this approach is admittedly labour intensive, it can be highly effective and, if strategically targeted on key producers, could significantly leverage the effect of more broadly circulated print instructions.

Monitoring

Most of the disclosure set out in the Reference Document is already required by regulation or codes of practice in one or more jurisdictions. It is important that advisors understand that the “industry led” aspect of this initiative is uniform application of an, until now, unharmonized regulation or “good practices” approach. In other words, the Reference Document simply describes a way to comply with standards already established by either the law or business prudence.

Companies with appropriately broad language in their intermediary contracts (i.e., a requirement to comply with generally accepted industry practices) may wish to advise intermediaries that implementation of the disclosure protocol is a requirement of the contract.

In keeping with their practices of screening and reporting unsuitable agents, companies may wish to advise intermediaries that their compliance monitoring system will be adjusted to reflect the specific disclosure requirements set out in the Reference Document.

Advisor Disclosure Key Messages to Advisors

Why You Are Being Asked to Provide More Complete Disclosure

There are several reasons for introducing this uniformity. First, more complete and consistent disclosure reinforces the good will and professionalism you have established. Second, voluntary industry disclosure establishes consistent standards across the country. And third, such industry initiatives can demonstrate to regulators that further regulation is not needed.

Most of the disclosure in the industry initiative is already required in regulation or codes of practice in one or more jurisdictions so the main effect of the protocol is to harmonize these standards across the country.

How the Disclosure Requirements Developed

The Canadian life and health insurance industry recognizes the importance of consumer trust and confidence. For this reason, after the allegations made by New York's attorney general became front page news stories in Canada last fall and Canadian regulators began surveys into issuer-advisor relationships, CLHIA undertook to reinforce and enhance the measures already in place to ensure consumers are provided with the information they need to make the best decisions for themselves and their families.

In March 2005, CLHIA together with Advocis, Canadian Association of Independent Life Brokerage Agencies (CAILBA) and Independent Financial Brokers of Canada (IFB) released the Advisor Disclosure Reference Document. This is intended to assist advisors in understanding the matters that need to be disclosed and the type of disclosure that may be suited to their specific circumstances.

The Regulatory Alternative

In June 2005, Canadian insurance regulators (Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulators Organizations (CISRO) released a consultation paper asking for comments on a number of proposals intended to address possible perceptions of conflict of interest. One of the proposals is to regulate advisor disclosure of up to 15 items related to relationships and compensation.

The industry believes that an industry-led standard that is applied uniformly across the country is preferable to each province establishing its own standards and that the industry's Advisor Disclosure initiative meets the regulator's objectives. For this reason, it has responded to the consultation paper by urging regulators to give the industry's disclosure initiative a chance to be fully implemented and assessed.

How to Use the Reference Document

The Reference Document attempts to balance the need for flexibility with the benefits of uniformity. To achieve this, the Document does the following:

- Identifies the matters you need to disclose;
- Outlines existing regulation and other considerations relevant to each matter;
- Suggests wording you can use either “as is” or with modifications; and
- Provides samples of complete disclosure statements.

Advisors are expected to use the guidance provided in the Reference Document to design a disclosure statement that is appropriate to their business model and their own unique circumstances.

Consequences of Failing to Disclose

Litigation

Many, if not most, of the components are already required in regulation in at least some provinces. If a client has a complaint and you end up in court, it is likely that you may be held to the highest standard even if it is not a statutory requirement in your province.

E&O Coverage

Many E&O policies for advisors have exclusions for non-disclosure of commissions and fees. If a client has a complaint and you are relying on your E&O policy, you may not be covered if you have not made an accurate disclosure of your compensation as described in the Reference Document.

Unsuitable Sales Conduct

Failure to provide appropriate disclosure is an unacceptable sales practice and a violation of the codes of conduct for advisor associations and insurance companies. In keeping with their commitment to duty of care, companies may incorporate the advisor disclosure components in their compliance monitoring systems.