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## **Explanatory notes to Guideline G19, Compensation Disclosure in Group Benefits and Group Retirement Services**

This draft document sets out a series of questions and answers that have been identified with respect to implementing the disclosure standards set out in Guideline G19. The CLHIA is seeking feedback on the questions and answers in this document. In particular:

- Are there further details or information to be added in response to a noted question?
- Are there additional questions and answers that should be added to the document?

Responses are requested in writing by March 2, 2018 and may be submitted to [G19Session@clhia.ca](mailto:G19Session@clhia.ca).

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## Introduction

This document has been developed as a series of questions and answers that are intended to assist in interpreting and applying Guideline G19, *Compensation Disclosure in Group Benefits and Group Retirement Services*. In terms of format, we note each section of the Guideline in a box followed by relevant questions and answers.

### 1. INTRODUCTION

Insurers are working to promote customer-focused practices across all business lines, including Group Retirement Services and Group Benefits. This includes providing appropriate disclosure of compensation paid to intermediaries.

### 2. PURPOSE

This Guideline is intended to establish industry standards for the disclosure of Intermediary Compensation for Group Retirement Services and Group Benefits.

### 3. SCOPE

This Guideline applies to the Group Retirement Services and Group Benefits business of all member companies, regardless of the form of compensation paid or provided, or the distribution channel used.

In the event of any conflict between the provisions of this Guideline and any applicable law, the law takes precedence over the Guideline to the extent of the conflict. This Guideline does not override any responsibility established by legislation.

In the case of capital accumulation plans, this Guideline is intended to complement the responsibilities of service providers that are set out in CAPSA Guideline No. 3 – Guidelines for Capital Accumulation Plans (May 2004).

*Question 1:* Does Group Benefits include administrative services only (ASO) arrangements?

*Answer:* Yes.

*Question 2:* Are employee assistance programs, human resources services, financial wellness programs, or other ancillary services that may be offered as part of a Group Benefits or Group Retirement Services program within the scope of the Guideline?

*Answer:* Yes, to the extent that such services are contracted or administered by the insurer and the insurer pays Compensation to an Intermediary related to those services.

*Question 3:* Are Group Benefits and Group Retirement Services plans involving a third party administrator (TPA) within the scope of this Guideline? Examples of such

arrangements include situations where the TPA may receive administration and Compensation payments from the insurer or make payments to Intermediaries, the Contract Holder is a TPA, there is a multi-employer group, or management holds the plan on behalf of a union. How will Compensation disclosure work in such situations?

*Answer:* Yes, plans involving TPAs and other arrangements like those noted above are within the scope of the Guideline. Payments to a TPA or other firm or organization in their role as an Intermediary should be disclosed. The principle here is that the Contract Holder should know the amount of compensation that the Intermediary (including a TPA who is also an Intermediary) is receiving directly or indirectly from the Contract Holder with respect to the Contract Holder's business.

#### **4. DEFINITIONS**

As used in this Guideline:

**Compensation:** means all direct, indirect, and in-kind remuneration paid or provided to an Intermediary.

**Contract Holder:** means a legal entity which enters into a contract of Group Retirement Services or Group Benefits with an insurer in respect of Plan Members of a group.

**Group Benefits:** means protection for the lives or health of a number of Plan Members covered under a contract or contracts between an insurer and a Contract Holder. This does not include creditors group insurance or affinity products.

**Group Retirement Services:** means retirement plans and group savings programs offered to Plan Members.

**Intermediary:** means a licensed advisor other than an employee of an insurer, which may include a managing general agent, firm, corporate broker or national account or a fee-for-service consultant who arranges for Group Retirement Services or Group Benefits coverage, but does not include employees of insurers.

**Plan Member:** Each primary person insured under a Group Retirement Services plan or a Group Benefits plan, but does not include a person insured under a Group Insurance plan because of their relationship to a primary person.

*Question 1:* What are some examples of direct Compensation?

*Answer:* Direct Compensation refers to monetary Compensation that is paid to an Intermediary with respect to a specific plan or plans with an insurer or insurers, and includes but is not limited to:

- All forms of commission;
- Any predetermined bonus specific to the plan (e.g., signing bonuses) and
- Fees.

*Question 2:* What are some examples of indirect Compensation?

*Answer:* Indirect Compensation refers to monetary Compensation that is paid to an Intermediary beyond the sale of a specific plan and may depend on other qualifying factors. It includes but is not limited to:

- Bonuses paid for achieving sales targets;
- “Enterprise view” bonuses, such as bonuses on the GRS side of the business that may create additional bonus opportunities for the Intermediary;
- Persistency and volume bonuses;
- Block profitability payments;
- Profit-sharing;
- Marketing allowances, including sponsorships such as those provided for distribution firm events or education.

*Question 3:* What are some examples of in-kind Compensation?

*Answer:* In-kind Compensation refers to Compensation that is not monetary but has a dollar value, and includes but is not limited to:

- Incentive travel and conferences with qualifying criteria;
- Other material incentives (e.g., gifts or entertainment that are valued at \$500.00 or more per person, per occurrence); and
- Loan forgiveness and preferred rate loans.

*Question 4:* Does in-kind Compensation include non-preferred rate loans and ownership arrangements?

*Answer:* Not for the purposes of this Guideline; however, disclosing loans and ownership arrangements is an industry best practice and regulatory requirement in some jurisdictions. See CLHIA Reference Document, [Advisor Disclosure](#) (for application to Group Benefits and Group Retirement business).

## **5. GENERAL PRINCIPLES**

### **Customer-focused approach**

Insurers should promote a culture of treating customers fairly.

### **Clear disclosure**

Insurers should clearly disclose to Contract Holders all forms of Compensation paid to Intermediaries.

### **Insurer accountability**

Insurers should use contractual or other means to ensure compliance with this Guideline.

## **6. COMPENSATION DISCLOSURE**

Insurers will disclose to Contract Holders all Compensation paid or provided by insurers to Intermediaries and third party administrators.

- For Group Retirement Services, this includes, but is not restricted to: any Compensation paid in relation to transfers; retentions; cash flows; trailer fees; bonuses; marketing allowances; transition allowances; sponsorships; and travel and conference incentives.
- For Group Benefits, this includes, but is not restricted to: any Compensation paid in relation to premiums or claims paid; bonuses; marketing allowances; transition allowances; sponsorships; and travel and conference incentives.

*Question 1: What should be disclosed for new plans?*

*Answer:* The annual amount of direct Compensation. In addition, if appropriate, the disclosure may include a statement indicating the Intermediary may become entitled to additional Compensation. For example:

*The Intermediary may also be eligible for additional compensation, such as bonuses, persistency, profit-sharing, or non-monetary benefits, depending on various factors such as the volume or persistency of business with any or all of the carriers that he or she places business with during a given time period.*

*Question 2: Are there some types of compensation that may not be included in the initial disclosure for new plans?*

*Answer:* Yes. Indirect and In-kind. However, see the answer to Question 1 above.

*Question 3: Are there situations where the Compensation disclosure should be provided to a Plan Member? For example, situations in which a Plan Member insured under a group plan moves into an individual insurance contract or accesses a portability feature, where they remain in the plan but pay their premiums directly, (e.g. due to retirement or termination)?*

*Answer:* No. Where there is no third party Contract Holder external to the insurer, compensation need not be disclosed.

## **7. FORM OF DISCLOSURE**

The disclosure should be provided in a report from the insurer to the Contract Holder, with some flexibility on timing as noted below. The disclosure must be clear and may be made in electronic or other written form.

For Group Benefits, the Compensation disclosure should be reported as a percentage of premiums or claims paid, if applicable, and as a real dollar value.

For Group Retirement Services, the Compensation disclosure should be reported as a percentage of contributions received and assets under administration, and as a real dollar value.

For both Group Retirement Services and Group Benefits:

- In some cases, the disclosure will represent a reasonable estimate of the compensation the insurer expects to pay the Intermediary. In such cases, the insurer will clearly indicate that the disclosure is an estimate.
- In other cases, the Compensation may be calculated annually in arrears, in which case a real dollar value will be disclosed.

*Question 1:* How should indirect Compensation payable to an Intermediary with respect to an aggregated book of business be allocated to a specific Contract Holder for disclosure purposes?

*Answer:* Insurers should take an approach to assigning indirect Compensation to specific Contract Holders that is based on the relative amounts of premium paid by each Contract Holder.

For example, an Intermediary is paid indirect Compensation of \$5,000 with respect to the business of five Contract Holders. Total annualized premium of the Contract Holders is \$100,000, with one of the Contract Holders paying \$50,000 and the other four \$12,500 each. The amount of bonus attributable to each Contract Holder would be calculated as  $P/TP \times B$ , where P is the annual premium paid by the Contract Holders, TP is the total annual premium paid by all Contract Holders associated with the Intermediary, and B is the amount of the bonus.

In this example, the bonus amount attributed to the largest of the Contract Holders would be  $(\$50,000/\$100,000) \times \$5,000 = \$2,500$ , and each of the other Contract Holders' allocation would be  $(\$12,500/\$100,000) \times \$5,000 = \$625$ . The insurer would disclose to the first Contract Holder that the Intermediary received indirect Compensation of \$2,500 with respect to the Contract Holder's plan, and disclose to each of the other Contract Holders that the Intermediary received indirect Compensation of \$625 with respect to their plans.

The calculation may also take into account premium caps applicable to bonus structures.

*Question 2:* Is it necessary to disclose recovery of compensation on termination of a compensation agreement?

*Answer:* No.

*Question 3:* How should Compensation to an individual Intermediary versus Compensation to a firm or MGA be disclosed?

*Answer:* The disclosure should be treated the same and should include the full MGA override.

*Question 4:* Does the Compensation disclosure provided by insurers to Contract Holders need to break down the disclosure in any way? (e.g., should the report show the total Compensation paid and then break it down into elements such as the MGA override commission and the commission paid to the Intermediary)? How should insurers manage situations where the Contract Holder asks for more information or a breakdown of the parties to the Compensation?

*Answer:* No. The Compensation disclosure provided by insurers to Contract Holders need only provide the aggregate total of all Compensation paid or provided to the Intermediary. In cases where the Contract Holder asks for a more detailed breakdown, insurers should refer the Contract Holder to the Intermediary.

## **8. TIMING OF DISCLOSURE**

For new contracts, insurers will provide the Contract Holder with Compensation disclosure on or before the effective date of the contract.

For ongoing contracts, insurers will provide the Contract Holder with Compensation disclosure at least annually and insurers have discretion as to whether it occurs at renewal date or on a calendar basis. However, when there is an increase in the direct Compensation with the Intermediary the insurer will provide the Contract Holder with notice, on or before the effective date of the change.