



Independent Financial Brokers of Canada

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Submitted by E-mail: cisro-ocra@fsrao.ca

Subject: CISRO consultation on draft Life Insurance Replacement Declaration (LIRD)

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to comment on the prototype LIRD that has been developed by CISRO.

IFB is a national, not for profit association representing approximately 3,000 licensed financial professionals who have chosen to conduct business in the independent distribution channel. The majority of IFB members are life/health insurance licensees. Many are also mutual fund registrants and/or hold other licenses or designations, so they can better address the broader financial needs of their clients.

Our comments

IFB supports the CISRO Working Group's goal of improving upon the current LIRD to better align the interests of consumers and expectations on intermediaries, arising from the CISRO/CCIR *Guidance on Conduct of Insurance Business and Fair Treatment of Customers*, and the CISRO *Principles of Conduct for Insurance Intermediaries*.

Consumers should be provided with enough information, so they can make an informed decision on whether a proposed replacement of insurance is right for them. An important part of this, is the role the life licensee has in guiding the client throughout the process by helping them to understand the available options, and the advantages and disadvantages of the replacement. Clients should also know that they can reject a purchase within a defined time period if they change their mind.

Our specific comments on the prototype are as follows:

1. The revised LIRD should improve consumer outcomes.

The current LIRD has been in place since 2008. It's important that revisions to the LIRD will achieve the goals of the Working Group. We appreciate that CISRO has included stakeholders in the consultation process. However, in addition, we suggest that regulators provide stakeholders with information related to the number and types of consumer complaints related to the replacement of life insurance. This kind of information would help focus the review on the appropriate desired outcomes, ensure any new approach meets the CISRO/CCIR objectives related to the FTC and CISRO Principles of Conduct, as well as address gaps in the current processes or identify the need for more advisor training.



2. Harmonization and implementation

Regulatory harmonization is an important goal as many advisors and insurers conduct business with clients in multiple jurisdictions. We acknowledge that it is likely to take some time for the revised LIRD to be adopted by jurisdictions outside of Quebec.

The prototype LIRD is very similar to the ‘Notice of Replacement of Insurance of Persons Contract’ in use in Quebec, although we have noted some minor variations that in general, we agree with. For example, we agree that requiring the agent to initial the incontestability and suicide clauses attesting that they have explained each of these to the applicant will help to ensure these important discussions take place. Although the AMF Notice requires the client to initial each page, the prototype requires both the agent and client to initial each page. This will help to focus the agent and the client on the importance of the content contained on each page.

The current review of the LIRD presents an excellent opportunity for the Working Group to support harmonized delivery requirements for the revised LIRD. The delivery requirements for the current LIRD and accompanying written explanation are unduly complicated by the current jurisdictional differences. In most jurisdictions, the agent must use the LIRD, but in some they have the option to use the LIRD or former Basic Disclosure Form. While most jurisdictions require the client to receive the LIRD and written explanation, only a few require the documents to be provided to the new insurer, or to both the new and existing insurer, in addition to the client. To deal with these anomalies, some insurers require the LIRD and explanation to be provided alongside the policy application, regardless of the local rule. IFB encourages regulators to streamline these requirements.

3. The prototype LIRD consultation does not include the explanatory notes for advisors and clients.

Our review of the prototype is hampered by the fact that only the form is available to us, and not the accompanying documents that are intended to assist clients and agents in explaining the replacement of insurance. Reviewing these documents alongside the form would have provided us with a better perspective as to the messaging and/or cautions that regulators want to accompany any discussion of the replacement of insurance and may have helped us identify potential gaps in the form itself.

4. The LIRD should be applicable to life insurance replacements in all distribution channels.

While most life insurance replacements would involve an agent, there can be instances where the insurance transaction does not include advice or a recommendation from a licensed life insurance agent. Any updated measures should describe the regulatory expectations when a life insurance contract is being replaced and there is no individual, licensed agent involved.

As an example, B.C.’s *Financial Institutions Act*, [Insurance Contracts \(Life Insurance Replacement\) Regulation](#) contemplates this situation:

Duties of life insurer

4(1) A life insurer who is replacing a contract of life insurance must comply with the duties imposed on life insurance agent licensees under section 3 (2) to (5) if there is no life insurance agent licensee involved in replacing the contract.



IFB suggests that updated guidance should address the regulatory expectations for insurers if a replacement of a policy is conducted direct to the client, or through a digital distribution channel where no advice is provided.

5. The LIRD should be flexible enough to be produced in various formats and accommodate e-signatures.

In today's business environment, client meetings may be held virtually. Clients and advisors need the flexibility to be able to accommodate e-signatures. As well, the form should be flexible enough that it can be produced with additional pages as required, and the size of each of the boxes should be adjustable based on the information required.

Below are some additional suggestions, and we have attached a copy of the prototype form with our specific comments inserted.

- (i) The revised LIRD has been expanded to apply to both life and health insurance policies. We see this as a positive, modernized approach, as there can be implications on replacement for consumers with critical illness and disability policies as well.

In view of this, the LIRD may be better titled to reflect this broader scope and reduce confusion for agents and consumers about its application. Alternatively, there could be 2 versions of the form – one life and one health - which may make the form shorter and less complex for advisors and consumers, as well as making it obvious the type of policy being replaced. It would allow the implications of the incontestability and suicide clauses to better reflect their applicability to life as opposed to critical illness and disability policies.

- (ii) IFB recommends adding a revision date at the bottom of each page. This helps to make clear if the appropriate form is being used.
- (iii) We recommend leaving space for the agent to indicate if s/he recommends the replacement or is following the client instructions only.

Thank you for the opportunity to comment on the prototype LIRD. Please contact the undersigned, or Susan Allemang, Director Policy & Regulatory Affairs (sallemang@ifbc.ca) should you have any questions or require further information.

Yours truly,

A handwritten signature in black ink that reads 'Nancy Allan'. The signature is written in a cursive, flowing style.

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Life/Health Insurance Replacement Declaration

If you need extra space, add pages, clearly indicating **both** the Part number **the additional pages refer to** and the declaration number (**what does this refer to?**). The agent and the client(s) must initial each page.

Part 1 - General Information

Existing insurance contracts to be replaced	Policy No. _____ _____ _____	Date in effect _____ Day Month Year _____ Day Month Year _____ Day Month Year
Policyowner Person purchasing the contract.	_____ Last name and first name _____ Last name and first name _____ Last name and first name	Date of birth: _____ Day Month Year Date of birth: _____ Day Month Year Date of birth: _____ Day Month Year
Insured(s) (If different from Policyowner)	_____ Last name and first name _____ Last name and first name	Date of birth: _____ Day Month Year Date of birth: _____ Day Month Year
Cancelled insureds Other persons covered by existing contract who will not be covered under the proposed contract. NOTE: These persons will no longer be insured.	_____ Last name and first name Type of coverage: _____ Amount: _____ _____ Last name and first name Type of coverage: _____ Amount: _____	_____ _____ _____
Additional insureds Other persons not covered by existing contract who will be Final version should not break up the box to the next page	_____ Last name and first name Type of coverage: _____ Amount: _____	_____ _____ _____



covered under the proposed contract.	_____ Last name and first name Type of coverage: _____ Amount: _____	
Insurance contract	Existing	Proposed
Name of insurer		
Nature of insurance Life, critical illness, disability, accidental death, and dismemberment, etc. (specify type: term, whole, universal life, etc.) If joint insurance, payable on	1st death <input type="checkbox"/> 2nd death <input type="checkbox"/>	1st death <input type="checkbox"/> 2nd death <input type="checkbox"/>
Date in effect	_____ Day Month Year	Not applicable
Benefit amount Amount paid on occurrence of covered risk List amounts Protection expires		
Cash value (if applicable)		
Premium amount (annual/monthly)		
Indemnity period		
Waiting period		
Additional Information re comparison (e.g., whether benefits and premiums are fixed or guaranteed, premiums payable in 10 years, at a specific age, etc.)		

IMPORTANT MESSAGE FOR CUSTOMERS

Incontestability clause

When death occurs within two years of the date on which the **insurance** contract comes into effect, the insurer may refuse to pay the death benefit if information regarding the insured's health or lifestyle was incomplete, inaccurate or omitted. An insurer may refuse to pay the death benefit if it can prove that the insured intended to commit fraud.

The two-year incontestable clause may not generally be transferred from one contract to another. Therefore, the validity of a new contract may sometimes be contested, whereas the former contract may have been incontestable.

By replacing an insurance contract, you may lose this advantage, since the two-year incontestable period begins on the day on which the proposed contract comes into effect.

In disability insurance, this clause does not apply if the disability occurs within two years of the date the proposed contract comes into effect.

Expiry date of incontestability clause

Proposed contract: year(s) after the contract comes into effect

Day Month Year

Replaced contract:

Day Month Year

I have read and discussed **this clause** with agent: (agent name)

Signed by policyowner: _____ Date: _____
Day Month Year

- Not applicable**

- I have discussed the effect of replacing the policy on the contestability clause with the client.**

Agent's initials:

Suicide clause

When death is by suicide and occurs within two years of the date on which the contract comes into effect, the insurer will not usually pay the death benefit.

Generally, the validity of a clause providing for payment of the death benefit despite suicide may not be transferred from one contract to another.

By replacing an insurance contract, you may lose this advantage, since the two-year suicide period begins on the day on which the proposed contract comes into effect.

Expiry date of suicide clause

- Not applicable**

- I have discussed the effect of replacing the policy on the suicide clause with the client.**

Proposed contract: <input style="width: 50px;" type="text"/> year(s) after the contract comes into effect <hr style="border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> Day Month Year Replaced contract: <hr style="border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> Day Month Year Read and discussed with agent: (agent name) Signed by policyowner: _____ Date: _____ <div style="text-align: right; margin-right: 100px;">Day Month Year</div>	Agent's initials: <hr style="border: 0; border-top: 1px solid black; margin-bottom: 20px;"/>
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Part 2 - Reasons for replacement

2.1 Type of replacement

___ Full replacement ___ Partial replacement

2.2 Explain why the existing contract does not meet your client's needs.

2.3 Explain how the proposed contract better meets your client's needs (e.g., better coverage, improved health/financial situation, lower premium).

2.4 Explain the disadvantages for your client of replacing the existing contract (e.g., lower coverage, additional exclusions, difference in age or medical condition, loss of benefits, higher premium, extra premium, etc.).

Policy guarantees:

2.5 Explain why you are not modifying your client's existing contract.

2.6 Explain the financial impact of the replacement (e.g., redemption fees, cash surrender value [guaranteed or non-guaranteed], cancellation fees, loans, premiums, tax considerations, policyowner dividends, registration as an RRSP, forthcoming dividend payment, etc.).

2.7 Explain the differences 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.).

Additional Information



PART 3 – Signature of policyowner(s)

Client Warning: Never pre-sign a blank or partially blank LIRD.

Having read and understood the notice information on this form,

I, _____, the undersigned,

Policyowner's first and last name

wish to replace my existing insurance contract no. _____ +

and subscribe to apply for the new insurance contract issued by _____

(Name of new insurer - include application number)

_____ Date: _____

Signature of policyowner(s)

Day Month Year

PART 4 – Signature of Licensed Agent

I/we have explained to the client(s), fully and objectively, the new policy type of insurance, as well as the advantages and disadvantages of replacing their existing insurance contract. I/we have provided a completed, signed copy of this LIRD to the client(s) and have retained a copy for my/our files as proof of this disclosure.

Where required, a copy of this declaration will be sent to the insurer of the replaced insurance contract.

Agent

_____	_____	_____	_____
Agent's last name and first name	Licence/Certificate No.	Telephone	Signature

Agent

_____	_____	_____	_____
Agent's last name and first name	Licence/Certificate No.	Telephone	Signature

Supervisor (if any applicable)

_____	_____	_____	_____
Supervisor's last name and first name	Licence/Certificate No.	Telephone	Signature

Trainee (if applicable)

_____	_____	_____	_____
Trainee's last name and first name	Licence/Certificate No.	Telephone	Signature