



Guideline G6

ILLUSTRATIONS

This Guideline has been approved by the Board of Directors of the Canadian Life and Health Insurance Association Inc. (CLHIA). Member Companies are expected to adopt this CLHIA Guideline having regard to the company's structure, products and business processes, including distribution channels. Member Companies are urged to incorporate this Guideline into the company's ongoing compliance program.

1. INTRODUCTION

This Guideline reflects the principles of CLHIA's Consumer Code of Ethics including:

"To ensure that Illustrations of prices, values and benefits are clear and fair, and contain appropriate disclosure of amounts which are not guaranteed."

and

"To advertise products and services clearly and straightforwardly, and to avoid practices which might mislead or deceive."

2. PURPOSE

The purpose of this Guideline is to set out practices for the preparation and distribution of Illustrations, both at point-of-sale and for in-force policies. More specifically, the Guideline calls for clearly disclosing whether values or features in the Policy are Guaranteed or not guaranteed. Further, if any values or features are not guaranteed, the Guideline calls for disclosing how and under what circumstances the non-guaranteed values may vary and what the effect may be on the Policy.

3. DEFINITIONS

In this Guideline,

"Guaranteed" applies only to a value or feature which cannot be withdrawn or modified by unilateral action of the insurer and which is not dependent on future experience.

"Illustration" means any communication to a current or prospective client that shows numbers or graphs of future policy premiums and/or values, or features that depend on them, for a policy.

"Living benefits" refers to policies providing coverage in the categories of critical illness, long term care, disability, and other health plans including but not limited to medical and dental coverage.

"Policy" means individual life or individual living benefits insurance provided on a single life or multiple-life basis whether as a policy or a rider.

"Primary scenario" means a scenario for values or features of a policy that is based on assumptions about factors affecting the values or features that the insurer judges as reasonable. This includes but is not limited to interest rates.

“Significant effect” means a change in the policy that would reasonably be expected to influence a decision by a policyholder. These changes may be caused by either policy factors (e.g., loans, dividend enhancements, etc.) or experience factors (e.g., market rates, tax rates, etc.).

“Supplementary illustration” means a sales concept or strategy report or presentation to a client that uses values taken from an illustration to demonstrate a specific application of the insurance. This may include supplementary calculations, comparisons with alternative financial products or demonstrations of tax consequences.

4. SCOPE

This Guideline applies to illustrations presented at point-of-sale and those prepared for in-force policies and riders. It is not intended to apply to individual annuities or to group insurance.

If the design of a specific living benefits policy is such that the practices described for illustrating life insurance are appropriate, these should be applied.

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 replace or override other CLHIA Guidelines.

5. PURPOSE OF AN ILLUSTRATION

The primary purpose of an illustration is to inform the consumer about certain features and operations of the policy and how these may be affected by future conditions.

In general, illustrations are not intended to be predictive. An exception occurs when all the values or features of the policy are guaranteed.

It is important that the illustration clearly describes the features and operation of the policy and discloses the underlying assumptions used to prepare it.

6. TERMINOLOGY AND PRESENTATION

The provision of illustrations helps to inform the consumer about the features and/or status and progress of a policy.

All terminology should be evaluated carefully to determine whether it is understandable by a reasonable consumer. If the terminology could be misinterpreted or is not likely to be understood by a reasonable consumer, it should be avoided.

Where company-specific or product-specific terminology is used that may not clearly indicate the nature of the product (e.g., PermaFlex Life rather than life insurance), a consumer-friendly description should accompany the terminology.

Where the form and content of the illustration is abbreviated in nature and omits important features of the policy (as, for example, in an advertisement or statement), the material should clearly advise the consumer that the description is incomplete and advise him/her where more complete information can be obtained. For example, the consumer may be advised to consult the policy document itself — and also may be advised of the 10-day (or longer) “free look” period, if applicable.

Care should also be taken with respect to situations or terminology that may cause confusion. Situations that may cause confusion include long-term effects such as compounding interest. Terminology that may cause confusion includes terms common to insurance and to other financial products that perform differently, such as dividends. In the case of an in-force illustration, it should also be kept in mind that the policyholder is apt to have forgotten details about the policy or changed his or her expectations since the policy was issued.

7. GUARANTEED VS NON-GUARANTEED VALUES OR FEATURES

An illustration should clarify which values or features in the policy are guaranteed and which are not guaranteed and show how the non-guaranteed values or features may change.

In describing non-guaranteed values or features, particular care should be taken in the choice of terminology and presentation to ensure that a reasonable policyholder is not likely to infer that the value or feature is guaranteed or that it represents a worst-case scenario.

8. NATURE OF THE ILLUSTRATION

Any illustration should clearly disclose its nature so that:

- (i) Where all amounts are guaranteed under the policy, the illustration should so state.

- (ii) Where some or all of the values or features are not guaranteed, the illustration should clearly disclose that it is based on certain assumptions and provided for information purposes only and prominently specify that actual results may vary – upward or downward – from those illustrated.

The following specific practices apply as appropriate.

Non-guaranteed Values or Features

The illustration should identify those factors that can be reasonably expected to have a significant effect, either directly or indirectly, on the non-guaranteed values or features and account for these through scenarios.

Since future conditions cannot be predicted with certainty, such factors should be identified as examples, not as an exhaustive list.

If a factor is likely to affect a particular feature of the policy, the relationship between the factor and the feature should be identified. (For example, if a specific factor could affect the amount or duration of premium payments, this connection should be disclosed.)

In-force Illustrations

An in-force illustration should reflect the current status of the policy. Accordingly, it should be calculated as of a date that is as current as possible. Reasonable measures should be taken to ensure that the illustration is based on any and all significant effects that have occurred since the policy was purchased. Current policy loan values, if any, should be disclosed.

Interest Rates Linked to Market Performance

The interest rate(s) in the primary scenario should generally reflect reasonable assumptions as to the long-term performance of the market to which the interest rate is linked.

Interest rates may be shown on either a net (i.e., management and/or product charges have been deducted) or a gross (i.e., no deductions) basis. Once selected, this basis should be used consistently throughout the illustration. The illustration should clearly disclose on the same page as the scenario which basis is used.

The illustration should identify all applicable fees affecting performance and indicate where additional information is available.

The illustration, or a source referred to in the illustration, should further disclose:

- whether the illustrated rate is based on price only or total return where applicable;
- the nature and level of any applicable bonus including any contingent factors;
- all applicable fees that affect the rate, including underlying management fees, and whether these are guaranteed or not guaranteed;
- for fees that are either fully guaranteed or have a maximum guarantee, the current fee and, where applicable, the maximum;
- for fees with no guarantee, the current fee and the fact that it might go up in the future; and
- where clients can obtain additional information about historical rates of return and volatility.

For guaranteed account, daily account and other similar account rates, the illustration should disclose that the interest rate is determined by the insurer. The illustration should indicate whether there is a minimum guaranteed rate and, if there is, what that minimum is or if a formula exists for determining the rate.

9. ILLUSTRATION SCENARIOS

Illustrations for life insurance policies may generally differ from those that are prepared for living benefits policies. The practices below are based on this distinction. Despite these categories, where the values, amounts or features of a specific product are similar to those of products in a different category, the practices most appropriate apply.

At least two scenarios of illustrated results should be provided to the consumer in order to provide a meaningful indication of how sensitive the results can be to variations in experience with respect to key factors.

Life Illustrations

Where non-guaranteed amounts are included, the illustration should display at least two scenarios of illustrated results for the product.

One of these scenarios, the primary scenario, should be drawn from an identified range of scenarios that the insurer judges as reasonable.

The second scenario should be less favourable than that primary scenario. This and any additional scenarios that fall outside the identified range should be clearly identified.

Additional scenarios may be illustrated to provide better information to the consumer, provided the resulting illustration is clear and not likely to cause confusion.

The general basis and the key assumptions for each scenario should be outlined in the illustration.

The general basis and the key assumptions should be selected to provide the consumer with a meaningful indication of how sensitive the results can be to variations in experience with respect to key factors (e.g., interest rates).

The key assumptions should be consistently applied within each scenario. For example, if use of policy loan values or other borrowing is a significant feature of the illustration, the assumptions regarding loan rates should be consistent with those regarding investment returns.

The process of identifying a range of scenarios should be done at least annually. If the new identified range differs from the previous one, the new basis should be implemented within a reasonable period of time, i.e., 90 days.

Living Benefits Illustrations

Where certain features of the living benefits policy may result in the value of those features varying at the discretion of the insurer, the illustration should describe the variability of each feature and its impact on illustrated values and may include an alternative scenario illustrating the impacted values.

Where alternative scenarios are shown, the practices under life illustrations for determining and disclosing the general basis and the key assumptions for each scenario apply.

10. TIME VALUE OF MONEY

An aggregation or comparison of amounts arising at different periods in time should include an appropriate allowance for interest.

11. AVAILABILITY OF CASH VALUES AND DIVIDENDS

If cash surrender values and/or policy dividends are displayed in the illustration, and if cash surrender values are zero in initial years that are not shown, the illustration should indicate the earliest year in which the Policy has cash surrender values, including whether the cash surrender value is guaranteed. If cash surrender values are reduced to zero at a certain point, the illustration should so state and should clearly identify that point.

Any surrender charges should be indicated on net values illustrated.

The illustration should also identify other factors, such as the lapsing duration or the date at which the exempt test would or could not be met, that are relevant.

If a point-of-sale illustration utilizes a policy loan, extreme care should be taken to ensure the client understands the viability of such an application and its effect on policy values.

12. RETURN OF PREMIUM

If a return of premium feature is displayed in the illustration, the illustration should disclose any contingencies of the benefit, when the benefit is triggered, when the benefit becomes available, the value at the end of each year or other defined period as appropriate, and any maximum that applies to the value of the benefit.

13. PAGINATION

To deter truncation, and help ensure that the consumer receives all relevant information, each page or screen of an illustration should indicate clearly both the number of that page and the total number of pages in the document (e.g., "page x of y").

If the illustration is incomplete without certain accompanying material (for example, an information summary), such material should be clearly identified on the illustration and the illustration should state that it is incomplete without it.

14. OTHER FEATURES

Where appropriate, the illustration should include reference to other features that are important to the particular product or the specific illustration (e.g., taxation considerations, policy loans) and the significance of those features.

Illustrations that are affected by specific tax considerations should include a statement disclosing that:

- the illustration is based on an interpretation of current tax law;
- the illustration does not constitute legal or tax advice for a specific individual; and
- differences in an individual's circumstances may have an impact on the effect of the tax treatment being shown.

15. PARTIAL ILLUSTRATIONS

In-force illustrations that do not disclose all the values or features in a policy may be permitted provided the use is appropriate and unlikely to be misleading. For example, in written correspondence to a policyholder about future premiums, it may be appropriate to omit details about cash value.

A partial illustration should clearly disclose that it is not a complete illustration and advise the policyholder where additional information can be obtained.

16. SUPPLEMENTARY ILLUSTRATIONS

Since a supplementary illustration is intended to provide additional information about certain values that are taken out of an illustration, it need not fully conform to all the practices in the Guideline. A supplementary illustration should adhere to the spirit of the Guideline. In addition, it should be accompanied by the appropriate illustration from which the values are taken and should include a prominent warning stating substantially the following:

"This presentation contains values taken from one or more corresponding illustrations that accompany it. To fully understand how some of the values shown in this presentation may vary, it is necessary to read the presentation together with the illustration(s). This presentation is incomplete without the corresponding illustration(s)."

All supplementary illustrations should clearly disclose the structure and intent of the sales concept or strategy being illustrated, the profile of clients for whom the concept is appropriate, the relevant assumptions used in the concept, and the risks associated with the concept. If the supplementary illustration discloses this information in a summary manner, it should include a reference stating where additional information is available.

For concepts that involve comparing an investment strategy within insurance with some other investment strategy (the "alternative investment"), the supplementary illustration should use comparable cash flows from the client for all strategies being compared. All the relevant assumptions with respect to the alternative investment should be disclosed and the assumed rate on the alternative investment should be reasonable relative to the assumed rate on the insurance policy.

For supplementary illustrations that show the use of a collateral loan in conjunction with a life insurance policy, recognizing that leveraging magnifies the risk, the assumed rate on the loan should be reasonable relative to the assumed rate on the insurance policy. The nature and amount of any additional collateral required to sustain the loan should be shown for all years illustrated. The supplementary illustration should also include a written or numerical description of the following issues:

1. The risk that loan interest rate may be greater than the rate assumed underlying the life insurance because the basis for determining the loan rate and returns on the policy are different.
2. The risk that the loan may be called before the time that the illustration assumes it would be repaid.
3. The implications if the life insured lives beyond the assumed life expectancy.
4. The implications if the loan exceeds the assumed margin relative to the life insurance policy cash surrender value.

For supplementary illustrations in which the values are modified in such a way that they do not simply add up to the values in the complete illustration, the supplementary illustration should disclose how and why the values are modified.

17. IDENTIFICATION

- (1) Each illustration should clearly identify:
 - (a) the date on which it was prepared;
 - (b) the person for whom it was prepared; and
 - (c) the insurer providing the illustration.
- (2) Point-of-sale illustrations should also identify:
 - (a) the advisor or agent; and
 - (b) each characteristic, or assumed characteristic, which is essential in determining the illustrated results, e.g., age, gender, rate basis (Standard/Preferred/Substandard, Smoker/Non-Smoker).
- (3) In-force illustrations should also identify:
 - (a) any additional key characteristics, or assumed characteristics, which are essential in determining the illustrated results, e.g., policy number, the issue date, current loan balance.

In some instances, privacy concerns may make it inappropriate to include the consumer's name or other specific identification. If so, the illustration should include sufficient information of a generic nature to avoid confusion about its applicability.

18. IMPLEMENTATION

Member companies should establish reasonable procedures for training relating to compliance with the practices set out in this Guideline, including the provision of sample material. Member companies should consider the application of these procedures to anyone acting on their behalf, including third party service providers.

Each company should have a clearly defined time standard within which an illustration can be delivered to the policyholder (in the case of an in-force illustration) or consumer following request.