



**Reference Document:
REPLACEMENT DISCLOSURE**

August 2014

**A Guide to Preparing the Written Explanation
Required for the Life Insurance Replacement Declaration**

**Including guidance for completing the Notice of Replacement of
Insurance of Persons Contract as required in Quebec by the
Regulation respecting the pursuit of activities as a representative**

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1. Overview

This reference document was prepared jointly by Advocis, the Canadian Association of Independent Life Brokerage Agencies, the Canadian Life and Health Insurance Association and the Independent Financial Brokers. It is intended to assist agents in deciding what information to include in the written explanation of advantages and disadvantages of a proposed replacement.

Section 2 of the document provides background on the Life Insurance Replacement Declaration (LIRD) and general advice about the requirement in the LIRD to prepare a written explanation.

Section 3 provides an analysis of the questions on the LIRD and what factors should be taken into consideration when addressing the questions.

Section 4 provides sample explanations of hypothetical replacements that illustrate the advice in Sections 2 and 3. The inclusion of these samples is not intended to preclude other formats or ways of presenting the written explanation. For example, templates prepared by insurance companies or agencies or versions of the Basic Disclosure Statement could be used.

As a convenience, a summary of delivery requirements for all jurisdictions in which the LIRD is accepted or required for replacement disclosure is provided in Appendix 1. A copy of the LIRD is provided in Appendix 2. Finally, sources for additional information about replacement disclosure are listed in Appendix 3.

Use of the LIRD satisfies the replacement disclosure requirements in the common law provinces and Quebec. In 2013, Quebec amended its Regulation respecting the pursuit of activities as a representative to implement a new form. The key differences between this form and the LIRD are described in Appendix 4.

2. Background

The introduction of the LIRD marks a significant change in the regulation of replacement disclosure. Under the Basic Disclosure Statement, agents were required to complete a highly prescriptive comparison of the existing and new policies. The lack of flexibility in this approach meant that the comparison often included irrelevant information and was difficult for the client to understand.

The LIRD addresses this problem by giving the agent more control to decide what is relevant to making an informed decision about a proposed replacement. Under the LIRD, the agent decides on the most appropriate level of disclosure. This is done having regard for a number of factors including the complexity of the product and the client's circumstances.

It is important to note that this change to a more flexible regulatory approach in no way lessens an agent's duty to make recommendations that are appropriate to the needs of the client. Indeed, one way for an agent to assess an explanation is to ask if it demonstrates that he or she has fulfilled his or her duty to the client with respect to the proposed replacement.

The LIRD sets out eleven questions. These are intended to assist the client in gathering sufficient information to understand the implications and risks of replacing an existing policy with a new one. There is no need to answer each question expressly in the written explanation but agents can use the questions to guide them in preparing the explanation.

If an agent chooses to answer each question separately, care should be taken to ensure the answers relate specifically to the client's needs and the product's features. Simple "yes" or "no" answers to the questions will not generally be sufficient.

The written explanation should be brief and use non-technical language that is meaningful to the average consumer.

The written explanation should relate to the client's needs. It should explain how the existing policy fails to address those needs and it should explain how the new policy is better suited to address them.

The written explanation should also identify any risks associated with replacing the existing policy.

3. Analysis of LIRD Questions

This analysis states each question (or groups of questions) on the LIRD, using the numbering as it appears on the LIRD. The first four groups of questions relate primarily to the existing policy. The remaining seven relate primarily to the new policy.

Under each question (or group of questions) is advice about the sort of information that is relevant to answering the question. In some cases this is accompanied by advice about how to interpret the question or assess the relevance of answers in specific circumstances.

#1 Why do you want to replace your policy? Is the new policy better for you? How?

State key reason or reasons as identified in needs analysis, e.g., more affordable, more/less features, longer term, etc..

#2 Should you buy more insurance or change your policy? How much will these changes cost?

If coverage is comparable, simply compare premiums.

If replacement involves switching from one type of insurance to another, explain that a simple comparison of premiums is not possible and changes in the features should be taken into consideration.

Note: There may be advantages to changing the present insurance through a re-issue, conversion or exchange. If any of these options are available, the value to the client of the benefits (e.g., limited underwriting, no restart of suicide and contestability periods, etc.) should be taken into account in the rationale for replacement.

#3 When should you cancel your present policy? When is your next annual dividend paid? Will the timing affect your cancellation charges?

As appropriate, note any specific milestone or other consideration that should be taken into account when canceling a policy. These typically include:

- If premiums will be prorated (for term)
- Anniversary date and/or surrender charges (for UL)
- Dividend date and/or paid up additions (for whole)
- Desire to defer taxable gain until following year

Note: It is impossible to foresee future circumstances, in particular changes in a client's insurability. Accordingly, the answer should be based on "all other things being equal" reasoning. For example, if the agent knows a dividend is payable in one month, all other things being equal the best time to cancel may be after the dividend is paid.

#4 Will you pay more income tax if you cancel your present policy?

If cancellation is unlikely to have tax implications, the matter does not need to be addressed in the written explanation.

If it is reasonable to think there may be tax implications related to cancellation, the answer should provide a high-level warning and suggest the client may wish to consult with the existing carrier for more information or speak with the professional who provides them with tax advice.

#1 Do you understand the type of insurance policy you are buying? Is it term life, whole life, or universal life insurance policy? You should know the differences.

Identify the types of policies, both existing and new, involved in the replacement, i.e., term/term, term/permanent, permanent/permanent or permanent/term.

Note: The explanation should not be used as a consumer education document. While the agent should ensure the client understands what he or she is buying, this should be done through other means such as brochures, illustrations and financial literacy websites.

#2 Are there times when the new policy will not pay all the benefits that your present policy does? Examples are suicide and contestable periods and contractual exclusions.

Note that suicide and contestable period provisions will restart so new policy may not pay benefits under all the circumstances in which the existing policy would pay these benefits.

Note as appropriate other features that might not be available in new policy, e.g., guaranteed insurability, return of premium, bonuses or special payouts.

#3 Will the new policy pay as much as your present policy? Examples are death benefits, cash values, and dividends.

Relate benefits to identified needs. For example, if the client needs a higher/lower death benefit, answer should say the new policy addresses a change in need for a higher/lower death benefit.

Note: In this and similarly-minded questions there are no right or wrong answers. Whether the values are higher or lower and whether there are more or fewer benefits, the implications of this can only be assessed relative to the client's needs.

#4 Does the new policy have the same extra, or optional, benefits as your present policy? Examples are waiver of premium, guaranteed insurability, accidental death, and family member riders.

Relate benefits to identified needs and note benefits that are being dropped/added to reflect these needs.

#5 Are there cancellation charges on the new policy?

If the new policy has a cancellation charge, state this and briefly explain how the charge is calculated.

#6 What guarantees apply to your present and proposed policies? Which policy has best guarantees?

Relate guarantees to identified needs and note guarantees that are being dropped/added to reflect these needs. Consideration should be given to:

- level coverage
- level premium
- cash value
- interest rate or dividend

Note: For the reasons noted in Question #3 above, “best guarantees” relates to the needs of the client.

#7 Will either of the policy premiums (payments) go up? For how long will the premiums stay the same? How much will they increase?

Describe the premium schedule and note any differences between existing and new policy.

4. Sample Explanations

The following samples illustrate how the analysis of individual LIRD questions can be incorporated into a written explanation for three of the more common replacement scenarios. These are:

- Term to Term (Sample 1)
- UL to Par (Sample 2)
- Term to Par (Sample 3)

As was noted in Section 2, there is no need to provide separate answers for each of the LIRD questions. In these samples, information based on these questions that is relevant to the proposed replacement is organized under four general headings.

The three samples use the same general headings to show how the details of disclosure will vary from one transaction to another. The use of these headings should not, however, be interpreted as a recommended practice. Other ways of organizing the information may be equally effective or, in some circumstances, better.

Insurers or agents may wish to develop a template for the written explanation. If a template is used, care should be taken to ensure the explanation for a specific proposal does not contain irrelevant information.

Sample 1: Term to Term

Explanation of Advantages and Disadvantages of Proposed Replacement

Date: June 24, 2011

Client Name(s): Jane Doe

Existing Policy #123456-78

Existing Insurance Company: ABC Life

Company Issuing New Policy: ABC Life

Summary of Proposal

The proposal is to replace a Term 10 policy with a Term 10 policy paying a higher death benefit.

Why doesn't the existing policy meet your needs?

You want more coverage and would like to pay a lower rate per \$1000 of coverage than you are currently paying.

How does the new policy meet your needs?

The policy provides additional coverage and the rate is slightly lower than the rate on your existing policy.

What are the risks associated with the proposed replacement?

The main risk is that the additional coverage is subject to a suicide provision which means if you commit suicide in the first two years you will only get the original coverage.

The premiums for the new policy may increase when you renew it.

Sample 2: UL to Par

Explanation of Advantages and Disadvantages of Proposed Replacement

Date: June 24, 2011

Client Name(s): John Doe

Existing Policy #987-6543-21

Existing Insurance Company: DEF Life

Company Issuing New Policy: WVU Life

Summary of Proposal

The proposal is to replace a Universal Life policy with a Participating Life policy from a different company.

Why doesn't the existing policy meet your needs?

The policy values in your UL are no longer performing as illustrated when you bought it and you want greater consistency in the values going forward.

How does the new policy meet your needs?

There is a guarantee that protects some of the cash value and provides you with the reduced volatility you want.

The new policy includes a Waiver of Premium rider that may pay your premiums if you are sick.

What are the risks associated with the proposed replacement?

The suicide and contestability provisions apply to the new policy. This means that the death benefit may not be paid if you die within two years and have committed suicide or have misstated certain information about yourself.

You are giving up a broader investment choice and the possibility of premium holidays but you have indicated that these are less important to you than the security of a level premium.

There may be tax implications based on canceling your UL policy. You should speak to your tax advisor about this.

There may be withdrawal fees and/or cancellation charges when you cancel your UL policy.

Sample 3: Term to Par

Explanation of Advantages and Disadvantages of Proposed Replacement

Date: June 24, 2011

Client Name(s): Jane Doe

Existing Policy #123456-78

Existing Insurance Company: ABC Life

Company Issuing New Policy: TSR Life

Summary of Proposal

The proposal is to replace a Term 10 policy with a Participating Life policy from a different company.

Why doesn't the existing policy meet your needs?

Term insurance was a temporary solution. You now want to use your insurance policy to build up cash value which is not possible in term insurance. There were no suitable conversion options available from the company that provided the term insurance.

How does the new policy meet your needs?

The new policy has guaranteed cash values and the potential for dividend values. There are also more flexible premium payment options in this type of policy.

What are the risks associated with the proposed replacement?

The suicide and contestability provisions apply to the new policy. This means that the death benefit may not be paid if you die within two years and have committed suicide or have misstated certain information about yourself.

You are paying a higher premium for the same death benefit but you are getting additional benefits with this policy.

Appendix 1 Delivery Requirements

This reference document is intended to provide guidance on the type of information that should be included in a written explanation of the advantages and disadvantages of a proposed replacement.

As a convenience, the chart below summarizes requirements related to delivery of the LIRD and the written explanation (EXP) in jurisdictions in which the LIRD is accepted or required.

Agents should check relevant statutes and by-laws for complete details. As well, agents should be aware that some insurers may want either or both documents to accompany the application even if it is not required by law.

Province	Client	New Insurer	Existing Insurer	Reference
Alberta	LIRD & EXP			Alberta Reg 127/2001 s. 5
British Columbia	LIRD & EXP			B.C. Reg 327/90 s. 3
Manitoba	LIRD & EXP	LIRD		Insurance Council
New Brunswick	LIRD & EXP			NB Ins Act s. 369.1 (f)
Nfld & Lab	LIRD & EXP	LIRD & EXP	LIRD	N&L Reg 989/96 s. 74
Northwest Territories	Optional			Not applicable
Nunavut	Optional			Not applicable
Nova Scotia	LIRD & EXP			NS Ins Act s. 44
Ontario	LIRD & EXP	LIRD & EXP	LIRD	Ontario Reg 674/1990 s. 2, 2.1
PEI	LIRD & EXP			PEI Ins Act s. 376 (2) (b)
Quebec	Prescribed Form	Prescribed Form	Prescribed Form	Reg respecting pursuit of activities as a representative
Saskatchewan	LIRD & EXP			Insurance Council
Yukon	Optional			Not applicable

Notes

The Insurance Acts of the NWT, Nunavut and Yukon do not prescribe replacement disclosure. While agents may provide clients with such documentation as they deem appropriate, use of the LIRD is recommended.

Appendix 2
Life Insurance Replacement Declaration

Do not cancel your existing policy until the new policy is in force and you accept it. Before you cancel your life insurance policy you should have answers to the questions below. Ask any insurance agent or broker, or an independent person, for help if you need it.

Questions about your present life insurance policy

1. Why do you want to replace your policy? Is the new policy better for you? How?
2. Should you just buy more insurance or change your policy? How much will these changes cost?
3. When should you cancel your present policy? When is your next annual dividend paid? Will the timing affect your cancellation charges?
4. Will you pay more income tax if you cancel your present policy?

Questions on the advantages and disadvantages of a new life insurance policy

1. Do you understand the type of insurance policy you are buying? Is it a *term life*, *whole life*, or *universal life* insurance policy? You should know the differences.
2. Are there times when the new policy will not pay all the benefits that your present policy does? Examples are suicide and contestable periods and contractual exclusions.
3. Will the new policy pay as much as your present policy? Examples are death benefits, cash values, and dividends.
4. Does the new policy have the same extra, or optional, benefits as your present policy? Examples are waiver of premium, guaranteed insurability, accidental death, and family member riders.
5. Are there cancellation charges on the new policy?
6. What guarantees apply to your present and proposed policies? Which policy has the best guarantees?
7. Will either of the policy premiums (payments) go up? For how long will the premiums stay the same? How much will they increase?

Important: Please ensure that the agent or broker provides you with copies of the written explanation of the advantages and disadvantages of replacing your life insurance policy with a new policy.

I confirm that I have received this Life Insurance Replacement Declaration.

Client's signature

Date

I have given the client this document and a written explanation of the advantages and disadvantages of replacing their life insurance policy, before starting the application for a new policy.

Agent or broker's signature

Date

Note: Your agent or broker should deliver and review the new policy with you. If the policy is not satisfactory for any reason you may have a right to reject it and receive a full refund of premiums, under provincial or territorial law or under contract. Check the policy and the law for the right of rejection and the time limit for rejection

Appendix 3
Other Information

For a copy of the official LIRD in English or French, go to:

The CCIR website and look under “Harmonized Forms”

For the prescribed form required in Quebec, go to:

The AMF website and look under "Forms and Guides for Financial Sector Participants"

For general information about needs-based sales, see:

The Approach: Serving the Client Through Needs-Based Sales Practices (available from Advocis, CAILBA, CLHIA and IFB)

For information about regulators expectations related to the written explanation, see:

Direction and Guidance Notes Life Insurance Replacement Declaration (available from the Insurance Council of Manitoba)

Information About the New LIRD (available from the Life Insurance Council of Saskatchewan)

Insurance Agents e-Newsletter, March 22, 2011 Issue 2 (available from the Financial Services Commission of Ontario)

In addition, life insurers and Managing General Agencies may have templates or other information to assist agents in preparing the written explanation. Agents should check with the insurers they represent for the form and content of documentation they require for a transaction involving replacement. In particular, insurers may have requirements to put client and/or policy identification information on the copy of the LIRD that is delivered to the insurer with the application.

Replacement Disclosure in Quebec

On October 22, 2013, amendments to the *Regulation respecting the pursuit of activities as a representative* implemented, as a prescribed form, a new Notice of Replacement of insurance of Persons Contract for use in Quebec as of October 22, 2014. The Notice does not follow the LIRD. Part 1 of the Notice collects general information about the policy and sets out generic warnings for any client considering replacement. Part 2 requires the advisor to provide answers to six questions that, together, provide a reason for replacement that is similar to the written explanation required in the LIRD. Part 3 of the Notice is a signed attestation by the policyholder that he or she has read and understood the completed Notice.

The six questions in Part 2 are intended to be client specific. The answers to them will assist the advisors in explaining how the replacement is advantageous to the client. The questions are:

- Explain why the existing insurance contract does not meet your client's needs.
- Explain how the proposed contract better meets your client's needs.
- Explain the disadvantages for your client of replacing his contract (additional exclusions, higher premium, extra premium, etc.).
- Explain why you are not modifying your client's existing contract.
- Explain the financial impact of the replacement (e.g., redemption fees, cash surrender value [guaranteed or non-guaranteed], cancellation fees, premiums, tax considerations, policyholder dividends, registration as an RRSP, forthcoming dividend payment).
- Explain the difference between complementary or optional guarantees under the existing contract and the proposed contract (waiver of premiums, guarantee of insurability, other endorsements, additional or fewer guarantees, variations in equivalent or similar guarantees, etc.).

Of note:

- the Notice of Replacement and the Application number are identical;
- all pages of the Notice must be initialed by the client on or prior to the delivery of the policy;
- a copy of the completed Notice must be signed by the advisor must be remitted to the client and insurer(s) within five days of the application;
- a copy of the Notice signed by both the advisor and the client must be kept in the advisor's client file.