

“THE APPROACH” TO SUITABLE SALES

Incorporating a “Reason Why”
letter

RSM

FOR PRESENTATION TO ADVISORS ONLY

BACKGROUND – SPRING 2006

Managing conflicts of interest

- Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulators' Organization (CISRO) endorsed three principles:
 1. Client's interests must be placed ahead of those of the advisor
 2. Actual and potential conflicts of interest for advisor must be disclosed
 3. Recommended product must be suitable to the client's needs



BACKGROUND - 2016

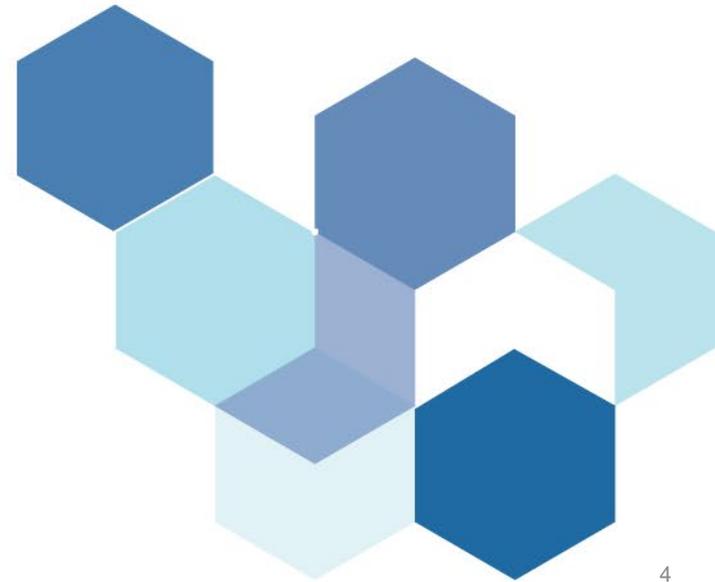
Fostering a consumer-focused culture

- Canadian Life and Health Insurance Association (CLHIA):
 - Task force to review the distribution of individual insurance products
 - Recommendations outlined in “Insurance Distribution in Canada: Promoting a Customer-Focused System” include:
 - Advisors must provide their clients with a summary of the reason why they recommended a particular product
 - Process for making a suitable sale outlined in “The Approach: Serving the Client Through Needs-Based Sales Practices” updated to include “Reason Why” letters

BENEFITS OF CUSTOMER-FOCUSED SYSTEM

Providing a client with clear information before, during, and after the point-of-sale:

- Reduces the risk of sales which are not appropriate to the client's needs
- Helps advisors manage the client's expectations
- Helps deal with client complaints and disputes in a fair manner



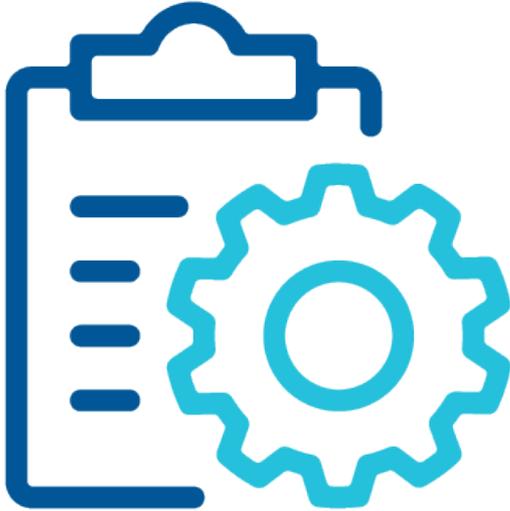
Promoting a customer-focused system through needs-based sales practices

Central tenet in the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors:

- Maintaining a strong client focus
- Having processes and procedures that protects the client
- Conducting a needs analysis prior to making a recommendation
- Providing a copy of the needs analysis, a brief description of the recommended insurance product and how it meets the client's needs

FOR PRESENTATION TO ADVISORS ONLY

NEEDS-BASED SALES PRACTICES ARE A REQUIREMENT



Equitable Life wants to support you in incorporating the change into your practice.

- Every sale must include a needs analysis and a “Reason Why” letter
- Needs-based sales practices should be included in training programs delivered by insurers and MGAs
- Insurance company reviews will check for:
 - Evidence of a needs-based analysis
 - “Reason Why” letter

“THE APPROACH”

“The Approach: Serving the Client Through Needs-Based Sales Practices”

Six elements for making a suitable sale (products that best meet the client’s needs):

1. Client expectations
2. Advisor disclosure
3. Fact finding
4. Needs assessment
5. Advise and recommend
6. “Reason Why” letter

#1: CLIENT EXPECTATIONS

What services does the client expect in the immediate transaction and ongoing relationship?

- Advisors should confirm:
 - If advice and recommendations are to be provided
 - What level of service will be provided
 - Advisory fees have been disclosed



#2: ADVISOR DISCLOSURE

What does the client need to know about the advisor?

- Written advisor disclosure should include:
 - License and jurisdiction
 - Company(ies) that the advisor represents
 - Nature of relationship with company(ies) represented
 - How the advisor is compensated
 - If the advisor is eligible for additional compensation
 - Conflicts of interest
 - A reminder of the consumer's right to ask for more information

3, 4 & 5: NEEDS-BASED SELLING

What product will best meet the client's needs?

- Advisor needs to gather facts to determine if the client needs insurance
- If there is a need, the advisor must recommend the most suitable product



#6: “REASON WHY” LETTER

Was this sale suitable to the client’s needs?

Final check by the advisor that the sale is suitable to the client’s needs

PURPOSE OF THE LETTER

For the Advisor

- Confirm facts
- Verify the direction received from the client
- Identify needs that the product meets and needs left uninsured
- Document that the sale is suitable
- Substantiate the client’s understanding of the sale

#6: “REASON WHY” LETTER (CONTINUED)

Was this sale suitable to the client’s needs?

- A condensed written version of the rationale for the client’s purchase

PURPOSE OF THE LETTER

For the Advisor

- Confirm facts
- Verify the direction received from the client
- Identify needs that the product meets and needs left uninsured
- Document that the sale is suitable
- Substantiate the client’s understanding of the sale

“REASON WHY” LETTER IS NOT REQUIRED...

- If a Life Insurance Replacement Disclosure (LIRD) has been sent.



**Life Insurance Replacement
Disclosure Form**

OR



“Reasons Why” Letter

A CLOSER LOOK AT THE “REASON WHY” LETTER



- Content
- Delivery
- Examples

CONTENT

“Reason Why” letter should identify the:

- Recommendation
 - Type of insurance being purchased, the carrier, and brand name
- Summary of key facts and needs
- Amount of coverage and gaps in coverage
- Suitability of fee structure (IVIC only)
- A call to action
 - Contact the advisor regarding inaccuracies
 - Plans to follow-up on unmet needs



DELIVERY



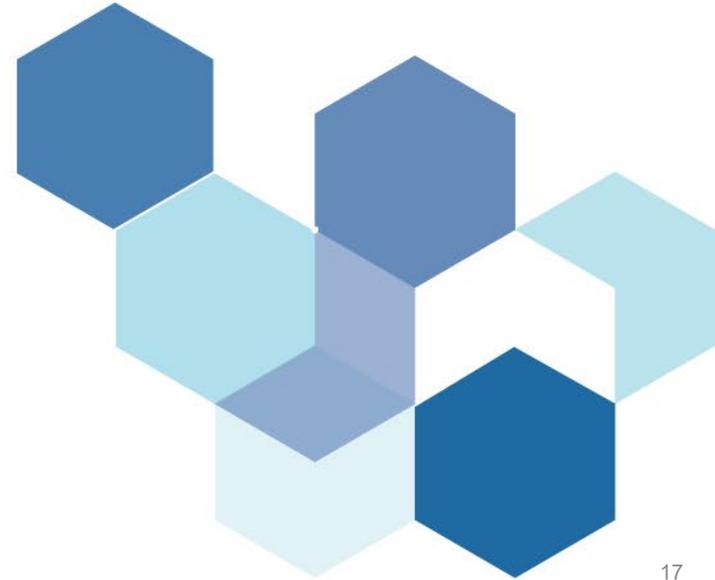
Send the “Reason Why” letter:

- No later than the date the client receives the policy
- Via e-mail if the client consents
- After each transaction

Advisors should always retain a copy of the letter in your client file and encourage clients to keep a copy of the letter for their own purposes.

EXAMPLES OF “REASON WHY” LETTERS

1. Recommendations fully implemented
2. Recommendations partially implemented
3. Wealth product with fee options
4. Order execution



EXAMPLE #1: RECOMMENDATIONS FULLY IMPLEMENTED



- Do you need a “Reason Why” letter if the client plans to fully implement your advice?
- Do you need to restate all the facts and needs identified?
- What level of detail is required regarding the amount of coverage purchased?

EXAMPLE #1: RECOMMENDATIONS FULLY IMPLEMENTED

I would like to thank you for meeting with me and allowing me to assist you with putting a solution in place to meet your financial goals.

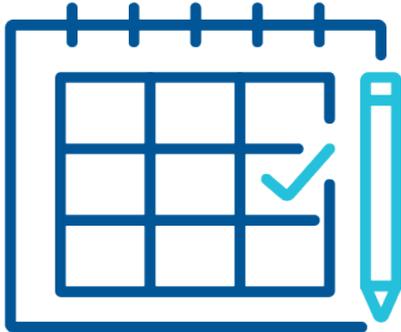
When we met, you indicated that you and your husband have just bought a house and are awaiting the birth of your first child. As the sole income earner in the family, you want an inexpensive way to either pay off your mortgage or provide funds to cover the mortgage payments in the event of your death. You indicated that you had a maximum of \$150 to spend every month.

Based on the amount and amortization period of your mortgage, I recommended that you buy a \$250,000 ten-year renewable term life insurance policy. The policy is called [name of policy] and is offered by [name of insurer]. A ten-year renewable term policy meets your immediate need for inexpensive mortgage insurance. Term insurance provides temporary coverage that expires at age 85. Premiums are guaranteed not to change for ten years.

If you still require insurance protection after ten years, you can renew this policy at a higher premium, which will be guaranteed to remain level for another 10-year period. As your financial situation changes, you have the opportunity to convert your temporary coverage for permanent protection with no medical questions required.



EXAMPLE #1: RECOMMENDATIONS FULLY IMPLEMENTED



Please let me know if any of the above information is incorrect, or if you have any questions about the policy or why I recommended it.

I have set up a reminder to call you in March before your term policy renews to discuss whether renewal or exchange would be the most appropriate option for you.

I appreciate your confidence in me and look forward to working with you in the future to ensure that your financial plans continue to meet your changing needs. If I can be of assistance to you in any other way, please do not hesitate to contact me.

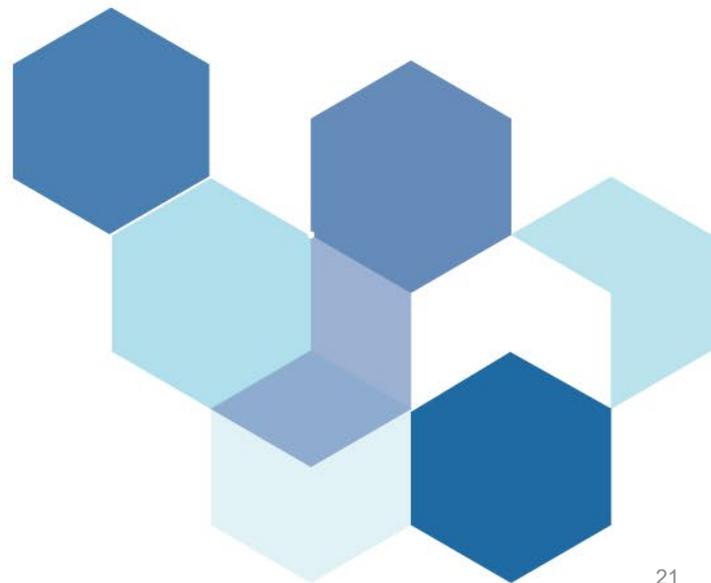
If you know someone who could also benefit from the kind of work I do, I would appreciate it if you would give them my contact information.

Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.

EXAMPLE #1: RECOMMENDATIONS FULLY IMPLEMENTED

RECOMMENDATION

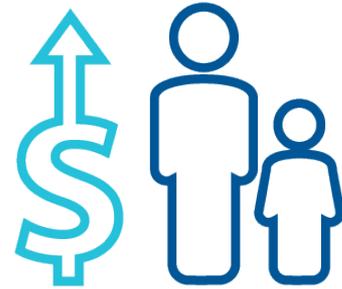
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FACTS AND NEEDS

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COVERAGES AND GAPS



A ten-year renewable term policy meets your immediate need for inexpensive mortgage insurance. Term insurance provides temporary coverage that expires at age 85. Premiums are guaranteed not to change for ten years. If you still require insurance protection after ten years, you can renew this policy at a higher premium, which will be guaranteed to remain level for another 10-year period. As your financial situation changes, you have the opportunity to convert your temporary coverage for permanent protection with no medical questions required.

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EXAMPLE #2: RECOMMENDATIONS PARTIALLY IMPLEMENTED



- How do you describe situations where your client is not taking your advice?
- Should gaps in coverage be identified?
- Is it appropriate to include plans to review unmet coverage needs at a later date?

EXAMPLE #2: RECOMMENDATIONS PARTIALLY IMPLEMENTED

I would like to thank you for meeting with me and allowing me to assist you with putting a solution in place to meet your financial goals.

When we met, you indicated that you are financially secure and are looking for a tax-efficient way to build wealth you can access while creating an inheritance for your children. You indicated that you had a maximum of \$600 to spend every month.

Based on our discussions, I recommended that you buy a \$300,000 permanent whole life insurance policy with a \$80,000 critical illness insurance rider. The life insurance policy is called [name of policy] and is offered by [name of insurer]. The critical illness insurance policy is called [name of policy] and is offered by [name of insurer].

We talked about how the life insurance policy provides tax-advantaged growth. By adding the excelerator deposit option (EDO) and making the maximum allowable additional deposits to the policy, you will be increasing the cash value you can access. The tax-free death benefit will provide your beneficiaries with an inheritance.

I suggested adding a critical illness insurance rider to your life insurance policy. Critical illness insurance would provide funds to help cover the premium so your financial plan is not derailed if you become sick and can't work.



EXAMPLE #2: RECOMMENDATIONS PARTIALLY IMPLEMENTED



You indicated that critical illness insurance is not an immediate priority and decided not to proceed with it at this time. We agreed to use the entire \$600 monthly premium to buy a \$600,000 life insurance policy.

Next year, we will meet to discuss adding a critical illness insurance rider. I have set up a reminder to call you in March to schedule our next meeting.

Please let me know if any of the above information is incorrect, or if you have any questions about the policy or why I recommended it.

I appreciate your confidence in me and look forward to working with you in the future to ensure that your financial plans continue to meet your changing needs. If I can be of assistance to you in any other way, please do not hesitate to contact me.

If you know someone who could also benefit from the kind of work I do, I would appreciate it if you would give them my contact information.

Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.

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COVERAGES AND GAPS



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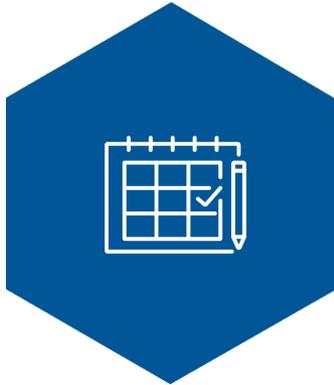
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CALL TO ACTION

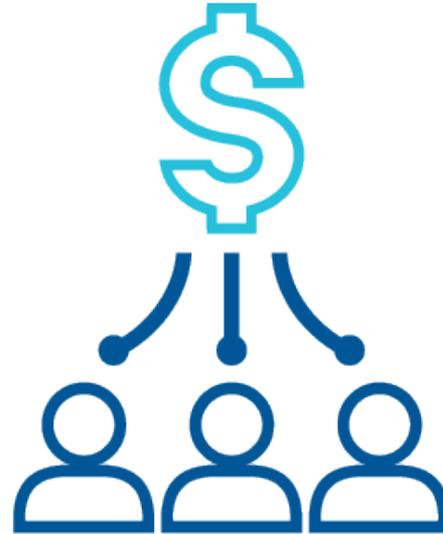
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Please let me know if any of the above information is incorrect, or if you have any questions about the policy or why I recommended it.

Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.

EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS

- Can you use a standard “Reason Why” letter for each transaction?
- What should you say about the choice of fee options (IVICs)?
- Do you still need to summarize the fact find, needs analysis, and recommendation when you sell segregated funds?



EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS

I would like to thank you for allowing me to assist you in finding a solution for your investment needs.

When we met, you indicated that you recently inherited \$20,000 from your parents' estate. You plan to retire in about 15 years and want to kick-start your retirement with a dream vacation. You would like to use your inheritance to pay for it.

We reviewed your CRA Notice of Assessment and determined that you have enough room in both your RRSP and TFSA to make a \$20,000 deposit. Each of these plan types allow investment earnings to be tax sheltered. You decided that investing in a TFSA would give you flexibility and easy access to your money when you need it. Although you wanted to invest in the equity market, you didn't feel comfortable with the risk that goes with investing in mutual funds. We also completed an Investor Profile Questionnaire. It helped us understand your attitude towards risk so we could determine an appropriate investment mix.



EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS



Based on our discussions, I recommended that you invest in segregated funds called [name of policy] held within a TFSA. These policies are offered by [name of insurer]. These segregated funds offer 100% death and maturity guarantees. The maturity date is 15 years after the deposit is made. On the maturity date, when you are ready to access cash for your vacation, you are guaranteed to receive the greater of the market value, or 100% of your initial \$20,000 investment.

Based on your risk profile, your money was deposited into three segregated funds – one medium risk, and two low to medium risk. This gives you exposure to the US and Canadian stock and bond markets. You can invest additional amounts in these funds at any time. You can also switch your investment to other funds in the contract or invest additional amounts in a different fund. You can also access your money at any time; however, doing so may have implications on the guarantees associated with the policy.

EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS

This contract has different sales charge options. You selected the no-load option because you wanted full access to your investment at any time without any surrender charges.

Please let me know if any of the above information is incorrect, or if you have any questions about your investment, the policy, or why I recommended it. I have set up a reminder to call you in March to review your policy. At that time, we can look at how your investments are performing, and whether any changes are required to ensure your policy meets your investment goals.

I appreciate your confidence in me and look forward to working with you in the future to ensure that your investment solutions continue to meet your changing needs. If I can be of assistance to you in any other way, please do not hesitate to contact me.

If you know someone who could also benefit from the kind of work I do, I would appreciate it if you would give them my contact information.

Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.



EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS



RECOMMENDATION

Based on our discussions, I recommended that you invest in segregated funds called [name of policy] held within a TFSA. These policies are offered by [name of insurer].

EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS

FACTS AND NEEDS

When we met, you indicated that you recently inherited \$20,000 from your parents' estate. You plan to retire in about 15 years and want to kick-start your retirement with a dream vacation. You would like to use your inheritance to pay for it.

We reviewed your CRA Notice of Assessment and determined that you have enough room in both your RRSP and TFSA to make a \$20,000 deposit. Each of these plan types allow investment earnings to be tax sheltered.



EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS



FACTS AND NEEDS

You decided that investing in a TFSA would give you flexibility and easy access to your money when you need it. Although you wanted to invest in the equity market, you didn't feel comfortable with the risk that goes with investing in mutual funds.

We also completed an Investor Profile Questionnaire. It helped us understand your attitude towards risk so we could determine an appropriate investment mix.

EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS

COVERAGES AND GAPS

These segregated funds offer 100% death and maturity guarantees. The maturity date is 15 years after the deposit is made. On the maturity date, when you are ready to access cash for your vacation, you are guaranteed to receive the greater of the market value, or 100% of your initial \$20,000 investment.



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COVERAGES AND GAPS

Based on your risk profile, your money was deposited into three segregated funds – one medium risk, and two low to medium risk. This gives you exposure to the US and Canadian stock and bond markets. You can invest additional amounts in these funds at any time. You can also switch your investment to other funds in the contract or invest additional amounts in a different fund. You can also access your money at any time; however, doing so may have implications on the guarantees associated with the policy.

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FEE STRUCTURE

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EXAMPLE #3: WEALTH PRODUCT WITH FEE OPTIONS

CALL TO ACTION

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Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.



EXAMPLE #4: ORDER EXECUTION

- Is a “Reason Why” letter necessary if the client knows what they want and is essentially placing an order?
- Do you still summarize facts and needs if the client states that they do not require advice?



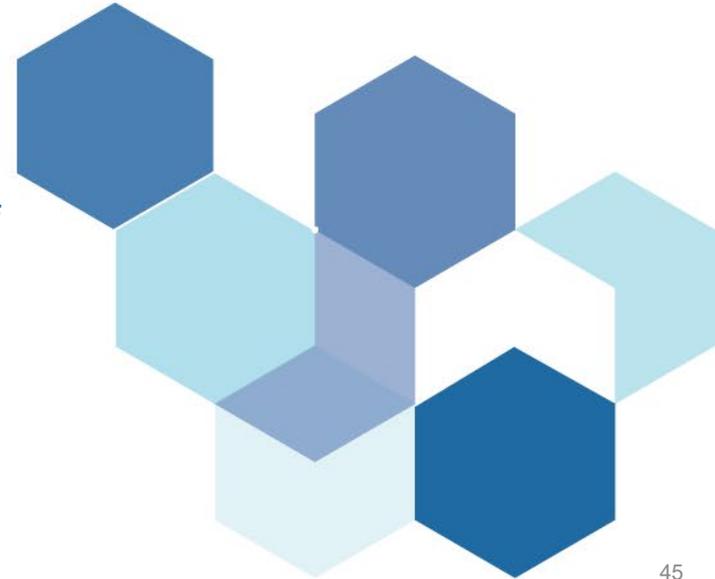
EXAMPLE #4: ORDER EXECUTION

On your request, I have submitted an application for [name of policy] with [name of insurer].

This 20-year term policy for \$500,000 corresponds to the term and amount of your mortgage. As your bank requires, the policy is collaterally assigned to [name of bank]. If you die and the death benefit is greater than the amount owing on your mortgage, the difference will go to the beneficiary you named.

Please let me know if any of the above information is incorrect, or if you have any questions about the policy or why I recommended it. If I can be of assistance to you in any other way, please do not hesitate to contact me.

Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.



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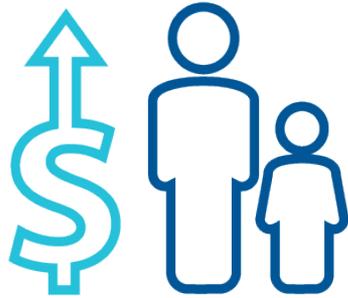


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EXAMPLE #4: ORDER EXECUTION



COVERAGE AND GAPS

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EXAMPLE #4: ORDER EXECUTION

CALL TO ACTION

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Please keep this letter with your policy contract as a reminder of the reasons why you purchased this policy.



SUMMARY

A properly constructed “Reason Why” letter:

- Confirms and documents that a suitable sale has been made
- Reminds the client about which needs they have insured and where they may still need insurance
- Summarizes the facts and details surrounding a transaction in a manner that is easy for a client to understand

FOR PRESENTATION TO ADVISORS ONLY

MORE INFORMATION

COMPLIANCE RESOURCES

It can be challenging to ensure your practice is up-to-date. We hope that the following information assists you in meeting regulatory compliance requirements, supporting your needs-based sales, and treating customers fairly.

Needs-based sales practices are a requirement. Promoting a customer-focused system through needs-based sales practices includes:

- Maintaining a strong client focus.
- Having processes and procedures that protect the client.
- Conducting and documenting a needs analysis prior to making a recommendation.
- Providing a copy of the **needs analysis**, and a **Reason Why letter**. The letter describes your recommendation and how it meets the client's needs.

Code of Conduct - Advisor code of conduct

- Our Advisor Code of Conduct sets out Equitable Life's expectations of advisors in dealing with clients and other stakeholders. The Code of Conduct forms part of your contractual relationship with us. Review the [Advisor Code of Conduct](#).

Compliance Resources

[CLHIA – Material for Advisors and MGAs](#) >

[Sample Letter – Advisor disclosure](#) >

[Sample Letter – Client Engagement](#) >

[Sample Letter – Combination Advisor Disclosure/Client Engagement](#) >

[Sample Letter – Reason Why](#) >

MORE INFORMATION

Canadian Life and Health Association Website:

<https://www.clhia.ca>

Find the CLHIA Reference Document:
“The Approach: Serving the Client Through
Needs-Based Sales Practices” at:

[https://www.clhia.ca/domino/html/clhia/clhia_lp4w_ind_webstation.nsf/resources/Guidelines/\\$file/The_Approach.pdf](https://www.clhia.ca/domino/html/clhia/clhia_lp4w_ind_webstation.nsf/resources/Guidelines/$file/The_Approach.pdf)



QUESTIONS?

FOR PRESENTATION TO ADVISORS ONLY