



BY

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# GOOD FORM

The insurance industry's disclosure rules weren't made to be broken.

Rules and regulations form the hallmark of every industry. By adhering to them, an industry has a better chance of remaining honest. And those who break the rules are a danger to us all.

The life insurance industry is no different. It has its fair share of rules and regulations designed to protect companies, advisors and most important, consumers. In most cases, consumers are not aware these regulations exist and it's up to the advisor, through a process of self-regulation and honesty, to ensure these standards are consistently upheld.

The rules governing life insurance policy replacements are outlined in the Ontario Insurance Act Section 1 of O. Reg. 674, R.R.O.1990, as amended by O. Reg. 761/94. And those rules obligate an insurance advisor to encourage a client to maintain his or her existing life insurance coverage. In other words, it is usually better to maintain a previously activated policy rather than replacing it with a newer contract.

Granted, there are many reasons why advisors would want to replace contracts, and at times replacement is justified.

It's relatively easy to demonstrate to a prospect why he or she would be better served by replacing an existing contract, but even a well-seasoned business profes-

sional can be stumped when trying to compare the bonus structures of two universal life policies.

To help protect the consumer, the industry introduced the Life Insurance Replacement Rules and the Life Insurance Disclosure Form. Simply stated, if the advisor really believes an insurance contract should be replaced, reduced in value, or paid up, then a form comparing the old contract with the new contract must be completed and signed by both the advisor and the client. The form must be fully completed prior to the signing of the new application, and it must be forwarded within three days of signature to both the new company and the old.

The latter action lets the current insurer and the current advisor know that a replacement is being considered. A diligent company and advisor would then have the ability to review the comparison form, contact the client and attempt to conserve the policy. Also, the advisor might be able to demonstrate to the client that the existing contract can simply be changed and need not be replaced. Followed correctly, the procedure gives the client an opportunity to hear both sides of the story.

The application asks the client: "Are you expecting that by putting this policy in place an existing policy will be replaced?" If the

reply is yes, then a replacement form must be completed. Unfortunately, there are circumstances in which advisors either don't answer the question correctly or fail to follow the rules.

For the most part, an advisor would not welcome completing the replacement form because to do so will most likely prompt a call from the existing insurance advisor to the client. The recommendation would be scrutinized by that advisor and the case might not be completed—it might also prove the new recommendation isn't in the client's best interest.

However, the consequences of not completing a Disclosure Form can be serious to the advisor—a complaint lodged with Advocis can result in disciplinary measures and an agent can lose membership and be reported to the Financial Services Commission of the province in which he or she practises. And in some circumstances, an advisor who encourages a client to ignore the replacement question on the application, or not to complete a Disclosure Form can lose his or her licence, either temporarily or permanently.

Life insurance replacement rules are not made to be broken. They are made to maintain the integrity of the industry and to protect the client. Advisors who do not abide by industry regulations are a threat to their profession and to the purchasing public. <sup>AE</sup> **BROWN**