



Guideline G15

GUARANTEED WITHDRAWAL BENEFIT (GWB) 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.

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GWB ILLUSTRATIONS

1. INTRODUCTION

Individual Variable Insurance Contracts (IVICs), commonly referred to as segregated funds, offering death and maturity guarantees to protect capital have been available in Canada for a number of years. In 2006, new features for the product were introduced that guarantee income streams during a pay-out phase. With the introduction of these new guarantees, the use of illustrations to help explain the contract became common.

CLHIA Guideline G6 Illustrations does not apply to IVICs. Given the unique operating characteristics of income guarantees and the complexities of these products, it was decided that a new specialized Guideline should be developed to describe illustrations for the product.

Like Guideline G6, 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 describe the information that should be included in illustrations of IVICs offering guaranteed withdrawal benefits. In particular, the Guideline identifies features that could be misunderstood by consumers or which are affected by consumer decisions and recommends practices to assist in explaining these.

3. DEFINITIONS

In this Guideline,

"Deferral Bonus (or Bonus)" is an increase to the income base used to calculate guaranteed income. Other than increasing the amount of income that may be paid to the client, such a bonus is notional and does not increase the market value of the policy.

"Excess Withdrawal" is a withdrawal that exceeds the annual allowable withdrawal amount.

“Guaranteed” applies only to a value or feature which cannot be withdrawn or reduced by unilateral action of the insurer.

“Guaranteed Withdrawal Benefit (GWB)” is a provision of an IVIC that provides a guaranteed stream of income to clients. This income might be for life or for a specific period of time. GWBs include, but are not limited to guaranteed minimum withdrawal benefits and guaranteed lifetime withdrawal benefits.

“Income Base” is the amount on which the income guarantee is based.

“Illustration” means any communication to a consumer that shows numbers or graphs of future policy premiums and/or values, or features that depend on them, for a policy.

“Policy” means an IVIC offering a guaranteed withdrawal benefit (GWB) whether as a policy or a rider.

“Reset” is a modification to a guarantee that occurs as the result of the market value of the policy.

“Significant effect” means a change in the policy that would reasonably be expected to influence a decision by a client. These changes may be caused by either policy factors (e.g., benefit fees) or client behaviour factors (e.g., excess withdrawals).

“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 policy. This may include supplementary calculations, comparisons with alternative financial products or demonstrations of tax consequences.

4. SCOPE

This Guideline applies to illustrations of GWB policies.

The practices described in this Guideline generally relate to the GWB features of the policy. Where the illustration includes non-GWB features, it is expected that the illustration of these features will adhere to the spirit of this Guideline.

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 in particular, how guarantees may be affected by market conditions and client choices and actions.

In general, illustrations are not intended to be predictive.

It is important that illustrations clearly describe the features and operation of the policy and disclose the key assumptions used to prepare them.

6. TERMINOLOGY AND PRESENTATION

The provision of illustrations helps to inform the consumer about the features of the 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, 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.

Care should also be taken with respect to features or terminology that may cause confusion. Features that may cause confusion include the long-term effects of deferral bonuses and excess withdrawals. Terminology that may be used differently in insurance as compared to other financial products includes “deferral bonus”.

7. GUARANTEES

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

The illustration should also disclose how values that have a guarantee can be affected or lost by client choices.

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

8. ILLUSTRATION SCENARIOS

At least two scenarios should be provided to the consumer in order to provide a meaningful indication of how sensitive the results can be to variations in market conditions.

One of these scenarios, the primary scenario, should be selected by the consumer and advisor from an identified range of scenarios that the insurer judges as reasonable based on the consumer's risk tolerance and market conditions.

The second scenario should be different enough from the primary scenario that it provides a meaningful indication of sensitivity to variations in market conditions.

Additional scenarios may be illustrated to provide better information, 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 and should be applied consistently with each scenario.

The scenarios should be reviewed at least annually. If changes to the scenarios are required due to significant change, the new basis should be implemented within a reasonable period of time.

9. NATURE OF THE ILLUSTRATION

Any illustration should disclose how the guarantees work so the following is clear:

- (i) What amounts are guaranteed and when the guaranteed amounts are available to the client.
- (ii) How the value of the guarantees are affected by client choices and behaviours.

The illustration should clearly disclose that all values are based on certain assumptions and provided for information purposes only and prominently specify that actual results may vary – upward or downward – from those illustrated.

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 values or features.

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

Without limiting the generality of this provision, illustrations should provide disclosure for the following specific factors, even when the assumptions chosen would not trigger an effect on these product features.

Deferral Bonuses

The illustration should disclose that deferral bonuses are not cash bonuses, and only affect future guaranteed income payments. The bonus does not purchase units, nor does it affect values available to the client

through surrenders (i.e. the market value of the policy), maturity guarantees or death benefit guarantees.

Excess Withdrawals

The illustration should disclose the effect of excess withdrawals on guarantees and future income payments.

Resets

The illustration should disclose the impact of any resets if the product allows them.

Investment Returns

The investment return scenarios in the primary scenario should reflect reasonable assumptions as to the performance of the market.

Investment return scenarios may be shown on either a net or a gross basis. Once selected, this basis should be used consistently throughout the illustration. The illustration should clearly disclose which basis is used.

The illustration should disclose which fees affecting performance are included in the illustration and which are not.

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

- the assumptions underlying the market return scenarios; and
- where clients can obtain information about the rates of return and volatility used.

If the illustration includes locked-in funds (including LIFs and LRIFs) then the illustration should disclose the impact of the income threshold exceeding certain maximums such as the LIF maximum (i.e., where amounts above LIF maximum may not be paid).

10. ACCESS TO CAPITAL

The illustration should disclose any restrictions on the amount available to the client for full withdrawal (i.e., applicable sales charges).

11. TAX TREATMENT

Where the illustration shows a specific tax effect, it 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.

Where tax implications are not illustrated, this should be appropriately disclosed.

12. PARTIAL ILLUSTRATIONS

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 client about excess withdrawals).

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

13. 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. It is expected, however, that it will adhere to the spirit of the Guideline. If a supplementary illustration is prepared for a client, the underlying illustration should be made available upon request.

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 or strategy is appropriate, the relevant assumptions, and the risks associated with the concept or strategy. 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 GWB policy.

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 illustration from which they are drawn, the supplementary illustration should disclose how and why the values are modified.

14. IDENTIFICATION

- (1) Each illustration should clearly identify:
 - (a) the date on which it was prepared;
 - (b) the consumer for whom it was prepared; and
 - (c) the insurer providing the illustration.
- (2) Illustrations should also identify:
 - (a) the advisor or agent, if applicable; and
 - (b) each characteristic, or assumed characteristic, which is essential in determining the illustrated results (e.g., age, deposit amount).

It is acceptable to omit the consumer's name if this is necessary (e.g., to protect his or her privacy) and if all the other information described above is provided in a way that clearly identifies the intended applicability of the illustration.

15. 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).

The illustration should clearly state that it is incomplete without all pages.

16. 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 client or consumer following request.