

Advisor Disclosure

Key Messages to Advisors from the CLHIA and Associations Representing Intermediaries

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.

Independent Agent Sample Disclosure Statement

Refer the attached sample disclosure statement, which was prepared by the CLHIA committee. Note that 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 (Relationships with Companies I represent; Conflict of Interest), agents have the option of remaining silent *if there is nothing to disclose*.

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.

SAMPLE INDEPENDENT AGENT DISCLOSURE STATEMENT

Companies I represent

(Independent Agent outside BC & Ontario) I represent several insurers, but I place the majority of my business as follows:

(Independent Agent inside BC & Ontario) I represent several insurers, 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

(option of remaining silent if there is nothing to disclose)

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

(option of remaining silent if there is nothing to disclose)

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.