



January 31, 2006

Larry R. Lutz
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Sent via Email: llutz@abcouncil.ab.ca

Dear Mr. Lutz :

**Subject: Canadian Insurance Services Regulatory Organizations (CISRO)
Life Insurance Replacement Disclosure**

Independent Financial Brokers of Canada (“IFB”) appreciates the opportunity to provide the CISRO Replacement Committee with our comments on the proposed model for life insurance replacement disclosure which has been developed to replace the existing Basic Disclosure Statement (BDS).

To provide context to our remarks, IFB is a national, voluntary association comprised of approximately 4,000 licensed financial advisors across Canada. The majority of our members are licensed to sell life and health insurance products and mutual funds. IFB is the only association devoted to representing independent advisors and has done so for over 20 years. Our members strongly believe that only in this type of competitive market can consumers be provided with products that truly suit their needs.

In preparing this response, IFB asked our members to comment on the proposed life insurance replacement declaration. In general, there was strong agreement that the existing BDS is unwieldy, confusing and is not suited to the purpose for which it was designed. Most of our members welcome the concept of a new, simpler means to explain the replacement process to consumers. However, there was much less agreement on how this could be best achieved. A number of our members believe that in order to standardize the information provided to consumers, and for the protection of insurance services providers who must function in an increasingly litigious environment, that there

is still a need for a structured format. Some members thought this type of disclosure is important enough that it should form part of the contract itself.

The replacement of a life insurance policy has the potential for adverse consequences to the consumer, which may only become apparent well into the future. Consumers may be attracted to replace an existing policy with a policy that has a lower premium, without fully understanding the reduction in benefits. This may be particularly true where a policy has been in force for a long time and has conditions which may not be common in newer products. IFB believes there must be sufficient disclosure and analysis presented to the consumer to ensure that a knowledgeable decision can be made.

In the current system, part of this assurance comes from the requirement to notify the previous agent/broker and the insurer of the intended replacement. This notification also provides consumers with some protection against an unscrupulous agent who is only concerned with generating premium commissions. The proposed model, by eliminating this step, relies solely on the new agent, his/her level of knowledge about the features of the prior product and ability to fully communicate the advantages and disadvantages to the client. We understand that, under this proposal, sanctions would be considered against agents/brokers who did not act in good faith in replacing policies. However, in this scenario, contract disputes, which are unlikely to arise until well into the future, would have to be dealt with at the regulatory or court level, rather than simply pre-empted at the time of the policy sale. Our concern is that through the passage of time, the client would be left without remedy to re-instate the replaced policy.

As set out above, we concur that the current system of “replacement” could benefit from an update, but any alternatives should not lose sight of the need to provide the policyholder with a means to stop the replacement process. IFB does not believe the onus for disclosure should rest entirely on the agent or broker in the field. A possible option, and one which would enhance the level of protection afforded to consumers in these instances, would be the inclusion of a step in which the former insurer is required to provide information pertinent to the existing policy. This would address consumer concerns regarding the previous agent being notified, yet provide for timely reinstatement.

IFB supports the work of this Committee in updating and simplifying various procedures affecting the life insurance industry and trusts you will find our comments useful.

Yours truly,



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