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Independent Financial Brokers of Canada
740 - 30 Eglinton Avenue West, Mississauga, ON L5R 3E7

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Submitted by email: G19Session@clhia.ca

Comments on CLHIA Guideline 19, Compensation Disclosure in Group Benefits and Group Retirement Services

Independent Financial Brokers of Canada (IFB) is a national professional association representing approximately 3,500 financial advisors. The majority are licensed life insurance agents and/or mutual fund representatives. A significant number also hold other types of financial licenses.

IFB members are individual advisors who operate on an independent basis. They are self-employed and able to provide life insurance products from more than one insurance company. IFB does not represent career (captive) agents or employees of insurance companies.

IFB has enjoyed a collaborative relationship with the CLHIA for many years. As industry partners we've worked to address issues affecting the life insurance industry. We look forward to continuing to do so, so that our members can have confidence in the insurers they do business with.

Our comments –

IFB welcomes the opportunity to comment on Guideline 19 (G19). IFB members have expressed their concern that CLHIA members have chosen to move forward on this particular initiative, and at this time, without the support and confidence of the advisors who sell their products.

Life insurance companies rely heavily on independent advisors to help individuals, families, small businesses and corporations acquire the coverage they need to withstand the financial pressures arising from death, disability and everyday health care costs that are not covered by provincial health care plans. Group retirement programs encourage employers to assist employees to responsibly save for the future. Group benefits and retirement programs help employers attract and retain employees, and advisors are instrumental in finding a solution that meets the sponsor's needs in a cost-effective manner. It is a competitive landscape where insurers compete for business, and advisors must show value to engage and retain the plan sponsors as clients.

We are pleased the CLHIA recently began engaging advisors in the discussions around G19, however, there are a number of implementation issues that must be fully explored before this initiative can successfully move forward. In light of this, we encourage the CLHIA, and its member companies, to put G19 on hold, until this process has taken place.

The CLHIA indicates that insurers have developed G19 in order to promote more customer-focused practices across all their lines of business. They further indicate that regulatory pressure to demonstrate support for the Fair Treatment of Consumers, including compensation disclosure, necessitated this initiative.

Disclosure and transparency are integral elements of such a framework. In fact, IFB's Code of Ethics put into place over 20 years ago, requires members to place the interest of the client above all others, https://ifbc.ca/code-ethics-statement-principles/.

IFB members understand the value of demonstrating client-centric behaviour. To state the obvious, without clients they would have no business.

G19 is specific to the disclosure of intermediary compensation for Group Retirement and Group Benefits plans. When compared to other lines of life insurance business where customers may derive more benefit enhanced disclosure, it is difficult to reconcile why this has been chosen as a priority, and this has led advisors to question the motives behind G19 and has resulted in an atmosphere of mistrust.

We note, as does ICP 18, that retail customers have different needs when it comes to consumer protection than do professional (business) consumers. Retail consumers, generally, are more reliant on the advice they receive, may be vulnerable, and often lack the knowledge to question that advice. By contrast, professional or business entities are typically more comfortable obtaining multiple quotes for a product or service or retaining external consultants to guide them through the process.

Our concerns with the current approach are as follows:
i) Drafting and development of G19 did not include advisors. While the CLHIA has since indicated it will form an advisory committee of advisors, much of the current proposal may need to be revisited to satisfy the many valid concerns advisors have about what is being disclosed and how it will be disclosed.

ii) Most advisors do not object to the compensation disclosure, but lack confidence that the disclosure, as proposed, will be fair, consistent across insurers, and accurate. Furthermore, they do not believe the disclosure as proposed is complete. Advisors believe that there are gaps in the disclosure where other parties' compensation is not being included.

Advisors lack confidence that insurer technology systems will correctly calculate the compensation or that there will be any similarity between the information provided by different insurers. This will be confusing at best, and disruptive at worst, for plan sponsors who deal with different insurers for different plans (e.g. for their group benefits vs group retirement plans).

More troubling is the potential effect on advisors if they lose an account due to an error in these calculations. They ask: How will the insurer make good in such a situation? What recourse will the advisor have? How will the calculations account for unpaid time that an advisor spends developing a plan prior to the sale?

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iii) <u>Advisors want more involvement in the design and delivery of the compensation report</u>. The current proposal leaves the advisor out of the delivery process. The insurer will provide the report directly to the plan sponsor, leaving the advisor – who has cultivated and retained the client – out. This process makes disclosure simply a transaction and ignores the value of the relationship between the plan sponsor and advisor. A more palatable solution would permit advisors to present the compensation report to the client. The information can be put in context, and plan sponsors can weigh this information against the value of the service received.

iv) <u>Lessons from CRM2</u>. CRM2 requires compensation disclosure for the securities industry. Recognizing the potential for industry disruption, mutual fund companies, consultants, associations, and other industry related groups were very active in educating and assisting dealers and advisors well in advance of the new reports, providing advice and tips on how to explain the reports to clients and explain their value for that compensation. This type of guidance and support has been missing from the G19 discussion. Worse, there's not even a template of the report yet available.

The advisor's worth to a client goes beyond compensation. Insurers must be part of the conversation to support their sales force.

v) There may be better solutions to achieve the results insurance companies want, while addressing advisor concerns. For example, in addition to the advisor committee, CLHIA could spearhead a technology committee which could explore the possibilities of fintech in this context. IFB has associates in this field with expertise we believe could be very valuable.

In conclusion, IFB supports a professional standard of advice for insurance. Transparency and disclosure for consumers of financial products, including compensation disclosure, are important elements. However, it is essential that the process be successfully managed alongside well thought out communication and educational plans for advisors and the plan sponsors who are their clients.

We respectfully suggest that G19, as currently drafted, will not achieve its stated goals. Further, it is our recommendation that G19 be set aside in its current format and alternative solutions sought. We look forward to continuing this discussion

Yours truly,

Nancy Allan

Nancy Allan
Executive Director
Tel: (905) 279-2727
Email: allan@ifbc.ca