



BRIDGEFORCE FINANCIAL GROUP

ADVISOR MARKET CONDUCT COMPLIANCE GUIDANCE (ABRIDGED VERSION OF CAILBA TOOLBOX UNIT)

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For Anti-Money Laundering and Anti-Terrorist Financing Training Program – See Canada Life Advisor AML Compliance Regime Template under Anti-Money Laundering Tools on BridgeForce website.

For Privacy Program – See “Privacy Tools” on BridgeForce website. Your program should include:

- 1. Canada Life Advisor Privacy Program or something similar**
- 2. Privacy Breach Policy (see template)**
- 3. Advisor Privacy Statement and Consent to collect personal information and to communicate electronically (see template).**

Code of Conduct for Insurance Advisors

BridgeForce promotes the CAILBA Code of Conduct for Producers, which is drawn from the codes of Advocis, provincial insurance councils and insurance companies. It is intended to give Advisors a fairly full description of the Unfair and Deceptive Trade Practices that they are required by law to avoid, as well as some of the prohibitions on conduct that insurers impose. Please ensure that you read, understand and adhere to this Code in all of your professional activities. If you have any questions or concerns, please contact the BridgeForce Compliance Officer associated with your office. See BridgeForce Insurance Advisor Code of Conduct under Market Conduct on the BridgeForce website.

Needs-Based Selling

Background

Under numerous provincial rules and insurers' codes of conduct, Advisors are required to identify the needs of their customers before making any product or concept recommendations, including for segregated funds, which are regulated as insurance products and not securities.. Having a documented needs analysis and complete client file is not a nice-to-have; it's an absolute necessity for any person providing advice and product recommendations in the financial services. The insurers' and regulators' expectation is that Advisors be able to demonstrate concrete proof of their sales practices. Advisors can expect to be audited regularly.

While Advisors tend to do a good job of assessing client needs and matching customers and products, a significant number of Advisors fail to adopt a systematic approach by using formal tools that allow them to document their fact finding and needs assessments. This leaves them vulnerable when there are consumer complaints or regulatory and insurer inquiries. In the absence of documented proof of having met the obligation to engage in needs-based selling practices, there will be a predisposition to place more weight on the customer's recollections.

In 2006, CCIR (the Canadian Council of Insurance Regulators) and CISRO (the Canadian Insurance Regulators' Organization comprised of provincial insurance councils) endorsed 3 principles for managing conflicts of interest. Among the principles was the idea that any recommended product must be suitable to the needs of the customer. The CCIR agreed that the industry should take the lead in developing a response to the principles.

In 2007, the CLHIA, CAILBA, Advocis and the IFB collaborated on a document titled "The Approach: Serving the Client Through Needs-Based Sales Practices," which is found in Reference Materials. It offers guidance on the types of information that you might need to collect or provide. The Approach is an important document that represents the consensus of industry stakeholders about what is required. It is principles-based and flexible and allows the Advisor to make decisions about how best to approach the requirements.

While The Approach offers the possibility that a needs assessment might not be necessary if the customer identifies his or her needs and approaches the Advisor, this apparent carve-out is generally intended for agents selling simple products in non-face-to-face channels such as inbound call centres specializing in term insurance sales. Advisors who place business through CAILBA members are considered to be in the face-to-face channel. In situations where they are not approached by a customer for a single needs sale (i.e. mortgage insurance), they should be completing documented needs assessments on their customers, particularly given anti-money laundering requirements to identify the customer. There have been instances where Advisors have asked customers to sign documents “waiving” a needs assessment. It should be noted that customers cannot waive Advisor obligations. In fact, if an Advisor’s files contains numerous “waivers”, it acts as a red flag for compliance officers and others and will often lead to an investigation of the underlying sale.

Form of Needs Assessment – The CAILBA members through which you place business may offer needs analysis templates on their websites and training on needs-based selling as a service to their Advisors. It is unlikely that they will attempt to dictate the form of your needs assessment, since this is a professional’s personal choice and should reflect the unique character of his or her practice. There are any number of excellent templates available free of charge on the internet and through various organizations and insurers. Additionally, if you do financial planning and use planning software, it is highly likely that you will be able to easily produce an appropriate documented needs analysis.

Needs Analysis in Quebec – if you do business in Quebec, you are required to have a signed, completed needs analysis in your file, which was presented to the client prior to making the recommendation.

Suitability and Appropriateness of Recommendations – A handful of provinces (see Sun Life Advisor Supervision Chart) place some supervisory responsibility on more senior Advisors for newer Advisors, but the suitability of product and advice belongs to the Advisor. Given the seriousness of the issue and the fact that is a provincial requirement in a number of places, MGAs may be required under their contracts to ensure that you have the tools necessary to do proper needs assessments. Indeed they may be required to audit or spot check files to ensure this is going on. Further, they may ask you to provide samples of the material you use for their records. **See Calculators on the BridgeForce website. See also Needs Analysis and KYC under Market Conduct.**

Required Disclosures

In 2005, in response to high-profile legal and regulatory events in the United States and Canada, the CLHIA, CAILBA, Advocis and IFB collaborated on reference documents for advisor disclosures in individual and group sales. They provide helpful information on the things that Advisors should consider, along with sample disclosure letters. The required written disclosures include:

1. Listing all of the insurers that the Advisor represents;
2. The nature of the relationship with the companies represented, including any ownership interests or other potential conflicts;
3. How the Advisor is compensated;
4. Eligibility for additional compensation such as travel for such things as volume of sales or contests;
5. Any potential or real conflicts of interest;
6. The fact that the customer or plan sponsor has the right to ask for more information.

As with needs analyses, it is extremely advisable that you keep signed copies of these disclosures and provide a copy to the MGA if asked. If you certify to having provided disclosures that you did not in fact provide, this could be grounds for contract termination. **See Point of Sale Disclosure on the BridgeForce website.**

Segregated Fund Disclosures

- An Advisor who sells a segregated fund is required to:
 - Deliver the Information Folder and Fund Facts documents for each segregated fund available under the contract to the customer before he or she signs the application for the IVIC. The customer may choose to receive these disclosure documents either physically (in person, mail, or fax) or electronically (e-mail or viewed by the client on-line).
 - Require the customer to sign acknowledging receipt of these documents. (It is advisable to require a copy of this receipt for your files).

 - Ensure that the customer is aware of the rescission right provided by the insurer.

The Manitoba Insurance Council offers excellent guidance on what Advisors need to know when selling segregated funds. This guidance is reproduced here. It applies to sales throughout Canada.

“It is reasonable for consumers to expect that the agent has the education and expertise to advise them with regard to the investment of their funds. Selling individual variable insurance contracts without the requisite knowledge and expertise may put the agent in jeopardy of disciplinary action or litigation. Information specific to the strategy and product must be provided to the consumer to enable them to make an informed decision. The knowledge required includes the items below:

- About Investing:
 - Principle of Risk and Reward
 - Assessing Risk Profile
 - Asset Allocation and Diversification
 - Different types of risk
 - Risk measurement tools
 - Regulatory Requirements

- About the Consumer:
 - Investment Objectives
 - Risk Tolerance
 - Investment Time Frames
 - Investment Knowledge
 - Assets and liabilities
 - Amount available for investment

- About the Individual Variable Investment Contract:
 - Maturity Guarantees available
 - Death Benefit Options available
 - Other guarantees available (e.g. GMWB)
 - Costs associated with the contract
 - Costs associated with the guarantees
 - Volatility of potential returns
 - Impact of withdrawals on any guarantees
 - Sales charges (e.g. up front, deferred, no load)
 - Resets available
 - Funds available within the contract
 - Tax implications associated with the contract

Rights if consumer should decide to rescind the contract (time frames)
Costs if contract is surrendered

- About the Funds Available Within the Contract:
Investment philosophy and objective of Fund Manager(s)
Amount and type of risk in each fund
Investments held by the fund (e.g. top 10 holdings)
Fund past performance
Technical details of fund (e.g. age, size, turnover rate)
- How the Consumer can get additional information or assistance:
Information available in Information Folder
Fund Statements
Company Website
1-800 phone number
Company Client Service, Ombudsman, Regulatory body

See Point of Sale Disclosure on the BridgeForce website for tools.

DOCUMENTATION/RETENTION

Documentation must be retained should it ever become necessary to verify that all the proper steps were taken in making the recommendations. At a minimum the following documentation should be retained in the agent's files:

Documentation of consumer contact(s)

Documentation of consumer's risk tolerance, time horizon, investment knowledge and objectives
Documentation which supports a leveraging strategy, if applicable, and client acknowledgement of risks

Documentation of transaction instructions and authorization and detailed notes of client meetings and discussions.”

Do Not Call List

Advisors who engage in telemarketing either directly or through others are subject to the CRTC's Unsolicited Telecommunications Rules, including National Do Not Call List "N-DNCL." They may not attempt to telemarket to numbers that are on the N-DNCL without express prior consent. The Advisor must understand the extensive rules and understand that he or she is required to register with the N-DNCL Operator, who registers consumers' numbers for the list, provides telemarketers with updated versions of the list and receives consumer complaints about calls. ***Referrals are not exempted because the required consent has not been received.*** Currently, there are no fees for registering but there is provision for fees at a future date.

Exclusions and Exemptions from the N-DNCL:

Service Calls

The N-DNCL rules do not apply to service calls from An Advisor, which consist of calls that relate to advice, products or services the client or prospect has purchased, applied for or inquired about, along with any calls that are required by regulation or standards of professional conduct.

Existing Business Relationship

An Advisor has an existing business relationship with a person if that person has:

- Purchased goods or services from the Advisor within the last 18 months;
- Inquired about insurance or applied for a product or service within 6 months of the call or
- If the customer has a written contract in effect or expired within 18 months of the call.

There appears to be quite a lot of latitude for An Advisor to maintain contact with his existing customers and prospects. How he or she acquires those prospects in the first place is what is at issue. Given the advent of social networking media and other means of communication, restrictions on prospecting for clients or acting on referrals by telephone appear to be manageable. **See Reference Materials - CLHIA Guidance on CRTC Do Not Call List.**

Anti-Spam Requirements

At the time of this writing, the Anti-Spam Law and regulations are due to go into effect on July 1, 2014. You are required to have explicit or implied consent for communicating electronically in business (texts, emails, postings to social media sites, even telephonic communications may be covered). While there are some exemptions, you must ensure that you understand the regulations and adhere to them. The financial and reputational consequences for non-compliance can be catastrophic. In fact, the maximum fines for non-compliance can be in the millions of dollars.

A simple way around this issue is to communicate with all of your existing clients immediately, asking for permission to communicate electronically. For new clients, appending a written consent to your privacy statement will take care of the issue. Remember that you must retain copies of the consents in both cases and you must have a mechanism for removing anyone who asks from your distribution lists within 10 days of being notified.

More information will become available throughout 2014. **See National Do Not Call List, Anti-Spam and other Telemarketing Rules on the BridgeForce website. Bridgeforce will make every effort to keep you apprised of the guidance that is available.**

Records and File Management

Records management has become a hot button issue with OSFI and the Federal and provincial privacy authorities, although for different reasons. Insurers are actively building out their records management policies and procedures and will without question turn their sights to their distributors in their risk assessments. Your MGA may perform spot checks or audits of your practices and may be able to help you to identify and repair poor record-keeping practices. Well-maintained files are An Advisor's best protection.

Customer files should contain enough information to demonstrate that a needs-based sale took place. A well-maintained file should contain copies of the material that (or detailed notes on what) was provided to the customer.

While Advisors are required to verify client ID in keeping with federal AML laws, unlike the rules around the sale of mutual funds, there is no requirement to retain actual copies of the customer's personal ID in insurance files. Much of the information contained on that personal ID must be retained, however.

Review your files regularly to identify records that are due for destruction.

A Customer file should contain the following and should be retained:

1. Needs analysis, any financial plan and investor profile
2. Copies of dated illustrations shown to customer.
3. Any email or letter communications with customer
4. Dated notes on any discussions in person or via telephone
5. Copies of any completed forms
6. Policy delivery receipt, where required
7. Any customer complaint documentation. (In Quebec, this must be maintained as a separate file).

The following items should not be found in customer files:

1. Original undelivered policy.
2. Any pre-signed blank forms.
3. Client copy of confirms or correspondence
4. Any medical information, including medical portion of application, lab tests or physician notes (all such documentation should be shredded immediately upon policy issuance).
5. Documents pertaining to other insurance policies or mutual funds (each should be held in separate files. They should not be subject to review by mutual fund regulators or insurers unrelated to the policy in question.

Complaints Management

If you are an Advisor in Quebec or hold a licence in Quebec, there are certain requirements to which you must adhere, including the establishment of a complaints protocol. You must be aware of these requirements.

You are required by the CAILBA Advisor Code of Conduct to maintain a Complaint log that includes:

- Customer name
- Policy or document number
- Advisor name
- Date of complaint, (written or verbal)
- Recipient of complaint
- Individual handling the complaint
- Summary of complaint (details should include whether a regulatory body is involved.)
- Whether the complaint was reported to the insurer and/or MGA and the contact information.
- Steps towards resolution
- Statement of resolution and date of resolution.

It is vitally important that you keep this log in good order. It is a protection for your business. You may be called upon to produce the complaint log in regulatory and insurer audits.

Responding to Insurance Company Requests

Many insurers' contracts require you to cooperate and be responsive to requests for information. Contracts also generally call for cooperation and assistance in responding to complaints or investigations into business practices or conduct. Insurers typically expect to be provided access to your records related to all matters

governed by the contract. Failure to cooperate can be grounds for contract termination and in some cases, reports to regulators.

Regulatory Audits and Inquiries and Legal Proceedings

Some insurers' contracts require you to notify them of any interactions you have with regulators, in particular any enforcement actions or legal proceedings. It is critically important that you notify your errors and omissions insurance carrier as well. Depending on the nature of the audit, inquiry or proceeding, you should consider contacting your outside legal counsel for direction and assistance.

Membership in Professional Associations

The concept of "independent Advisor" is virtually unheard of in the other financial services and participants from rules-based regimes tend to look askance at the structure of distribution in the life insurance business. At the same time, there is no evidence that the end consumer is less protected or less well-served in our sector. However, independence comes with some strict obligations, including development of your own AML, privacy and market conduct programs, policies and procedures.

CAILBA has provided this guidance manual to you as a courtesy to assist you in building your compliance program. It is your obligation to take action and do the things you are required to do by regulation. Your MGA is there to assist.

Membership in a professional association like CAILBA or IFB offers even more assistance. For one thing, most insurers, regulators and MGAs would consider professional membership to be a form of "control." It counts as a positive in assessing An Advisor's suitability.

Membership has other distinct advantages. Professional organizations strive to make information about regulatory and legislative changes available to members, in part to keep them current and in part to ensure that members have an opportunity to weigh in on matters that concern them. Associations exist to protect and advance their members' interests. They also offer continuing education, networking opportunities and professional development. If you are not currently a member of an association, it is wise to investigate your choices and give thought to joining.