



June, 2017

Reference Document:
ADVISOR DISCLOSURE BEST PRACTICES

© Canadian Life and Health Insurance Association Inc., 2017

Reference Document:
Advisor Disclosure Best Practices

Advisor Disclosure Best Practices:

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 training module focuses on disclosure about the advisor which should be given in writing to the client prior to the sales transaction. 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.

Regardless of what disclosure is made and how it is made, advisors should have documentation in their client files that provides evidence that the appropriate disclosure has been made.

Adherence to these disclosure practices supports the principles for managing conflicts of interest adopted by the Canadian Council of Insurance Regulators (CCIR).

Advisor disclosure best practices

Notes:

- 1. To qualify for continuing education (CE) credits, this course must be administered by an approved instructor.*
- 2. This course may be offered by multiple providers. You may only earn CE credits for this course once.*



Needs-Based Sales Practices – Promoting a Customer-Focused System

Maintaining a strong customer focus and having processes and procedures that protect customers have long been fundamental underpinnings of insurance legislation, marketplace regulation and the life and health insurance industry in Canada.

More recently, the concept has emerged as a central tenet in the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors.

Needs-Based Sales Practices – Promoting a Customer-Focused System

Providing appropriate written disclosures about yourself and your business before you engage with a client is an essential component of treating customers fairly.

Providing customers with clear information, before during and after the point-of-sale, reduces the risk of sales which are not appropriate to the customers needs' and helps advisors manage customer expectations and deal with customer complaints and disputes in a fair manner.

Key Messages

- Needs-based sales practices are part of a customer focused approach to insurance distribution. They are an industry expectation, and a regulatory expectation and requirement in some jurisdictions.
- Needs-based selling includes conducting a needs analysis and providing a “reason-why” letter with every sale.
- Insurers and MGAs should include needs-based selling practices in their training programs.
- Insurers’ reviews will incorporate checking for evidence of needs-base analysis and “reason-why” letters within the next 12 months.

Revisions

Updates to CLHIA Reference Document “Advisor Disclosure”:

- Revised descriptions of items to include
- Simplified sample wording

Purpose & Objective of Disclosure

Purpose

- Clients need to know about any potential conflicts of interest because it enables clients to evaluate the objectivity and accuracy of the advice they rely on when purchasing a product.

Objectives:

- Provide information about the advisor and the companies the advisor represents
- Inform clients of actual or potential conflicts of interest in writing
- Support client-centric needs based selling

What to Disclose ?

The following information should be provided to clients in writing before a sale:

1. Licenses and jurisdictions where advisors practice
2. Company (ies) that the advisor represents: All companies an advisor sells products for, including both insurance and non-insurance products ex. mutual funds
3. Nature of the relationship between the advisor and the company (ies) that they represent
4. Compensation

[continued on the next slide...]

What to Disclose ?

5. Additional compensation (cash or non monetary such as travel incentives that can be based on volumes of business placed in a specific period)
6. Conflicts of interest: Anything that could impact the impartiality of an advisor, or give the perception of bias against the clients needs
7. The right a client has to ask for additional information

Consider adding space for signatures of the agent and the client on a disclosure document and retaining the signed copy in the client file.

Disclosure Item: License and Jurisdiction

Key Considerations:

- licence(s) held
- firm distributed through
- **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].**

Sample wording:

- *I am licensed as a life and health insurance agent in <province(s)>. [In Quebec, provide a list by licence class.]*
- *I am also licensed/registered in the following fields:*
- *For insurance products, I place business through <distribution firm>. For <other products>, I place business through <distribution firm>.*

Disclosure Item: Companies Represented

Advisors must disclose:

- List companies that are represented [For Ontario & Quebec provide a full listing of all companies. Elsewhere, advisors need only disclose the main companies represented]
- Full legal name of financial institutions (insurance companies, or banks) for which they sell products
- Any exclusive relationships to sell products only from one company, or one company and certain designated others

Disclosure Item: Ownership Interests

Disclose:



- Interests in the advisors business greater than 10% interest in an insurance or financial services company
- Any ownership of an advisor's business by an insurance company
- Any other business relationship between the insurer and the advisor that could pose a conflict

Disclosure Item: Compensation

Advisors should disclose how they are compensated including the:

- Method of payment: salary/ commission
- Renewal/Ongoing commissions
- Who is paying the advisor to sell a life insurance product [i.e.. the company that manufactures the product that is sold]

Updated Item : Additional Compensation

Advisors should disclose:

- Conferences [including training]
- Travel incentives
- Bonuses
- Gifts/rewards

Disclosure Item: Conflicts of Interest

- Confirmation that disclosure of conflicts or perceived conflicts will be ongoing
- Other occupations / positions
- Ownership of other businesses
- Loans from an insurer
- Charge-backs of commissions if there could be a perceived conflict
- Other perceived conflicts: powers of attorney, loans from clients, being an executor of a clients will

Disclosure Item: Right to Ask for More Information

Remind clients that they have a right to ask for more information about:

- Advisor qualifications
- Business relationships

Sample wording:

If you need more information about my qualifications or business relationships, contact me. I would be happy to help.

SAMPLE ADVISOR DISCLOSURE #1

Independent Agent with options for Quebec and Ontario, conflict of interest, and ownership relationships

<Date>

Licences & Jurisdictions

I am licensed as a life and health insurance agent in <province(s)>. *[In Quebec provide list by licence class.]*

I am also licensed/registered in the following fields:

For insurance products, I place business through <firm>. For <other products>, I place business through <firm>.

Companies I represent

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

<list of companies>

[For Ontario and Quebec where a complete list of companies is required, attach it to the letter if the list of companies is long]

Attached to this letter is a complete list of the companies I represent.

Relationship with Company(ies) I represent

[For no ownership situation]

No insurer holds an ownership interest in my business. I don't hold a significant interest in any insurance company.

[If there is an ownership situation] <Insurer(s)> has a significant ownership interest in my business

I have a significant ownership interest in <insurer>.

Compensation

I am compensated by a sales commission on policies I sell and I may also receive a renewal (or service) commission on policies that remain active. Commissions are paid by the company that provides the product you purchased.

If my sales reach a certain level, I may be eligible for additional compensation, such as bonuses, and other benefits, such as conferences.

Conflict of interest

[No conflict of interest]

I take the potential of a conflict of interest seriously. I confirm that I have no conflict of interest. If I become aware of a potential conflict, I will tell you.

[Conflict of interest related to another occupation]

I take the potential of a conflict of interest seriously. 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 recommendations will be based on my assessment of your needs.

[Other conflict of interest] _____

I take the potential of a conflict of interest seriously. The following situation may be perceived to be a potential conflict of interest. However, I confirm that my recommendations will be based on my assessment of your needs.

More information

If you need more information about my qualifications or my business relationships, contact me. I would be happy to help.

Acknowledgement

I, _____ *have received and reviewed this document. I understand any conflicts of interest or potential conflicts of interest outlined in this document. I am willing to continue working with the advisor.*

SAMPLE ADVISOR DISCLOSURE #2

Career Agent with options for products from other companies, Quebec and Ontario, conflict of interest, and ownership relationships

<Date>

Licences & Jurisdictions

I am licensed as a life and health insurance agent in <province(s)>. *[In Quebec provide list by licence class.]*

I am also licensed/registered in the following fields:

Companies I represent

I have an exclusive relationship with and offer a full range of insurance and investment products from <company>.

[Optional for products from other companies]

I'm also allowed to offer products from:

<list of companies>

[For Ontario and Quebec where a complete list of companies is required, attach it to the letter if the list of companies is long]

Attached to this letter is a complete list of the companies I represent.

Relationship with company(ies) I represent

[For no ownership situation]

No insurer holds an ownership interest in my business. I don't hold a significant interest in any insurance company.

[If there is an ownership situation] <Insurer(s)> has a significant ownership interest in my business

I have a significant ownership interest in <insurer>.

Compensation

I am compensated by a sales commission on policies I sell and I may also receive a renewal (or service) commission on policies that remain active. Commissions are paid by the company that provides the product you purchased.

If my sales reach a certain level, I may be eligible for additional compensation, such as bonuses, and other benefits, such as conferences.

Conflict of interest

[No conflict of interest]

I take the potential of a conflict of interest seriously. I confirm that I have no conflict of interest. If I become aware of a potential conflict, I will tell you.

[Conflict of interest related to another occupation]

I take the potential of a conflict of interest seriously. 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 recommendations will be based on my assessment of your needs.

[Other conflict of interest]

I take the potential of a conflict of interest seriously. The following situation may be perceived to be a potential conflict of interest. However, I confirm that my recommendations will be based on my assessment of your needs.

More information

If you need more information about my qualifications or my business relationships, contact me. I would be happy to help.

Acknowledgement

I, _____ *have received and reviewed this document. I understand any conflicts of interest or potential conflicts of interest outlined in this document. I am willing to continue working with the advisor.*

More Information

Canadian Life and Health Association Website:

<https://www.clhia.ca>

Find the CLHIA Reference Document: “Advisor Disclosure” at:

<https://www.clhia.ca/domino/html/clhia/AdvisorDisclosure>

APPENDIX 1

Quiz Questions

1. A client has the right to ask their advisor for information about what qualifies them to give the advice they give? Ex. a client can ask for information about your license?
 - a. **True**
 - b. False

2. Which of the following are the supporting elements of a suitable sale?
 - a. Setting client expectations
 - b. Disclosure
 - c. Fact Finding
 - d. Needs Assessment
 - e. Advice and Recommendation
 - f. Reason Why Letter
 - g. **All of the above**

3. Should the advisor disclosure be signed and if so, by whom?
 - a. No, it does not need to be signed
 - b. Yes, by the client only
 - c. Yes, by the advisor only
 - d. **Yes, by the advisor and the client**

4. When providing disclosure about compensation you should disclose:
 - a. **Method of payment, renewal fees and service commissions and who is paying the advisor to sell a life product**
 - b. Method of payment, renewal fees and service commissions and the amount an advisor will be paid on the sale
 - c. Method of payment, breakdown of commission rates and the amount the advisor has received in the previous year
 - d. Method of payment, renewal fees and service commissions and any debts the advisor might have outstanding

5. How many elements from the industry recommended advisor disclosure?
 - a. 5
 - b. 10
 - c. 8
 - d. **7**

6. Which of the following items should you include on your advisor disclosure form?
 - a. Licenses and jurisdictions where the advisor practices
 - b. A list of companies that the advisor represents
 - c. A description of the nature of the relationship between the advisor and the companies that they represent
 - d. Anything that could be perceived to be a conflict of interest
 - e. **All-of-the-above**

7. What ownership interests does not need to be disclosed to the client?
 - a. Interests in the advisor's business greater than 10% interest in an insurance company or financial services company
 - b. Any ownership of an advisor's business by an insurance company
 - c. Any other business relationship between the insurer and the advisor that could pose a conflict
 - d. **A list of life insurance products the advisor has purchased**

8. Which of the following is a conflict of interest that needs to be disclosed?
 - a. Eligibility for conferences and travel incentives
 - b. That an advisor may receive gifts and monetary rewards from the company they represent
 - c. Method of payment
 - d. Other occupations
 - e. **All-of-the-above**

9. What do you do first? Identify which of the following sequences or statements is inaccurate?
 - a. Advice and Recommendation/ Fact Find/ Needs Analysis
 - b. Needs Analysis/Fact Find/ Advice and Recommendation
 - c. **Fact Find/ Needs Analysis/ Advice and Recommendation**
 - d. All sequences above are correct
 - e. All sequences above are incorrect

10. The advisor disclosure does not need to be explained as it is a simple document.
 - a. True
 - b. **False** (To be meaningful, each item should be explained to the client)