

INTRODUCTION

The Life Insurance Council, in conjunction with the Canadian Association of Insurance and Financial Advisors (formerly Life Underwriters Association of Canada) and the Canadian Life and Health Insurance Association had developed a new Life Insurance Disclosure Form. This form has been designed with the consuming public in mind. As such, it has been prepared in a plain English format to allow for a clearer understanding and disclosure of the important details which should be considered prior to replacing a contract of life insurance.

The replacement of life insurance contracts is a controversial issue. The Life Insurance Council does not suggest that one type of product better suits the needs of a consumer to a greater degree than another product. The Life Insurance Disclosure Form has been designed to provide the purchaser of life insurance with the basic information they will require to make an informed decision when considering the replacement of one contract of life insurance with another.

The replacement of life insurance contracts in Alberta is governed the Replacement of Life Insurance Contract Regulation, Alberta Regulation 127/01 ("AR 127/01"). **This Regulation came into force on September 1, 2001, at which time its predecessor AR 63/90 was repealed.**

In the event a replacement, as defined in Section 1(b) of AR 127/01, the agent or agents and the new insurer have a responsibility to comply with the requirements of AR 127/01. This guide has been developed by the Life Insurance Council to assist agents in the completion of the Life Insurance Disclosure Form, should it become necessary to replace a contract of life insurance. Non-Compliance with these requirements could subject the agent or agents to the penalties set out in Section 480 of the Act and AR 125/01.

Alberta Regulation 127/01 consists of fourteen sections which; define replacement, describe the agents responsibility when replacement of an in force contract is recommended by an agent or directed by the policy owner. It also provides the consumer with the right to withdraw the application and receive a full refund within 20 days of the date the completed disclosure statement was signed by him. Agents who recommend, or who are instructed by the policy owner, to replace a contract of life insurance should become familiar with their responsibilities under the regulation. An additional section has been added to this regulation to deal with circumstances where there is no agent involved in the replacement. In these situations the insurer that is replacing the policy must comply with the regulation as if they were an insurance agent.

The Life Insurance Disclosure Form must be completed prior to the taking of a new application. Legibility is a must when completing this form. If the information on the form

can not be read it is of little value to the client. Agents who do not present the form in a legible manner would not be in compliance with the regulation.

Page One on the form titled **Life Insurance Disclosure Form** (“BDS”) provides the policy owner with several facts that are crucial in determining whether a contract should be replaced. The policyowner is asked to review the information contained in the BDS.

Prudence suggests that the agent should explore the clients current insurance portfolio to determine what their intentions are with respect to an in force contract should a new purchase be made.

For the purpose of completing the BDS, values extracted from the policy, or most recent statements provided by the insurer will be accepted.

Part A General Information

Item 1 Policy Number :

Existing insurance:

This area is self-explanatory however, it should be noted that each policy being replaced must have a separate BDS completed. In the case of a family, this would include each individual policy on a separate form. Attempting to provide a multiple of policies on a single form would most certainly be confusing if not misleading. No tolerance will be given to agents who place multiple policies on the same Life Insurance Disclosure Form.

Proposed Insurance :

It is unlikely that a policy number has been assigned and if this is left blank there is no great concern.

Item 2 The Life Insurance Company for this policy is :

In this area you must enter the name of the existing insurer and in the right hand column the name of the proposed insurer.

Item 3 This policy is dated :

In completing this section the agent must provide the date on which the existing policy was issued; as the proposed insurance will not be issued at that point it is not necessary to provide any information in the proposed column.

Item 4 Name of the person to be insured :

This area is also self explanatory and should be the complete name of the person or the life to be insured. This should be consistent in both the proposed insurance and the existing insurance.

Item 5 Date of Birth of the person(s) whose lives are to be insured :

This section again is self explanatory. Dates should be provided in a day/month/year format.

Item 6 This policy is owned by :

Existing Insurance : If the life insured is not the policy owner then insert the policy owners name here, examples would be the spouse, mother, father, business partner or corporation.

Proposed Insurance : If the life insured is being covered under a contract in which multiple lives are being insured then insert the name of the policy owner here.

Item 7 This policy is commonly referred to as :

Existing insurance: Provide the generic name of the policy in this space example, Whole Life, Term, Universal Life, etc. Marketing names given to these products by the issuer are not acceptable substitutions for the proper description. If the agent is not sure what type of policy is being reviewed they have a duty to find out before recommending a replacement and completing a BDF and a new application.

Proposed insurance :

The agent replacing the insurance should be well aware of the generic type of insurance which is being proposed. Again marketing names are not acceptable substitutions for a proper description of the policy being recommended.

Item 8 Do any of these situations apply to you :

This section is self explanatory. It requires the agent to complete the check boxes by asking the questions of the insured or life insured and recording the appropriate response in the check box. Check as many boxes as necessary to properly describe the coverage.

Item 9 Is this policy and RRSP?

Again the provisions on the BDS form are in the Yes/No format. The question must be asked of the insured and the response recorded appropriately.

Item 10 Suicide Period on this policy expires :

This also requires the agent to provide a date. This date should be entered in day/month/year format. This time period is generally tied to the date of issue on the original policy.

Item 11 Contestability period on this policy expires :

This section also requires the agent to provide a date in the day/month/year format. This time period is generally tied to the date of issue on the original policy.

Item 12 Other benefits attached to this policy are :

The dialogue following the question provides a description of the benefits indicated by the acronyms. A review of the in force policy will tell the agent whether these benefits are applicable to this coverage. In the event there are benefits that are not noted in the check list please check the Other Category and specify what benefits apply. Check as many boxes as necessary to properly describe the coverage.

Item 13 Is this policy eligible for dividends :

In both the existing and the proposed insurance columns provision has been made for a yes/no check box. A review of the documents on the existing insurance will demonstrate to the agent whether or not this is a participating policy. With respect to the proposed insurance the agent proposing the replacement should certainly be aware of the status of the proposed insurance.

Item 14 If so, what dividend option was selected :

In both the existing insurance and proposed insurance columns, a series of check boxes which outline the most commonly used dividend options has been provided. If the policy that you are reviewing does include a dividend other than those noted please check the Other box and specify what the dividend option is.

Part B Premiums

Item 1 This policies premium will :

In this area with respect to both the existing and the proposed insurance the agent should identify by way of one the check boxes provided whether the policies premiums will; stay the same, increase, decrease or fluctuate. A more detailed demonstration of the policies future premiums will be dealt with in Part H. The selection should be made with respect to the basic insurance only and not wavier of premium or other additional benefits.

Item 2 The premium for this policy is now :

With respect to the existing and proposed insurance the disclosure form provides for the input of a dollar amount and the selection of an increment by which the policy is paid. The selections here are; every month, quarterly, twice a year or once a year. The amount reported in this section should include the premium associated with the entire policy including additional benefits. If called upon to do so, the agent must be able to provide a breakdown of the premium stated and the source of those answers.

Part C Death Benefits

Item 1 This policies Death Benefit will :

Again you are provided with check boxes, the agent must select; increase, decrease, stay the same or fluctuate. This is required in both the existing and proposed insurance.

Item 2 If the person dies today, the basic death benefit the policy will pay is :
The amount included here should be the face amount of the insurance and should not include paid up additions, term riders or coverage provided by way of enhancements.

Item 3 Additional guaranteed death benefits will :

We are provided with check boxes again, the options being; increase, decrease, stay the same, fluctuate or does not apply. At least one selection must be made in this area. For policies which contain an increasing or decreasing death benefit Section H will provide the opportunity to elaborate on that coverage.

Item 4 If the insured person dies today, the extra death benefit the policy will pay is:

The figure entered in this area should be representative of the sum total of the paid up additions, term riders which are attached to the policy and the death benefit of any enhancement on the policy. Values of funds attached to the policy, which are guaranteed at death, should also be included in this section.

Item 5 If the insured person dies today the total death benefit the policy will pay is:

The figure entered in this area should be the sum of the basic insurance coverage, all additional guaranteed death benefits and all extra death benefits, including paid up additions, term riders, enhanced benefits minus any loans or surrender charges applicable to the policy. While the agent is expected to put in a final total here, the agent will be responsible to understand where they received these numbers from and must be able to respond at the request of the regulators as to how they calculated this benefit.

Part D Guaranteed Cash Values

Item 1 Does this policy have a guaranteed cash value or will it have a guaranteed cash value in the future :

The agent is required to check either yes or no in this area.

Item 2 The minimum amount of money you would receive from this policy if you canceled it today is:

The figure entered here by the agent should be the sum total of the guaranteed cash value, the cash value of any paid up additions or funds, minus any loans or surrender charges which may be applicable to the policy. The agent is required to report the current cash value but must be accountable for how this calculation was established.

Part E Universal or Variable Life

Item 1 Is this a Universal or Variable Life Policy:

The agent must respond either yes or no with respect to both policies.

Item 2 The minimum amount of premium you can pay is:

This area requires the agent to report the minimum amount of premium attached to the death benefit of the policy

Item 3 The maximum amount of premium you can pay is :

In this area the agent must provide the maximum amount of premium that can be deposited to this policy.

Item 4 The cost for the insurance part of this policy is :

The agent must indicate whether the insurance existing is either; guaranteed, not guaranteed or guaranteed for a specific number of years.

Item 5 The expenses for this policy are :

The agent is asked to report whether the expenses are either; guaranteed, not guaranteed or guaranteed for a specific number of years.

Item 6 The minimum guaranteed interest rate is :

In this area the agent must report if the policy contains a minimum interest guarantee.

Part F Reasons for Replacement

Item 1 This policy you now have does not meet your needs because :

The agent making the recommendation to replace an existing contract must clearly state the reasons which suggest the existing policy no longer meets the clients needs. If as an agent you have not recommended that the existing policy be replaced but have been instructed by the policyowner to complete the replacement comments to that effect should be enter here.

Item 2 This policy you are considering better suits your needs because :

The agent making the recommendation to replace an existing contract must clearly state why he feels the policy being recommended better suits the clients needs over the existing policy.

Part G Explanatory Comments

This area has been provided for the agent to insert general comments which are felt to be of importance and are not addressed in another area of the form.

Part H Future Values

This Section is divided into three subsections. If the presentations or illustrations you are using demonstrate only guaranteed values, then only the first sub-section of Part H must be completed. When completing this sub-section the agent must complete all portions which are applicable to both the existing and the proposed insurance. Policies which contain enhancements or dividends which are guaranteed for a period should be reflected in this section. If requested, the agent must be able to substantiate the information which has been provided.

If the presentations or illustrations you are using demonstrate values which are not guaranteed then the agent must complete sub-section two. In sub-section two the agent must provide the information contained on the illustrations supplied by the proposed insurer. Illustrations applicable to the existing insurance must be obtained and considerations should be given to the existing policy with regard to projected dividends or other growth related products. The agent must be able to substantiate the source of the information used to complete these sections.

If a presentation has been made in sub-section two which speculates or projects an assumed growth, then an opposing position which will describe what will occur if conditions worsen must be provided in sub-section three. Again the agent must be able to substantiate his statements made on the form.

Part I Consumer's and Agent's Statements

This section requires the signature of those involved in the new purchase. Agents should remember that a separate BDS is required for each policy being replaced. After completing the BDS and reviewing it thoroughly with the client the agent must obtain the clients signature on this section of the BDS. In circumstances where the agent recommending the replacement is a Level 1 agent the agent must have the BDS countersigned by an agent who holds a Level 2 license. As noted on the form, the Level 2 agent must consider his responsibility in providing this signature very carefully, for when he signs the BDS he accepts responsibility for the form as if he had completed it himself. The Level 2 agent who does not ensure the completeness and accuracy of the BDS prior to signing it may be exposing himself to the sanctions previously discussed. Both agents must include their certificate number (i.e. L12345-1997) off of their Alberta Certificate of Authority, on the BDS at time of signing.