OPENERS

Fodder For the Water Cooler

Sales Incentives Shutdown

On the heels of a February 2016 CLHIA study that found sales-based conferences could be perceived as a conflict of interest, several insurers including Great-West Life, Canada Life, Manulife Financial, RBC Insurance, and Desjardins said they would either make changes to or completely end their advisor incentive programs.

According to Byren Innes, a senior strategic advisor in the financial services consulting and deals department at PricewaterhouseCoopers in Toronto, this has been on the minds of insurance companies for some time. “I think no one really wanted to be first because they didn’t know what the reactions would be,” he says. “But now this document, which pointed out a potential or at least a perceived potential for conflict, has given them the impetus to move forward with this.”

Conrad Toner, B.A., CFP, CLU, president of True North Retirement Counsel in Selwyn, Ont., points out that such incentives were banned in the investment industry many years ago for this very reason. “Sales incentives offered by life insurance companies to advisors are a clear and serious conflict of interest and should be banned completely,” he says. “Clearly not all advisors abuse the incentives, and it may even be a small percentage, however, there are those in the industry that regularly base their sales in any given year on which company has the best conference, or some other incentive.”

Innes says it’s a “very narrow band of advisors who would actually be incented by these programs.” For example, if the qualifying amount for a conference

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Global Certificate Program for Securities Markets Regulators Launched

The International Organization of Securities Commissions (IOSCO) and the Program on International Financial Systems at Harvard Law School (PIFS-HLS) will launch a joint Global Certificate Program for Regulators of Securities Markets, beginning in October 2016 at the IOSCO headquarters in Madrid, Spain. The program offers IOSCO members an executive education program exclusively for securities markets regulators. The first phase covers the fundamentals and intricacies of securities regulation and compliance, while the second phase will examine current and future regulatory challenges and emerging issues. “It’s an exciting program developed in collaboration with a leading university, and tailored to the aspirations of our members,” said Greg Medcraft, chairman of the Australian Securities and Investments Commission and chairman of the IOSCO board, in a media statement.

Classes begin in Madrid with a focus on current securities regulation and provide an overview of the regulatory frameworks in different jurisdictions, followed by an examination of ways of ensuring compliance with securities regulations. Next, students attend a one-week session at Harvard’s campus in Cambridge, Massachusetts to learn about “new and pressing regulatory issues.”

Professor Hal S. Scott, Nomura Professor and director of the Program on Financial Systems at Harvard Law School, said: “We are excited to work for the first time together with a global standard setter in shaping the securities regulators of tomorrow and increasing and enhancing their regulatory skills in protecting investors and ensuring the integrity of the capital markets and strengthening financial stability.”

Adds Paul Andrews, secretary general of IOSCO: “This program is a unique opportunity to bring together securities regulators from all over the world to share experiences and to learn techniques and regulatory information and strategies that are practical, innovative, and represent the very latest thinking with respect to enhanced securities regulation.”

Canadian Customers Seek Ease, Access, and Transparency

81% of customers are frustrated by companies promising one thing and delivering another

77% of Canadians expect customer service and support to be easier/more convenient to obtain

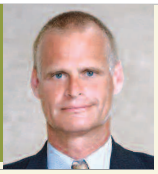
65% want multiple channel access (on-/offline) to service

53% expect more live or in-person options for obtaining service and support

Source: Accenture Global Consumer Pulse Research, 2016. View the report at accenture.com/GlobalConsumerPulseResearch

UNDERWRITING POV

BY DR. BRUCE EMPRINGHAM



Countering Client Misconceptions

There's little doubt critical illness (CI) insurance can help your clients stay on track financially even if the unexpected happens. If a client becomes ill, worrying about their finances is a stress they don't need. A lump-sum payment through a critical illness policy, and the freedom to use that money however they'd like, allows your clients to focus on their recovery and on becoming mentally and physically well again.

Helping clients understand why they should consider critical illness insurance begins with raising their awareness of the risks that life-threatening conditions like heart disease and cancer pose for all of us, even when we survive. Then they will likely be more open to understanding the product's unique advantages.

Even with a better understanding of the insurance, misconceptions may remain. Clients may suggest critical illness insurance is too expensive or worry that their eventual claim may be denied.

Advisors can help clients to see their premiums in perspective, using common examples. For instance, a 30-year-old non-smoking man can buy a $50,000 10-year term critical illness insurance policy for as low as $30 a month – less than many people spend each month on their cell phone.

Another approach is for the client to re-assign a portion of their monthly savings to their critical illness insurance policy, thereby avoiding out-of-pocket increases. Ultimately, however, the client will need to weigh the cost of premiums against the potentially devastating financial impact of a critical illness.

Regarding the misconception that "critical illness does not pay out," again, context is key. Valid claims are paid. The Canadian Life and Health Insurance Association reports the industry paid more than $340 million in individual insurance CI claims in 2014. A 2014 Munich RE Canada study found that 78 per cent of all critical illness insurance claims industry-wide were paid.

Approximately one in 10 critical illness claims insurers receive are for conditions that are simply not included in the contract. For example, claims for fractures or depression would not trigger a critical illness benefit under any of the defined conditions. Other reasons for declines — again, approximately one out of 10 — would be as a result of the lack of severity with the condition, or missing requirements.

Specific criteria must be met before a client receives a critical illness insurance payout. If their policy covers "cancer" or "heart attack," they may mistakenly believe that all forms of these conditions are considered equal under the policy and assume their claim will be paid if they are ever diagnosed. When in doubt, clients are encouraged to submit a claim so the insurer can do a full assessment of the medical situation.

Thanks to medical advances, some forms of cancers and heart conditions, for example, are not classified as *critical* or *life threatening,* and that has implications for claims. For example, today, early stages of skin, thyroid, and prostate cancers are not considered life-threatening, so the client could receive only a supplemental benefit for these, not a full payout. The same applies to certain intra-arterial procedures.

Definitions and criteria in the policy are crucial to payout decisions. Here's a section based on an actual policy example related to coverage for an *acquired brain injury.*

Acquired brain injury means damage to brain tissue caused by an occurrence of traumatic injury, anoxia, hypoxia or encephalitis, resulting in signs and symptoms of neurological impairment that:

- *are present and verifiable on clinical examination or neuro-psychological testing;*
- *persist for a period of at least 180 days; and*
- *are corroborated by imaging studies of the brain showing changes that are consistent in character, location, and timing of occurrence with the clinical symptoms and signs.*

Another important consideration is that, over time, the definitions of conditions may change to keep pace with current clinical medicine. In those situations, the contract a client initially signed takes precedence in settling a claim, even if the definition of a condition has subsequently changed. These older contracts may have more liberal definitions than what is available today because of changes due to medical advancements.

This is why you need to ensure your clients are well versed in the policy's contract language. They need to know what specific illnesses their policies cover, as well as the specific policy definitions of those illnesses. Advisors should also familiarize their clients with the underwriting process, to help them understand how their applications are evaluated and priced, as well as when and how to submit an appropriate claim, in order to reduce the likelihood of a denied claim.

Advisors will then be better prepared to help their clients make a decision that fits their life situation, armed with the understanding that a critical illness doesn't have to change one's financial plans and goals.

DR. BRUCE EMPRINGHAM is vice-president and medical director at Great-West Life, London Life, and Canada Life. He has almost 25 years' experience as a physician in the industry.

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is $100,000, then advisors making $200,000 don't have to do anything special to attend, says Innes. "That's not really an incentive — it almost becomes an expected reward," he notes. For an advisor who only does $50,000 a year, the $100,000 mark is unattainable, and therefore he is not incented either. This is really for someone who's almost at the goal line, he explains. "It's the advisor who's regularly around $100,000 and maybe it's a bit of a stretch, and he can [sell] a little bit more." But Innes asks, are advisors really going to sell company A over company B just to get a trip to Hong Kong? "Maybe, but maybe not," he concludes. Innes applauds the CLHIA and the industry for identifying these issues, getting ahead of regulation, and being proactive. "This paper is still in the discussion paper stage and already this action is coming out," he says.

Consumer protection is the theme of the year, with the second phase of the client relationship model (CRM2) set to roll out in July. For Will Britton, CFP, the lead investment advisor at Marlin Financial in Kingston, Ont., "anything we can do to be as transparent as possible is definitely the best." However, Britton wonders about some of the unintended consequences of CRM2. "As we start to answer questions with our clients about the fees that are going to the dealer, one of the things we're going to have to do is justify the value that we as advisors bring to our clients for that portion of the fee that we collect, but there is a fee that goes to a dealer as well," he notes. "At some point, I imagine we're also going to have to answer what the client is getting in return for that, and it's going to have to be client-focused as opposed to what I-the-advisor am getting or may be perceived as getting," says Britton. "A first step down that particular road as we start to have to answer some of those questions for our clients, is to ask some difficult questions of ourselves." F

DID YOU KNOW?

64% of retirees find it hard to strike a balance between enjoying retirement and making money last; and

59% are worried about making their retirement fund stretch for their remaining years

Source: Investors Group Inc. (April 2016)

Retirement Challenges

66% of Canadians are worried about dealing with serious health problems; and

42% believe they may have difficulty finding a sense of purpose

Source: *BMO Retirement*: What's Your Game Plan? (Feb. 2016)