



September 2005

**Reference Document:
ADVISOR DISCLOSURE
(for application to Group Benefits and Group Retirement business)**

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When a plan sponsor is considering the purchase of a group life and health insurance or group retirement plan, 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 chart focuses on disclosure about the advisor which should be given in writing to the plan sponsor prior to the sales transaction. For the purposes of this document, "advisor" refers to anyone receiving commission compensation for placing business with an insurer, other than an insurance company employee.

The chart provides commentary and suggested wording for the six key disclosure items that should be included. It also provides notes **(in bold)** about regulatory disclosure requirements as well as suggestions from the Joint Forum of Financial Market Regulators' 2005 "Principles and Practices for the Sale of Products and Services in the Financial Sector". The objective, in all cases, is to provide plan sponsors 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.

These disclosure items apply to situations where the insurer pays any form of compensation. They would not apply to fee-only situations.

Disclosure Item	Considerations	Sample Wording
<p>1. Company(ies) with which the advisor places or recommends business</p>	<ul style="list-style-type: none"> • In group situations, the advisor is representing the plan sponsor, rather than the company. This is an important distinction. • The advisor will, of course, provide information about the insurer with which the business is being placed. Beyond that, however, information should also be provided about those companies with which the advisor places business. This is particularly important for licensed life agents in order to be compliant with regulatory requirements. • Disclosure should reflect the advisor’s profile of business placement (for instance, a listing of 25 companies that the advisor has access to may not be meaningful if most business is placed with only 3 companies; disclosure that focuses on those companies used regularly, while making the full listing available, may be more useful). • Should not be excessively complex. • If choosing to disclose companies with which the advisor has placed business over a period of time (e.g., the past 12 months), should not show any companies with which a contract has been terminated. It is important that the plan sponsor not have unrealistic expectations about which companies will or will not be shopped. <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> • Ontario requires that advisors disclose in writing the name of all insurers and providers of financial products or services that the advisor represents [O.Reg 347, s.15(1), 15(2)]. 	<p><i>I represent you, the customer, and have access to <x #> of insurers, but I place the majority of my business with A, B, and C for group life and health products, and C and D for group retirement products. I am associated with <abc> agency.</i></p> <p><i>In Quebec, include:</i> <i>With respect to this product, I am placing the business through <firm>.</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> • BC requires that advisors disclose the name of the financial institution providing the financial products or service that the consumer has chosen [BC Reg 573/2004, s.3(1)(a)]. • 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]. • The Joint Forum suggests that advisors provide the names of organizations directly providing remuneration to the advisor. 	
<p>2. Nature of relationship with insurer(s) providing product</p>	<ul style="list-style-type: none"> • What does the plan sponsor need to know about the advisor’s relationship to understand if there are factors that may influence the advice given? • Does an insurance company have any ownership interests in your agency that you are aware of? If so, disclose. Alternatively, do you have any ownership interests in an insurance company? If so, disclose your ownership interests above a threshold of 10%. • Are there financing arrangements between you and the insurer that are germane to the plan sponsor’s understanding of any biases that could affect advice? Examples would include (but are not restricted to) commission advances (unearned commission advances not attached to any specific case and within an 18-month horizon) and loans (defined as a contractual arrangement which includes interest rates and a repayment schedule). 	<p><i>If there is an ownership situation:</i></p> <p><i><Insurer(s)> has a <xx%> ownership interest in my business</i> <i>or</i> <i>I have a <xx%> ownership interest in <insurer></i></p> <p><i>If no ownership situation exists:</i></p> <p><i>(a) stay silent;</i> <i>or</i> <i>(b) No insurer holds an ownership interest in my business, nor do I hold an interest in any insurance company.</i></p> <p><i>If there are financing arrangements:</i> <i>I have a loan with <Insurer(s)> and, in addition, have an arrangement that allows for commission advances from <Insurer(s)>. (Note: if other financing arrangements exist, disclose.)</i></p>

Disclosure Item	Considerations	Sample Wording
	<p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> • Quebec requires that agents disclose any business relationships (if an insurer holds any indirect or direct interest in the ownership of the firm) [R.S.Q.c.D-9.2, s.26]. • Quebec requires that if an agent is bound by exclusive contract with a single insurer, that must be disclosed [R.S.Q.c.D-9.2, s.32]. • B.C. requires that agents disclose the relationship between the financial institution and the agent offering to provide the service or product [BC Reg 573/2004, s.3(1)(b)]. • The Joint Forum of Financial Market Regulators suggests that the advisor disclose the relationship between him/herself and the firm whose product is being considered and any relationships among firms directly involved in a transaction. 	

Disclosure Item	Considerations	Sample Wording
<p>3. How the advisor is compensated</p>	<ul style="list-style-type: none"> • What information is needed for the plan sponsor to understand the basic business relationship between advisor and insurer with respect to compensation? • The level of disclosure should provide plan sponsor with basic understanding of how advisor is paid and from what sources. • Specific dollar amounts and commission schedules not required unless specifically requested in writing by plan sponsor. • This disclosure is also necessary for ASO-type sales. • The plan sponsor should be advised that any future increases in compensation or commissions will require their written approval. • If commission is negotiable, that fact should be disclosed. <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> • BC requires disclosure of whether commission or compensation is to be paid by the financial institution to the agent offering to provide the service or product [BC Reg 573/2004, s.3(1)(c)]. • Quebec requires that if an advisor will receive compensation from the insured, they must disclose the fact that they will also receive remuneration for the products sold [R.S.Q.c.D-9.2, s.17]. 	<p><i>My compensation is arranged between the insurance company and me and is an element of your rate calculation. Arrangements could vary depending upon the service you require. Any future increases in the compensation schedule will require your written approval.</i></p> <p><i>(If additional compensation from other sources, disclose.)</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> • The Joint Forum suggests disclosure of the method of remuneration, any fees payable by client, and names of organizations directly providing remuneration. • The Joint Forum’s Guidelines for Capital Accumulation Plans require that the plan sponsor provide CAP members with the description and amount of all fees and expenses related to the plan. 	
<p>4. If the advisor may be eligible for additional compensation (cash or non-monetary, such as qualifier conferences) based on other factors (e.g., volume of business placed in specific period of time)</p>	<ul style="list-style-type: none"> • This builds on #3 to provide disclosure about the fact of possible additional compensation and other incentives. • Specific dollar amounts and commission schedules not required unless specifically requested in writing by plan sponsor. Given that it may not be possible to quantify additional compensation such as bonus at the time of sale or request, this may involve, instead, a description of the bonus structure, trip requirements or other incentives. • Although not a disclosure requirement, you should note that Quebec restricts conference incentives to those with a training focus. * * * * * • Quebec prevents advisors from participating in contests or promotions as an incentive to sell a product unless the product meets the specific needs of the client [R.Q.c.D-9.2, r.l.3, Div III 5]. 	<p><i>I may also be eligible for additional compensation, such as bonuses, persistency, profit-sharing, or non-monetary benefits, such as conferences that I could qualify for, depending on various factors such as the volume or persistency of business with any or all of the carriers that I place business with during a given time period.</i></p>

Disclosure Item	Considerations	Sample Wording
	<ul style="list-style-type: none"> • Further to the above, Quebec allows an advisor to be reimbursed for the costs of attending a conference or convention provided its main purpose is training [R.Q.c.D-9.2, r.l.3, Div III 5]. • The Joint Forum suggests disclosure of any other benefits from sales incentive programs related to the transaction. 	
<p>5. Conflicts of interest</p>	<ul style="list-style-type: none"> • What information does the plan sponsor need to assess whether or not a conflict of interest may be influencing the advice being given? • Note that the need to disclose conflicts of interest applies on an ongoing basis, with respect to each recommendation or transaction (and not just on an account-opening basis). • In determining whether or not a perceived conflict might exist which would require disclosure, the advisor should consider: <ul style="list-style-type: none"> • Would your advice or product offered have been different if the situation or incentive giving rise to the potential conflict of interest did not exist? • Would it appear to a reasonable, informed third party looking at all the facts that you acted in the best interest of your client? • Some perceived conflicts could be company relationships (ownership or financing arrangements, see #2) or the very fact of 	<p><i>If there is no conflict:</i></p> <p>a) <i>stay silent</i></p> <p><i>or</i></p> <p>b) <i>In my duty to disclose any conflict of interest with you as my client, I confirm that there is no conflict of interest in regards to the proposed sales transaction that you are considering, and that my overall recommendation takes into consideration and is based on my analysis and assessment of your financial and security needs.</i></p> <p><i>If there is a conflict:</i></p> <p><i>The following situation may be perceived to be a potential conflict of interest with respect to my recommendations to you. However, I confirm that my overall recommendation takes into consideration and is based on my analyses and assessment of your financial and security needs.</i></p> <p>----- ----- -----</p>

Disclosure Item	Considerations	Sample Wording
	<p>compensation, (see #3 and #4).</p> <ul style="list-style-type: none"> • Also included would be perceived conflict associated with prohibited occupations or other situational circumstances (for example, power of attorney, loans to and from clients, executor of client's will, etc.). <p style="text-align: center;">* * * * *</p> <ul style="list-style-type: none"> • Ontario -- must provide written disclosure of any conflicts of interest [O.Reg 347, s.16]. • Manitoba - if advisors are in a conflict of interest situation then they must avoid the conflict or remove themselves from the transaction, regardless of disclosure. [Manitoba Insurance Council Conflict of Interest Guidelines]. • Alberta – conflict is based only on prohibited occupations and the conflict situation must be avoided, regardless of disclosure [AR 122/2001, s. 5(1)(g) and 5(2)(f)]. • BC -- it is unethical for agents to place themselves in a conflict of interest with a client unless the client has approved of the conflict after full disclosure of the conflict, preferably in writing [Insurance Council of BC Code of Conduct for Insurance Agents, Salespersons and Adjusters, 1999, p.15]. 	<p><i>If there is a conflict related to another occupation:</i></p> <p><i>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 overall recommendation takes into consideration and is based on my analysis and assessment of your financial and security needs.</i></p> <p><i>For BC:</i></p> <p><i>I, <client name>, have been informed of, and understand the implications of, the conflict of interest, or potential conflict of interest associated with my advisor <name of advisor> in relation to the transactions recommended. I agree to continue with my dealings with my advisor.</i></p> <p><i>Client Signature _____ date _____</i></p>

Disclosure Item	Considerations	Sample Wording
<p>6. Plan sponsor has right to ask for more information</p>		<p><i>Should you require additional information about my qualifications or the nature of my business relationships, I would be pleased to assist you.</i></p>
<p>Other information that you might wish to include:</p> <ul style="list-style-type: none"> • license(s) held • signature of agent • signature of client 		<p><i>I am licensed as a life and health insurance agent in the province of _____.</i></p> <p><i>I am also licensed/registered in the following fields:</i></p>

SAMPLE ADVISOR DISCLOSURE (GROUP)

In negotiating group coverage, I represent you, the customer and plan sponsor. I have access to the major insurance carriers, but I place the majority of my business with Company A, Company B and Company C with respect to group life and health products, and Company C and Company D with respect to group retirement products.

(if applicable): Company B has an (x)% ownership interest in my business.

(if applicable): I have a loan with Company C and, in addition, have an arrangement that allows for commission advances from Company A.

In group insurance, my compensation is arranged between the insurance company and me and is an element of your rate calculation. Arrangements could vary depending upon the service you require. Any future increases in the compensation schedule will require your written approval.

I may also be eligible for additional compensation, such as bonuses, persistency, profit-sharing or non-monetary benefits, such as conferences that I could qualify for, depending on various factors such as the volume or persistency of business with any or all of the carriers that I place business with during a given time period.

In my duty to disclose any conflict of interest with you as my client, I confirm that there is no conflict of interest in regards to the proposed sales transaction that you are considering, and that my overall recommendation takes into consideration and is based on my analysis and assessment of your needs.

Should you require additional information about my qualifications, the nature of my business relationships or compensation arrangements, I would be pleased to assist you.