COMBINED INSURANCE COMPANY OF AMERICA

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AN OVERVIEW OF THE FINANCIAL AND INSURANCE INDUSTRY

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CONTINUING EDUCATION ON THE WEB
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INTRODUCTION – FINANCIAL INSTITUTIONS

LEARNING OBJECTIVE

For students to gain a general overview of the financial services industry.

In order to fully understand and appreciate the role of life insurance and life insurance companies (and agents) within the financial and estate planning processes, one must first be able to visualize how life insurance companies "fit" within the overall financial services industry. It is important to be able to assess regulatory safeguards available, and the financial products and services offered by insurance companies, in relation to their competition.

Canada has six major types of financial institutions:
• chartered banks;
• life and health insurance companies;
• property and casualty insurance companies;
• securities firms;
• credit unions and caisses populaires; and
• trust, mortgage and loan companies.

Chartered Banks

Canada is considered to have one of the most efficient, reliable and low cost banking systems in the world. Banks are Canada's primary deposit-taking institutions and are major contributors to the nation's official money supply.

Canada's federal Bank Act permits two types of chartered banks:
• A Schedule I Bank is a large institution with broad Canadian ownership. The Bank Act restricts individual shareholders to a maximum of 10% of voting shares and not more than 25% of ownership may be in foreign hands.
• A Schedule II Bank may be closely held or foreign-owned (like the Hong Kong Shanghai Bank of Canada – HSBC).

Canada's eight Schedule I banks are some of the largest and strongest banking institutions in the world and account for more than 80% of Canada's bank branches.

SAFETY AND REGULATION OF BANKING IN CANADA

Banking is a heavily regulated industry in Canada, and this regulation is designed to instill confidence in the security of the banking system. Banking is governed at the federal level by the Bank Act and the Office of the Superintendent of Financial Institutions (OSFI), which monitors banking practices for compliance with the Bank Act. Banks also engage in self-regulation through their trade association, the Canadian Bankers Association (CBA). This association has been responsible for such self-regulation as a privacy code to protect bank customer confidentiality and guidelines to prevent financial crimes, such as money-laundering.

Bank depositors are further protected by the Canada Deposit Insurance Corporation (CDIC), an organization formed in 1967 under the Canada Deposit Insurance Corporation Act. The CDIC protects deposits in a bank, trust or loan company against losses due to the failure of a member firm, to a maximum amount per depositor, per member institution. Term deposits with a term of five years or less and payable in Canadian currency are insured, as are savings and chequing accounts, money orders, travelers cheques, certified cheques and drafts, and debentures issued by loan companies.

Note that mutual funds, stocks, investments in mortgages, Treasury bills, foreign currency deposits and bonds and debentures issued by governments and corporations are not insured, nor are term deposits that mature more than five years after the date of deposit.

The CDIC may also intervene in the affairs of a member institution to avert a failure. The CDIC periodically examines the affairs of member institutions to obtain information for deposit insurance purposes, and it may act as lender of last resort to provide short-term liquidation loans.

Life and Health Insurance Companies

Canada's life insurance companies have grown to become some of the country's major financial institutions, amassing enormous pools of individual and pension fund long-term savings. Savings are channeled into productive investments, which help to keep down the cost of life and health insurance and to guarantee future benefits for policyholders and beneficiaries. These savings provide capital funds to meet Canada's perpetual high demands for long-term investment and credit for railways, dams, public utilities, residential and commercial mortgages, etc. Over the past 155 years, many commercial and industrial success stories have been supported by the long-term investments and loans of life insurance companies across Canada.

Bonds are favoured investments of life insurance companies, comprising some 40% of total industry assets. As the companies will be obliged to meet long-term obligations many years into the future, bonds provide needed stability of both income and capital, long-term, to support these obligations.

The insurance industry continues to be a major source of financing for governments at all levels. Insurance companies also engage in detailed self-regulation through their trade association, the *Canadian Life and Health Insurance Association* (CLHIA). Working in concert with the provincial Superintendents of Insurance over many years, the CLHIA has developed and implemented extensive guidelines on consumer disclosure and insurance practices that have been endorsed by the industry to better serve the public.

Similarly, the largest insurance agents' association, *Advocis* (formerly the *Canadian Association of Insurance and Financial Advisors*), has developed and implemented with its members a compulsory Code of Professional Conduct designed to provide the highest levels of competent and ethical service to the consumer.

COMPCORP (NOW ASSURIS)

The Canadian Life and Health Insurance Compensation Corporation (CompCorp) was established by the industry in 1988 to administer and fund the insurance industry's consumer protection plan. Assuris insures, within limits, Canadian policyholders against loss of benefits should a member company become insolvent and be forced to wind up its affairs. All federally licensed and most provincially incorporated insurers are required to be members of Assuris.

In the event of insolvency, Assuris will arrange for payment on covered policies, up to certain limits. Thus, annuity payments will continue, death and disability claims will be honoured and arrangements will be made for the continuation of life insurance coverage.

In April 1999, the Canadian liquidator of Confederation Life declared that policyowners would receive 100% recovery on their policy benefits. This means that, in the three life insurer insolvencies since World War II, more than 99% of Canadian policyowners received full recovery of their benefits, and no policyowners lost more than 10% of their benefits.

Property and Casualty Insurance Companies

About 230 private, non-life insurance companies insure Canadians' cars, homes, businesses, and liabilities, with automobile insurance being, by far, the largest class of general (i.e., non-life) insurance sold. A few companies also sell a limited amount of accident and sickness insurance. The industry has annual sales of $18 billion and controls assets of more than $40 billion. However, the relatively short-term nature of the insurance contracts offered (typically one-year) means that long-term pools of investment capital are not required, and therefore are generally not accumulated.

Created in 1964 at the suggestion of the Superintendent of Insurance for Canada, the *Insurance Bureau of Canada* (IBC) is the national trade association of property and casualty ("P&C") insurers.

SAFETY AND REGULATION OF PROPERTY AND CASUALTY INSURERS IN CANADA

If a property and casualty company went bankrupt, the Property and Casualty Insurance Compensation Corporation (PACICC) would come to the rescue of the policyholders. PACICC will pay up to a maximum of $250,000 for unpaid claims for losses arising from a single occurrence. If a claim exceeds that amount, the claimant may eventually be reimbursed for some or all of the balance from funds released by the liquidator.

PACICC will also pay up to 70% of the unexpired portion of premiums, to a maximum of $700 per policy, from the date of the insurer's collapse.

Property and casualty companies, with a few exceptions, must belong to PACICC and pay a small levy to cover its operating costs. Should there be insolvency, PACICC responds to claimants and the remaining member companies are later assessed for their respective shares of the costs involved.

Securities Firms

Canada has an active securities industry consisting of over 100 major Canadian securities firms, plus affiliates of a number of foreign securities (investment) dealers that operate subsidiaries within Canada. These firms employ more than 40,000 people in Canada and abroad. Most of Canada's largest securities dealers have been absorbed by the large banks in recent years.

Securities firms (also often referred to as "investment dealers") sell investments to the public and provide underwriting and corporate financing to business clients. Further, as underwriters of new issues, investment dealers structure offerings designed to raise capital for both corporate and government issuers of equity and debt securities. They are also involved in privately placing corporate securities with wealthy private investors, institutions or corporations.

Investment dealers are required by provincial regulators to be a member of a self-regulatory organization. With about 200 investment dealers as members, the *Investment Dealers Association of Canada* (IDA) is the self-regulatory national association of the Canadian securities industry.

The IDA screens all investment advisors who are employed by member firms and audits investment dealers to ensure the maintenance of adequate capital. The IDA reviews member handling of client accounts, investigates complaints and has the power to prosecute individuals and firms. The IDA may impose reprimands, fines, suspensions and expulsion, if warranted.

Canada has stock exchanges located in Toronto, Montreal, and the West. Toronto accounts for, by far, the greatest value of total trading volume on Canadian exchanges (measured in dollars). Each stock exchange is regulated by the province in which the exchange is located, and each exchange also regulates the securities firms that are members of the exchange.

Most Canadian securities firms belong to the Canadian Investor Protection Fund (CIPF), an organization designed to protect investors against losses due to the insolvency or bankruptcy of a member firm. The CIPF provides coverage up to $1,000,000 for a client's general accounts at a member securities dealer, plus an additional $1,000,000 for each of various other types of accounts.

Credit Unions and Caisses Populaires

Canada has a well-developed and increasingly sophisticated network of credit unions, also referred to as "caisses populaires" in French-speaking regions. These are generally local cooperative associations owned by their depositors, and they numbered about 2,440 across Canada in 1999. Their services are usually limited to accepting deposits and making personal and mortgage loans. However, some credit unions and most caisses populaires also offer small business loans, chequing accounts and lines of credit, with a few offering nearly complete banking services.

The credit unions offer their customer consumer protection through the Credit Union Deposit Insurance Corporation (CUDIC), offering coverage similar to that of the CDIC.

Trust and Mortgage Loan Companies

Trust and mortgage loan companies may be incorporated under either federal or provincial legislation, or within the jurisdiction of the territories. There are more than 35 trust companies in Canada, however, most of the largest trust companies have been purchased by banks during the last 15 years.

A trust company takes deposits and operates much like a chartered bank, however, trust companies are the only type of institution permitted to offer fiduciary services (executorship and trusteeship). Mortgage loan companies take deposits and make mortgage loans within their communities, and most of the major companies are affiliated with banks or trust companies.

Funds on deposit with trust companies are protected by the Canada Deposit Insurance Corporation (CDIC), the same as those on deposit with the chartered banks.

INTRODUCTION – THE INSURANCE INDUSTRY

LEARNING OBJECTIVES

For students to gain a general overview of the insurance industry: commercial insurance, life insurance, etc.

The private-sector "insurance industry" in Canada consists of two major components: property and casualty insurance, and life and health insurance.
The industry is subject to both federal and provincial jurisdictions.
The differences and relationships of federal and provincial regulation of Insurance are discussed more completely later in this module.
The following text deals briefly with general insurance and then, more substantially, with the life and health insurance industry.

General Insurance

While cooperation and risk sharing among the vulnerable have existed since earliest times, formal arrangements for reimbursement of losses in the modern form (insurance) developed fairly recently. Protection for ship owners and merchants, against the risk of loss at sea, was the first type of formal "insurance" developed.

In 1804, the Phoenix Insurance Company opened the first Canadian insurance office in Montreal. In 1839, the Gore District Fire Insurance Company was formed in Upper Canada as the first mutual fire insurance company.

By 1905, 40 companies offered fire insurance in Canada; 17 British, 13 Canadian, and 10 American. Total premiums paid were $14.3 million and losses were $6 million. Today, as we have seen, about 230 non-life insurance companies operate in Canada with annual sales of $18 billion.

The largest proportion of property and casualty (P&C) coverage is provided under personal lines, which involve home and automobile insurance and other coverages needed by individuals. Commercial lines involve protection against property and commercial losses suffered by manufacturers, contractors and a wide variety of other enterprises.

Federal and provincial authorities have largely regulated P&C insurers to ensure their solvency, to ensure fair rates and to promote the broadest possible availability of coverage. For example, it is mandated that automobile insurance be provided to those with poor driving records through special pooling mechanisms, although at high cost. All provinces regulate automobile insurance rates and several governments have even taken over the provision of auto insurance. In these provinces, private insurers may be limited to providing "top-up" coverage.

Established in the late 1980s, PACICC, the P&C industry's protection fund, protects consumers against the insolvency of most P&C firms. Coverage is not extended to companies selling specialty lines of insurance, as their customers are deemed to be "experts" in their fields and are not in need of "consumer" protection.

The "general" or "property and casualty" insurance industry provides reimbursement for property and other financial loss.

Life and Health Insurance

Regardless of fluctuations in economic conditions, the life insurance industry in Canada has generally maintained an outstanding record of stability. This record is by no means accidental. Life insurance is based on scientific principles, the quality of management in every phase of operations is high, and government legislation and supervision of the industry are very sound.
Because of the extent to which life insurance affects the public interest, and because of the nature of its long-term obligations, supervision exists under both federal and provincial jurisdictions.

SAFETY AND REGULATION OF LIFE AND HEALTH INSURERS IN CANADA

Federal/Provincial Regulation

The major role of federal legislation and regulation is to ensure the financial soundness of federally registered insurers so that their future obligations can be met. Similarly, provinces monitor the financial condition of the (few) provincially incorporated insurers, although some provinces contract this function to the usually better-equipped federal government.

In addition, as prescribed under the British North America Act, each province regulates the insurance contracts and trade practices of insurers operating in that province, including:
• licensing and conduct of agents;
• terms of insurance contracts;
• unfair practices;
• disclosure to consumers; and
• confidentiality of consumer information.

Courts, Tribunals and Commissions

Court decisions have an impact on the practices of insurers and on the interpretation and jurisdiction of insurance contracts. These decisions can have a profound impact at the operating level of the industry and this can lead to important amendments to business practices.

Self-regulation

The industry much prefers to engage in maximum self-regulation, rather than the imposition of more remote and often less flexible, or less timely, rules imposed by governments. Historically, this approach has been very effective in the case of industry-wide associations that meet regularly to identify and address areas of concern. All industry trade associations meet either regularly, or as needed, with regulators to help resolve problems as efficiently, effectively and economically as possible. Trade associations such as CLHIA and Advocis have usually been able to voluntarily implement revised trade practices to enhance consumers' interests and protection, thus avoiding unwieldy or laborious legislation and government supervision.

Regulators and the life insurance industry agree that increased consumer knowledge and information are key to consumer protection. Products, services and complex legislation and taxation have become increasingly important to financial and life insurance plans. Consequently, the industry has made available to the public extensive free explanatory and advisory services.

For example, the CLHIA provides a national free hotline in English and French, responding to an average of 65,000 requests for information and brochures annually. Further, specific detailed information must, by law, be provided to consumers before the sale of some particularly complex products may be completed.

Provincial regulators and industry associations such as Advocis have cooperated for years in designing and mandating extensive training courses and requirements to ensure that only tested and qualified advisors offer their services to the public. They have similarly cooperated in disciplining, and even banning, those relatively few dishonest or incompetent advisors who transgress.

Advocis (and its predecessors), has worked for most of the 20th century to promote and, with provincial regulators, to enforce a Code of Ethics that placed consumer interests above the interests of insurance advisors. Regulators and provincial Insurance Councils endorsed the Code and its provisions, ensuring the integrity of the industry and the provision of quality service to the public.

Recent Events and Trends

The 1970s and '80s witnessed an increasing enthusiasm in financial and government circles for deregulation. Against a backdrop of:

- increasing competition;
- financial innovation;
- inflation (low or negative real interest rates in the late 70s, a 21% bank rate in Canada in 1981);
- wage and price controls (1975);
- instability in energy pricing (oil prices fell by 50% in 1986);
- the U.S. savings and loan crisis of the 80s;
- Black Monday (October 19, 1987 – the Dow Jones Index fell 23%), and
- the near-collapse of the overheated “high-tech” computer sector in 2000-2001, also had a profound impact on the collective psyche of consumers, and the industry regulators, as we enter the earliest years of the 21st century.

In the '80s and '90s, Canadian banks moved closer to becoming fully integrated financial services groups in order to better serve an increasingly fragmented and competitive marketplace. Today, almost all major securities firms and trust companies have been taken over by banks as a result of financial deregulation. Banks and their new affiliates / subsidiaries are now the major providers of consumer loans and mortgages in Canada. The separation between the pillars of the financial industry has largely disappeared.

Banks have also mounted a continuing strong campaign to be allowed to sell insurance in their bank branches and to be allowed to provide other financial services. This campaign has met limited success to date, however, lobbying efforts continue.

Life Insurance

Financial deregulation has fundamentally affected life and health insurers in a number of important ways.

Increased competition has meant slimmer profit margins, increased product diversification, increased emphasis on return on investment, and a pressing need for access to capital. These developments have encouraged numerous mergers and alliances in the industry, with the total number of insurers declining over the last dozen years. Integration and the overlap of insurance, investments and banking proceed, often behind the scenes.

Product proliferation, along with increased consumerism, have resulted in demands for higher education, training and disclosure standards to be met by insurance companies and agents. Regulators have been active in imposing more demanding new agent licensing standards, continuing education requirements, privacy constraints and ethical standards. Even higher requirements are being considered. These developments each will have consequences for insurers’ operating costs and operational alternatives. As well, they will affect the operations of individual agents and brokers.

Life insurers and agents are also now much more involved in providing “investment-type” products, including universal life policies, segregated funds and mutual funds. This broadening of product lines has been encouraged by the maturity of the baby boom generation (about one-third of the population) and the huge growth of RRSP investments as well as insurers’ needs to increase revenues and maintain market share.

Increased product complexity and a desire for improved consumer protection have resulted in heightened levels of government attention to the insurance industry. The Canadian Council of Insurance Regulators (CCIR) is an inter-jurisdictional association of insurance regulators. The CCIR exists to promote, in cooperation with other financial regulators, an effective regulatory system and harmonized insurance policies and regulations across Canada.

The Canadian Insurance Self- regulatory Organization (CISRO) is a national organization of licensing and regulatory authorities for insurance intermediaries. Members consist of representatives from British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Newfoundland and Nova Scotia.
CISRO has been an informal organization for many years, but has formalized its structure and has more fully articulated its strategic planning goals.

LEARNING OBJECTIVES

For students to appreciate the critical role that a life insurance agent can play in the financial planning process.

THE ROLE OF THE AGENT IN FINANCIAL PLANNING

A survey by the Financial Planners Standards Council has shown that only 40% of Canadians say they have a written financial plan and one-quarter of them had done the work themselves. Of the other three-quarters, 77% couldn't say what designation their planner had. The key value of being a recognized financial planner is having the ability to provide confidence to the consumer.
The Certified Financial Planner (CFP) designation is emerging as a respected standard (13,000 current Canadian CFPs, 60,000 current students), however, it will take time to achieve full public recognition and acceptance.

In many ways, life was much simpler in the past for consumers of financial services. One purchased one's property and casualty insurance from a general insurance agent, one purchased life insurance from a life agent, banks did banking, stockbrokers sold stocks and, on rare occasions, one used trust company services.

Today, most Canadian adults own RRSPs and participate directly or indirectly in equities ownership. Once a relatively straightforward purchase of a guaranteed investment certificate from a trust company, RRSPs are now offered aggressively and competitively, in a myriad of forms, by all players in the financial marketplace.

Once a simple purchase from a stockbroker, stocks now can be, and often are, purchased inside or outside of RRSPs, inside or outside of Canada, through arrangements simulating such ownership, through index funds, derivatives, etc., etc. Selection of an appropriate mutual fund from one of several different types of providers today can involve the review of literally thousands of quite different options.

These days, establishing the optimal financial plan for oneself and one's family can be impossibly complex for non-specialists. The advisor in this minefield may be:

- a self-proclaimed "financial planner" or financial planning firm with perhaps no official designation or training;
- a bank or trust company employee who may or may not have specialized training;
- a stockbroker who is in need of frequent trading commissions;
- a life insurance agent mostly interested in life insurance sales; or
- an accountant, lawyer or brother-in-law, who may or may not have relevant qualifications.

Complex tax law, hugely varied financial products, cross-selling of all kinds and de facto integration in financial services have made the quality of advice more important than ever before.

Example: It is 2005, and Karl Stein owns a mid-size graphic production company with 15 full- and part-time employees. Karl is 52, married with three children, and he has just completed his now-traditional annual financial review.

Chuckling to himself, Karl recalls his earlier attempts at financial and risk management, dealing separately with a number of stockbrokers, investing for himself online, trying to research investments and keep up with tax law, dealing with three different insurance and estate planners, all the while concentrating on building his fledgling business. Those were hectic days indeed.

Karl has recently held his annual meetings with ABC Financial Network Associates, a firm established five years ago by his old friend and golfing buddy, Harry Lum. Harry's firm of Certified Financial Planners and associated professionals have definitely simplified Karl's life.

Each year now, Karl takes advantage of a seasonal slow-down of work in August to review his comprehensive financial and life-goals planning document. This plan was first prepared with the help of Harry and his associates in a series of meetings three years ago, and Karl now annually updates the document to reflect the year's growth in assets and changes in circumstances and plans.

Included in the annual review are all aspects of Karl's personal investment, insurance and estate plans, his wills (final and living), his plans for parental and family support, and his firm's succession planning: life and health insurance programs, general insurance needs, banking, investment and credit arrangements.

Most of last year's arrangements remained valid, with some updating, but there were a number of new areas to pursue. As a sole proprietor, Karl has a particular interest in ensuring the continuation of his business, regardless of his state of health. He is also most interested in plans for a secure and well funded retirement. This year he also wanted to consider the pros and cons of taking his firm public. As well, he wished to learn more about the possibilities of tax sheltering through a retirement compensation arrangement.

The actual planning/review session with the financial planners and Harry's associates was held on three different half-days. ABC will now follow a scheduled program of investigating the topics requiring further information, implementing the decisions made so far, and coordinating all steps with Karl, his banks, insurance firms, his lawyers and his accounting firm.

While a few further meetings will be required just before and after the end of the year, Karl has complete confidence that ABC's team of professionals will follow through on all details, as agreed. Each ABC associate is licensed as required, each is certified in one or more financial, legal or other specialties, each undertakes ongoing professional development, and each has demonstrated his or her worth in previous meetings and projects on Karl's behalf.

Because ABC is a diverse group of specialists, Karl knows that, if new credit arrangements are desirable, if employee benefits become an issue, if his portfolio needs to be rebalanced, if new liability coverage is needed, or if legal advice is required, someone at ABC will be on top of it. They all know Karl's circumstances, his objectives, his risk tolerance and his plans for the future.
There will be no more running around, no more feeling confused and anxious, and no more doubting the motives of what was an ever-changing stable of "advisors."

While Karl has come to expect a high degree of professional competence from the pros at ABC, what he enjoys most of all is the sense of being in complete control. He now plans when he knows he should plan. He gets the advice and direction he needs when he needs it. He can see progress toward his goals, month by month. Karl can now concentrate on what he loves best, building his business. Karl has real peace of mind. Maybe he should let Harry win the next golf game.

THE HISTORY OF LIFE INSURANCE

LEARNING OBJECTIVES

To assist students to understand the history and philosophy behind insurance.

For most people, surviving the perils of even everyday life prior to the Industrial Revolution was very difficult. The variety of foods available was very limited. Having enough to eat was always subject to the vagaries of weather, crop and animal diseases and incessant human conflicts. There were no organized charities or government assistance programs. Food storage was primitive. Medical care consisted of blood-letting and the use of herbs of limited effectiveness. People could die of the most common diseases or casual infections. In the words of Thomas Hobbes (1588-1679), "no arts; no letters; no society; and which is worst of all, continual fear and danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short."

Since earliest times, people have attempted to reduce the hardships caused by life's uncertainties through a variety of ingenious mutual-assistance arrangements. For example, aid to those who became ill, injured, or aged, or aid to the families of those who died prematurely, was sometimes provided by the extended family, the clan, one's guild of fellow workers, orphanages, poorhouses, etc. Unfortunately, such help was very often inadequate or simply unavailable, and extreme hardship was a common fate of the unfortunate. With increased urbanization, commerce, use of money, social changes and the eventual arrival of the Industrial Revolution, more sophisticated methods of risk pooling became both necessary and possible.

The Principles of Insurance

When something insured is destroyed or otherwise lost – a car, a house, or a human life – the insurance company pays the owner of the insurance policy an economic benefit to help to compensate for the loss. While insurance can't replace a loved one who has died, the money received can at least ease the economic hardship of the loss. The risk insured with life insurance is the direct or indirect loss of money (capital or income) that may occur as the result of someone's death.

Just as only a very few buildings burn down in any one year, only a relatively small percentage of individuals will die during a given year. By accumulating statistics on actual losses, actuarial systems have been developed to predict the chances of such losses occurring. These systems cannot foretell which persons will suffer a loss, but they predict with extraordinary accuracy how often a loss will occur. This knowledge enables us to "pool," or share, our risks of loss.

Essentially, if each person contributes a small, fair amount each year, the total of the contributions can be deposited into a reserve fund from which the few individuals who suffer a loss can be reimbursed. Thus, the resources of the many can be utilized for the benefit of the unfortunate few who need assistance. Under this concept of risk pooling, an insurer uses the payments – called premiums – from a large number of customers to pay the claims of a relatively small number of people.

As far back as Roman times, ship owners would mutually agree to share the risks of shipwreck, piracy, etc., with each ship owner guaranteeing to pay a portion of the losses of the unlucky merchant whose ship did not return to port. This process eventually became more formal and organized when Edward Lloyd opened his London coffeehouse in the late 1600s. It became a meeting place for ship owners who would make agreements with groups of wealthy merchants to protect the cargo of their ships. Each merchant would accept a portion of the risk for a share of the premiums paid by the ship owners. The term *underwriter* stems from this period, since a sheet of paper describing the risk would be passed around the coffee house and individuals would write their names under the risk, signifying their willingness to insure a portion of that risk.

The first known life insurance policy was written in England in 1582 on the life of one William Gybbons. The policy was taken out by Richard Martin, citizen and alderman of London, for a period of one year for 400 pounds sterling at a premium rate of 8%. Mr. Gybbons did not survive the year and the first life insurance policy became the first life insurance death claim.

Underwriters were understandably reluctant to issue insurance policies for periods of more than one year, given the frequency of widespread plagues during the 17th and 18th centuries.

However, in the two centuries following Mr. Gybbons' death, advances in hygiene, medicine, public health and mathematical techniques led to the ability to design insurance plans that provided protection for the duration of life, and to widely offer these plans on an affordable, commercial basis.

During the 18th and 19th centuries, mutual benefit life insurance companies were developed in England and eventually spread around the world. The first Canadian company, now known as the Canada Life Assurance Company, was founded in 1847.

By 1910, there were 43 companies licensed by the federal government to transact life insurance business in Canada. By the end of 1999, there were 127 active life insurance companies in Canada, employing over 100,000 agents and staff and providing nearly two trillion dollars of life insurance protection. Canadian companies also operate successfully in many countries around the world. William Gybbons would surely be impressed.

The Personal Risks that Most People Face Include:

LEARNING OBJECTIVES

For students to gain an understanding of the nature and impact of the three personal risks that most people face (death, disability, retirement).

Premature Death – the risk that one won't leave enough money to pay for final expenses or to ensure that dependants can live at a secure and comfortable standard. This can include paying for final income taxes (including tax on capital gains), outstanding debt, estate objectives such as bequests and education funds, probate costs, etc. Frequently involved is a need to provide income for a surviving parent, spouse or children, over an extended period.

Example: Frank is 30, married to Joan, he has twin girls age 7, and has recently opened a small business distributing advertising flyers and coupons to apartments and residences in his city. If Frank were to suddenly die, Joan would need cash for existing credit debt, for final expenses and taxes and to pay off the bank loan that funded the business start-up. She would also need an income to provide for the family, at least until the girls are independent and have completed their education. Frank's will provides a bequest to his church and both he and Joan are determined that the girls attend university. Considerable amounts of money will be needed to pay off the mortgage on the house, to provide for an education fund, and to support Joan and the family for many years into the future. Life insurance provides the only affordable means of providing the protection needed by this family.

Poor Health – the risk of having to pay medical expenses or of losing income because of an accident or illness. Sick or injured persons may desperately need reimbursement for health-related expenses, the replacement of lost earnings (including loss of business earnings) and payment for accidental death or dismemberment.

Statistics show that about one-third of persons now aged 35 will suffer a disability lasting six months or more, before their 65th birthday. On average, the disability will last more than five years, and 30% of those disabled persons will be disabled for life.

The Likelihood of Long-term Disability compared with the Likelihood of Death

Deaths per 1,000 lives			Long-term disabilities per 1,000 workers					
			Male			Female		
Age	**Male**	**Female**	**3 Mths**	**1 Yr**	**2 Yrs**	**3 Mths**	**1 Yr**	**2 Yrs**
37	2.40	1.89	16.52	4.84	2.67	30.05	5.05	2.29
47	5.32	4.05	21.70	7.27	4.66	37.96	6.05	3.31
57	12.49	8.03	34.35	12.66	9.32	41.43	10.62	6.57
67	30.44	17.43	43.32	21.71	19.80	48.95	15.76	12.37

Note that the morbidity rate (risk of disability) for females with regard to short-term disabilities (3 months +, but less than a year) is always higher than for males. At the

younger ages, in fact, the short-term morbidity rate for females is about twice that for males (30.05 for females aged 37, versus only 16.52 for males the same age; and 37.96 for females aged 47, versus only 21.70 for males). This trend reverses for disabilities lasting longer than a year or two.

Males, conversely, tend to have higher mortality (risk of death) rates than females, at all ages. The slight difference between their mortality rates (2.40 for males aged 37, as compared to 1.89 for females aged 37) increases dramatically with age. By age 67, the death rate for males is almost twice that for females (30.44 to 17.43).

In any event, during peak working years (age 37 to 57, in the chart) the instance of short-term disability for both males and females is dramatically higher than the instance of death. For example, a 37-year-old female has a risk of short-term disability that is almost 16 times her risk of death!

Even for older clients, the risk of short-term disability is considerably greater than the risk of death.

Example: Evangeline is 40, divorced, and, with three friends, has opened a specialized architectural consulting company. The business has operated for four years and has become very successful, although the 60-hour weeks take their toll. If Evangeline were to become disabled and unable to work, she would still require most of her usual income, however, she would be unable to contribute to the company's profits. Thus, her associates would have to cover her work, the company would have reduced profits, and it would become increasingly difficult to pay her the income she needs.
A disability income insurance policy would provide the income Evangeline needs and would allow the company to continue to prosper, unencumbered with the financial drain of a non-productive associate. Insurance proceeds could also be available so that Evangeline's associates could buy out her share of the business, should it appear that her disability will be an extended or permanent one.

Outliving Resources – the risk of having inadequate resources in the final years of retirement. Most people wish to face retirement with the peace of mind of knowing that they have sufficient financial resources, properly arranged, so that they need never worry about outliving them and becoming dependent on relatives or charity.

Example: Homer and Madge Samson have successfully raised three children who have now left home. Homer is now considering taking early retirement, in perhaps five years, from his work as an engineer in a small Montreal construction firm. This couple would like to sell their city place and move to a cottage near Chalk River. However, they are unsure that their assets will support this dream. In estimating their small future pension plan income, their government pensions and moderate RRSP resources, Homer and Madge expect to have about $35,000 per year coming in. However, they both come from long-lived families and fear both future inflation and the possibility of eventually outliving their resources.

Investment and financial planning advice would help Homer and Madge in assessing the adequacy of their future income and in planning a savings program that could turn their dream into reality. The use of various annuity and other plans can also ensure that they never outlive their income and that reasonable potential inflation can be accommodated.

Insurance Products

For an overview of the various types of insurance and investment products available and a summary of insurance product distribution methods, see the Appendix at the end of this Module.

LEARNING OBJECTIVES
To understand the primary types of product distribution options in the Canadian life insurance industry.

PRODUCT DISTRIBUTION OPTIONS

Some insurance companies advertise to consumers through direct mail, television, a kiosk in a department store, airport or mall, etc., offering to sell an insurance product directly to the public, often without the intervention of an insurance-licensed intermediary. Typically, the products offered are travel insurance, accident insurance, supplemental health insurance, and relatively small amounts of life insurance (often targeted at seniors). These insurers, who may also sell insurance in other ways, are performing what is known as "direct marketing," using a "direct response" system. Direct marketing may be a reasonable option for the sales of commodity-type insurance products, such as homeowners and automobile insurance, but it is less appropriate for more complex products or situations.

A number of insurers will offer their products through a corporate partner, for example when a bank offers "mortgage insurance" to its customers who are taking out a new mortgage. Similarly, a large retailer will often mail its customers an offer of insurance, which, in fact, will be delivered and administered by a life insurance company that has made a cooperative agreement with the retailer.

Tremendous amounts of insurance are placed every year on a group basis whereby, for example, a large Canadian corporation (or union, university, association or other definable group) will ask its insurance broker, or consultant, to shop the market for group life insurance for the corporation's employees (or the union's members, the university's alumni, etc). The broker or consultant will recommend one, or several, insurers and the insurance company ultimately selected will provide the required insurance to the employees.

Other group insurance sales are sometimes made by a salaried group representative who is an insurance company employee selling group life and health insurance or group pension plans. Often, group representatives also work with insurance agents and brokers, or consultants, when making sales of group products.

Under the “multiple-line agency system,” agents distribute not only life and health insurance and annuities, but also property/casualty lines of insurance. In this system, the different types of insurance offered have usually been issued by a group of financially affiliated insurance companies.

Agents and Brokers (Life Underwriters)

Historically, the majority of life insurance products have been sold by life insurance agents (representing, for the most part, a single insurer) and brokers (under contract to, and providing insurance products of, a number of insurers). Agents and brokers seek out business, motivating their clients to act to secure the protection and estate-building products that are needed.

From the earliest times in the insurance business, an insurance company would organize a “branch office,” or an “agency,” in a city or region, with several to dozens of insurance agents who were recruited, trained and supervised by the branch manager. The agents held contracts with the insurer, while the manager was usually an employee of the insurer.

In the past, Quebec was the only province to allow a life insurance agent to act as a broker, representing more than one company. In recent years, however, other provinces have permitted this, but only after the agent has spent a specified minimum time in the business.

Over time, a general agency system has evolved, whereby a “general agent” acts as an independent business person. The general agent establishes and owns an agency and contracts with one or more insurers to sell the insurers’ products in a defined territory. Individual agents (who may be contracted with other insurers) and brokers work under contract to the general agent, but their contracts are subject to the terms of the contract between the general agent and the insurance company.

Also, some quite large general agencies operate very independent insurance sales operations contracted with a number of insurers, often providing a variety of administration and marketing support services to agents and brokers. These services may range from simple application processing up to, in the largest general agencies, the assistance of tax, legal and product specialists.

Variations in the Distribution of Insurance Products

Due to natural evolution and the competitive nature of the industry, today there is a very wide range of product distribution options available to serve the Canadian consumer.

In addition to the huge branch office, general agency, multiple-line and direct response systems outlined on previous pages, there are:

- insurance companies concentrating most or all of their efforts on religious, ethnic or language groups, or on specific geographic areas;
- companies selling smaller, “burial insurance” policies exclusively;
- life insurance specialists operating within general insurance (i.e., property and casualty insurance) brokerage and consulting firms;
- stock brokers and mutual fund salespeople who sell life insurance products as a secondary but complementary service;
- fraternal benefit societies providing insurance exclusively to their members; and
- specialized estate or financial planners, working on a fee-only basis, or on commission, or on a combination basis, who assist individuals or firms in maximizing their wealth and in planning to overcome risks.

To date, banks have been precluded from selling insurance products on their premises, in order to avoid any possibility of coercion. Banks are also precluded from selling life annuities, which require actuarial expertise. The banks have responded by purchasing or founding their own insurance companies, or by making alliances with existing insurance companies. Banks will likely maintain pressure for unrestricted access, as deregulation of the financial services industry continues to evolve.

Looking Ahead

Increased globalization, competition, technological change and industry deregulation have engendered numerous insurance mergers, strategic partnerships and alliances. These changes are provoking enormous innovation in new product development and changes in the delivery of improved insurance products to consumers.

For example, today’s better-informed consumers can now connect directly with insurers, agents and brokers to secure information or even to shop for and purchase insurance products. The Internet and the Web, quite literally, bring the world to the clients’ doors. Many non-traditional entities such as banks, stockbrokers and other financial advisors, are striving to become licensed to sell life insurance products. The long-term effects of the entry of these powerful new players in the insurance industry will be profound.

BASIC ROLE OF THE AGENT IN THE SALES AND DISTRIBUTION PROCESS

LEARNING OBJECTIVES
To understand the life agent's role in the sales and distribution process.

Introduction – History

Following the issuance of the first known life insurance policy on the life of William Gybbons in 1582, many life insurance companies were formed in England, and, as the concepts were expanded and refined, in most countries around the world.

From the first, it was obviously necessary that insurance purchasers must be completely confident that their funds would be held in the utmost safety. Accordingly, insurance companies were founded by the most sober, successful and trustworthy citizens in the community. For example, in 1881, North American Life (now Manulife Financial) commenced business with Alexander Mackenzie, Canada's second Prime Minister, as its president. Manufacturers Life was established six years later, headed by Sir John A. MacDonald, the first Prime Minister of the Dominion of Canada.

Once an insurance company was established, energetic individuals were sought to explain the benefits of life insurance to potential insureds and to secure their participation. In seeking agents to represent an insurer in a community, only the most upright and successful persons were in a position to reassure the citizenry that their funds would be secure over what policyowners hoped would be a very long period prior to their deaths. In an age when even banks could routinely fail, this level of trust was not easy to establish.

It soon became apparent (and remains apparent to this day) that a good many people were reluctant, or even unable, to seriously consider the possibility of their own demise. Most people were subject to the quite human belief that death or disability would happen "to someone else," or would occur at some far-distant date, and they were uncomfortable contemplating their own mortality.

An additional problem lay in the intangible nature of insurance itself. Sacrificing current assets, which were always needed for some urgent or desirable purpose, in return for a promise on a piece of paper that one put away in a desk was difficult for those of limited financial means. The buyer's only immediate benefit was peace of mind.

Obviously, life insurance had to be fully and carefully explained and potential customers had to be effectively provided with reasons to sign up immediately. In other words, insurance services had to be sold, and prospects had to be educated, motivated and well served by honest and highly qualified agents.

Despite initial difficulties and challenges, the life insurance industry in Canada has prospered over the last 155 years. The Canadian life insurance industry's assets now exceed $500 billion and a large majority of Canadians enjoy the security of a measure of personal insurance protection. This progress would not have been possible without the energy and perseverance of hundreds of thousands of dedicated life insurance agents.

Today, while the methods used by life insurance agents to distribute their products are varied, in every case the agent must satisfy numerous responsibilities and duties to clients, to insurers and to the industry generally. In addition, the distribution of insurance services and products is regulated by governments in a number of important and pervasive ways.

A life insurance agent may, rarely, simply fill a customer's order, for example by accepting a deferred annuity deposit from a customer who simply calls in the order. More usually, the agent must actively seek out appropriate individuals who will, currently or at some point, require the agent's services or products. Through explaining his or her services, through performing service work for the prospective client, and through building a reputation in the community, the agent will slowly build a clientele of persons who come to see the agent as a valuable advisor.

Agents typically offer service, advice and products in some or all areas of estate planning, financial planning, business insurance, disability insurance, wealth accumulation and life insurance. In every activity, the agent will strive to develop a reputation for expertise and superior service.

Once successful, the insurance agent will have a clientele of hundreds of individuals, families and businesspersons who will look to the agent to fulfill their varied needs for financial services. Of course, to remain successful, the agent must continue to maintain expertise and to offer superior services in this very competitive field.

As the one financial advisor who, perhaps uniquely, actively seeks out clients and urges them to attend to their responsibilities to their families and to their own long-range planning, the life insurance agent often acts as the agent of change.

It is the agent's role to propose ideas, to suggest methods of minimizing risk, and to explain how the client's estate may best be arranged, etc. Playing a central role in the course of identifying and quantifying financial goals and in planning and assisting in arranging wills, investments, business holdings, insurance and other confidential affairs, the agent must use his or her knowledge in each area for the benefit of the client. The agent is always careful to suggest that the client also consult with the appropriate specialist (lawyer, accountant, etc.), as necessary.

Life insurance agents must appreciate that their clients expect a great deal from them. Consumers are more knowledgeable than ever before, but life insurance transactions can be complex and clients rely upon their agent to educate and advise them. Agents must spend the required time with their clients so that the clients fully understand the product they have purchased. If a client has any question with respect to a term or condition contained in an insurance application or policy, an agent must provide an adequate explanation that is understood by the client.

LEARNING OBJECTIVES
For students to familiarize themselves with the major functions of a life insurance agent.

FUNCTIONS OF THE LIFE INSURANCE AGENT

The life agent's role can vary, but there are four major functions:
(1) to see enough people;
(2) to uncover financial problems;
(3) to illustrate effectively how life insurance, retirement and disability products can assist in the solution of those problems; and
(4) to motivate positive action now, instead of later.

"To see enough people," means arranging to meet, under favourable circumstances, an adequate number of high-quality prospective clients who will not only have needs for insurance products but who will also have the good health, financial resources and character to address those needs. While the methods for identifying prospects of this quality are varied, by far the finest opportunity to secure a new client occurs when a satisfied client recommends the agent's services.

Example: Rachel Ramirez, life insurance agent and financial planner, arrives at her office after a breakfast meeting with an existing client to find that Dirk Jackson, owner of a local building supply business, wishes her to call. Dirk was impressed to hear of the estate planning advice Rachel provided recently to one of his suppliers, and he would like to discuss disability insurance with her. As the key employee of his firm, Dirk can readily understand how his business would suffer should he become disabled.

In order to be of service, the agent must obviously secure the client's cooperation in reviewing his or her complete financial situation, so that any recommendations arrived at are appropriate and feasible for the client's circumstances. More importantly, however, the agent plays a key, "catalytic" role in helping the client to carefully identify and quantify his or her specific goals for estate plans, bequests, business continuation, disability income protection, retirement and investment objectives, family income protection, children's education, etc.

Regardless of the client's situation – millionaire business owner, single student or young breadwinner – the agent applies his or her knowledge of government benefits, taxation, investments, and insurance in order to help the client identify what personal and business goals are desirable and feasible, in light of the client's current and anticipated financial situations.

Example: During a preliminary meeting with Mr. Jackson, Rachel learns that he is a 55-year-old widower with three grown children, that he established his building supply firm seven years earlier, and that he has recently started to make regular RRSP deposits. Mr. Jackson's company has a $120,000 loan at the bank and typically owes a further $300,000 in trade debt, almost all of which he has personally guaranteed. The business is worth about $1,000,000.

During their discussion, Rachel raises the question of Mr. Jackson's plans for the continuation of his business should he become disabled or die. She points out the cost of satisfying the capital gains tax liabilities that will have to be faced one day, and she suggests the possibilities of usefully rearranging some debt and of achieving tax-deductibility for life insurance, which the bank has recently requested to cover the bank loan.

Rachel explains her professional qualifications and her membership in the industry's professional associations, then outlines in some detail the services she can offer. While reviewing a sample estate plan, Mr. Jackson is somewhat surprised to learn that there are several tax-saving arrangements from which he might benefit. He agrees that Rachel should perform a full financial planning analysis.

Rachel next collects financial statements and a personal inventory of assets and liabilities from Mr. Jackson, and arranges meetings with his accountant and lawyer. She holds several meetings with Mr. Jackson to help him to identify and visualize the financial and life goals that would be important to him in the various scenarios of dying too soon, becoming disabled or upon reaching retirement age.

The agent next carefully examines the client's needs, resources and objectives, arriving at recommendations that will provide the desired results as effectively and efficiently as possible. In the course of developing these recommendations, the agent may draw on technical expertise available from insurers or general agents. He or she may consult with the client's other financial advisors, may do hours of tax, law or other research, and will survey the insurance market to find the most appropriate product recommendations.

Example: Mr. Jackson has some U.S. real estate and he intends to retire to Arizona in perhaps 10 years. He also wishes to transfer ownership of his business, over a reasonable period, to his eldest son, who has worked in the business since its inception. Rachel consults with legal and accounting experts in the Head Office of one of the insurers with which she has a contract, concluding that the establishment of a family trust will be one of the recommendations she will propose to Mr. Jackson. She also develops a series of recommendations for Mr. Jackson's will, for disability income and disability buy-out insurance, and suggestions for the replacement of non-tax-deductible debt with tax-deductible debt.

Rachel next calculates a savings and investment program which will enable Mr. Jackson to retire when he wishes, without draining the resources of the building supply company. She outlines the procedure by which the company can be transferred in a tax-efficient manner to his son. In all, her written analysis and proposal runs to 22 pages.

The agent then presents to the client, to his or her family and, if necessary, to the family's or business' financial advisors, a fully detailed and complete statement of the client's goals, the financial parameters involved, the problems identified and recommended solutions to those problems. If insurance products are recommended, full disclosure is made of the financial and other features of each product.

Example: In a two-hour meeting with Mr. Jackson, Rachel reviews in detail his various financial and life goals, the problems with his current arrangements, and her recommendations to ensure that his goals may be achieved. With Mr. Jackson's permission, she has worked with his lawyer, who fully supports Rachel's suggestions.

Mr. Jackson is pleased to see that the rearrangement of his debt, and the deductibility of some of the premiums for the life insurance requested by the bank, will pay for an appreciable portion of the disability income insurance that he knows he needs. He also accepts Rachel's recommendations regarding the use of a family trust to transfer ownership of his business over a period of a few years prior to retirement, as well as most of her other suggestions.

Rachel carefully reviews the features of the insurance products recommended to ensure all goals are met, and takes immediate steps to arrange for the life and disability insurance coverage necessary. Over the next month, Rachel, Dirk Jackson, his son, and their lawyer meet on several occasions until the plans made have been fully implemented.

Dirk Jackson now has considerable peace of mind with regard to the continuity of his business regardless of the risks of death or disability. He can foresee easing into a secure retirement with the business transferred on an efficient and practical basis to his son.

Rachel regularly contacts Mr. Jackson, forwarding articles and ideas regarding tax and legal developments that may interest him or may affect his financial plans. She is also now preparing an estate plan for each of Mr. Jackson's children. Rachel is starting to receive referred business from Mr. Jackson's lawyer, with whom she also remains in contact, as he has been quite impressed with her knowledge and professionalism.

During the agent's interactions with the client, mutual trust must be developed, empathy and listening skills employed, and a sense of urgency must be created so that once solutions to the client's problems have been identified, the client will take action to resolve those problems. Unless the client takes action, nothing has been achieved – the family will still need protection, the business continuation plan will not be in effect, the client's business partners or family will still find it extremely difficult to meet the large capital gains tax at the client's death, the client will still be unprotected against a loss of income from disability, and so on.

Unless the agent can help the client to see and feel the urgency of acting immediately to protect the family, the business and the client's own future plans, the risk of financial disaster will remain.

Example: Rachel Ramirez's experience with Dirk Jackson was not without its challenges. Her initial skillful demonstration of both the type of estate planning she could offer and the quality of ongoing service she provides for her clients, as well as the financial savings that might be available, all excited Mr. Jackson and changed a simple disability income interview into a full financial planning opportunity.

Also, apart from the usual difficulties of meeting efficiently with a very active business owner, Rachel found that Mr. Jackson required considerable prompting and assistance to make concrete decisions regarding the eventual transfer of his business and his own retirement. Like many, he was so busy operating his business he had not taken time to plan that far ahead. It was only during discussions with Rachel that he was able to stand back from his business, appreciate his son's abilities, and arrive at important decisions regarding retirement.

During the fact-finding discussions and the presentation interview, Rachel had to carefully explore each of the various alternatives available to Mr. Jackson. She had to draw on her knowledge of taxation, investments, life and disability insurance, wills and trusts to answer objections put forward by Mr. Jackson and by his lawyer. In each case she stressed the urgency of resolving the important problems. Her exhaustive analysis and her professional presentation of well thought-out recommendations inevitability led to both Mr. Jackson and his lawyer adopting her recommendations.

Rachel also played an essential role in promptly arranging the necessary medical and legal procedures once her suggestions were accepted, and in ensuring that these steps were all fully completed.

LEARNING OBJECTIVES

To become familiar with the differences between federally and provincially chartered life insurance companies

EVOLUTION OF LIFE INSURANCE COMPANIES

For an insurance company to become established in Canada, the company must be chartered by either the federal government or by the government of one of the provinces. In addition, to operate in any province, an insurer must secure a license from that province, regardless of the venue of the company's charter. A provincial license authorizes the insurer to operate in the province.
The licenses are also used to regulate cross-border sales, selling jurisdictions of agents and brokers, trade practices, confidentiality of information procedures, etc.

Many decades of intergovernmental litigation have clearly established that the federal government may address the solvency of a federally chartered insurer. However, it is a provincial responsibility to regulate any insurers operational practices and contracts. Provinces may also regulate the solvency of provincially chartered companies, but usually agree that the federal government do so in their stead.

Federal Legislation

The major purpose of federal insurance legislation and regulation is to monitor the financial condition of federally registered companies for the protection of current and future policyowners. Federally regulated insurers underwrite about 90% of the life insurance in force in Canada, and are governed by the federal Insurance Companies Act. Foreign insurers operating in Canada are also subject to this legislation. The Act is revised approximately every 10 years.

The Minister of Finance manages and directs the Office of the Superintendent of Financial Institutions (OSFI), which is headed by the Governor-in-council and his appointed deputy, the Superintendent of Financial Institutions.

Federal government agencies have both the right and the duty to regularly inspect the financial affairs and practices of every federally registered insurance company to ensure that actuarial liabilities are adequately covered so that future claims can be paid. Companies must submit annual returns to the regulators showing assets, liabilities, receipts, disbursements and other financial data.

The federal legislation is mainly concerned with:
• requiring regular submission of reports on the financial condition of insurance companies;
• ensuring that certain conditions are satisfied before a company enters the insurance business;
• regulating investment activities;
• regulating the calculation of policy reserves and assets; and
• protecting the interests of policyholders.

There are guidelines regarding the sufficiency of assets relative to an insurer's liabilities, and, if a company becomes insolvent, then regulations specify the liquidation process to be followed. Since 1992, life insurance companies have been required to hold a level of capital that reflects the level of risk of their operations, known as the minimum continuing capital and surplus requirement (MCCSR).

Provincial Legislation

As with companies chartered federally, those who select provincial charters would do so first through the business corporation's act of the respective province. Although most companies seek a federal charter in order to obtain national market potential, smaller, industry-specific or market-specific companies may elect to obtain a provincial charter. Provincial legislation regulates provincially incorporated insurance companies for solvency and reporting in much the same way that the federal government regulates federally incorporated companies.

Provincial legislation also deals with such matters as:
• the terms and conditions of all insurance contracts;
• the licensing and conduct of agents;
• issues relating to consumer service or complaints; and
• routine supervision of provincially incorporated companies.

Provincial legislation is often implemented through a Superintendent of Insurance for the province. In some jurisdictions, agent licensing matters are delegated to an Insurance Council made up of representatives of the insurance companies, insurance agents and the provincial government.

Provincial legislation regulates the insurance contracts and related transactions of all life and health insurance companies, including:

- the contents of the insurance policy;
- insurable interest;
- effect of the contract;
- premium payments;
- designation of beneficiaries;
- duty to disclose;
- incontestability;
- reinstatement;
- insured dealing with the contract;
- licensing of agents;
- unfair practices; and
- claims procedures.

The nine common-law provinces (i.e., all except Quebec, which has its own, separate legislation) operate under the *Uniform Life Insurance Act.* The Act is a uniformity of law, not a statute, which governs the life insurance activities in those provinces. While each province's laws differ slightly, there is general adherence to most of the terms of the so-called Uniform Act.

TYPES OF INSURANCE COMPANIES

Private insurers fall into three broad categories of ownership structure: stock companies, mutual companies and "other" types of structures.

LEARNING OBJECTIVES

For students to be able to explain the differences among stock companies, mutual companies and fraternals. Explain "demutualization."

Stock Insurance Companies

In general terms, a stock life insurance company is a profit-seeking venture structured as an incorporated company with shareholders who are the owners of the company and who are thus entitled to share in any profits. The corporation has share capital and is managed by a board of directors who are elected by the shareholders.

Most Canadian life insurance companies are, or have been in the past, organized as stock life insurers. Issuance of capital stock provided the necessary funds to get the companies up and running and to cover initial expenses.

PROFITS AND LOSSES

When a stock insurance company is profitable, stockholder dividends may be declared and paid to the shareholders. If the business is unprofitable, the shortfall will be borne by the shareholders who will see the value of their stock fall, as the value of the company diminishes. Special rules enable stock companies to also pay dividends to holders of participating policies (policies which are designed to share in the profits of the company).

ACCESS TO NEW CAPITAL

Stock life insurance companies are able to issue new shares and thus access new capital. Capital infusions can enable such companies to finance expansion into new geographical areas, new products, and new lines of business. As well, infusions of new capital can finance takeovers and amalgamations with other companies. In the recent highly competitive financial services environment, insurers feel it is vitally important to have access to large amounts of new capital.

ASSESSABLE POLICIES

In earlier times, some insurance policies were offered on the basis that, if an insurer's expenditures were greater than anticipated, the insured could be assessed an additional premium to cover the shortfall. This system meant that the insured experienced concern as to the ultimate cost of insurance and considerable uncertainty as to whether or not substantial additional future premiums might be required by the insurer.

Stock companies did not issue assessable policies, and this was felt to be a significant advantage; however, life insurance policies issued on this basis are never encountered by agents today.

Mutual Insurance Companies

A mutual insurance company is one that is owned by its policyowners, rather than by stockholders. The company has no capital stock and its board of directors is elected by the policyowners.

Earlier, in the last century, most of Canada's largest stock life insurance companies changed to the mutual form of ownership to avoid being taken over by competitors or by foreign companies or stockholders.

PROFITS AND LOSSES

Anyone who purchases a participating policy issued by a mutual insurance company becomes part owner of the company and is entitled to a share of the company's profits, which are returned to the policyowners as policy dividends.

Special rules apply to "non-participating" policies issued by mutual insurance companies, as these are insurance policies especially designed not to participate, or share, in the company's profits.

As it would be difficult for a mutual company to handle large or repeated losses, the pricing assumptions used by mutual insurers over the years have usually been a bit more conservative than those used by stock companies. Consequently, mutuals have traditionally accumulated more reserves and have paid out more dividends to policyowners than was the case in equivalent stock companies. Until quite recently, most of Canada's largest insurers have been mutual companies.

ACCESS TO NEW CAPITAL

Since mutual life insurers, like stock life companies, cannot accept deposits, and, in addition, may not issue capital stock*, they have felt themselves to be at a huge disadvantage under today's highly competitive conditions. Stock companies, in contrast, are able to issue new capital stock to finance the amalgamations, takeovers and development of new lines of business that are now felt to be necessary. Accordingly, in the past few years, almost all of Canada's large mutual life insurance companies have converted, or are in the process of converting, to publicly traded stock companies.

* *However, the new Insurance Companies Act, passed in 1992, gave mutuals the right to issue preferred stock and subordinate debentures as means of raising capital.*

Fraternals

The third major type of insurance-providing organization is the fraternal benefit society. Fraternals offer social benefits to their members, who often share a common religious, ethnic or vocational background. Examples include The Independent Order of Foresters, Knights of Columbus, Lutheran Life Insurance Society of Canada (now Faith Life Financial), Sons of Norway and Woman's Life Insurance Society.

Fraternals operate through a lodge system and only members may purchase insurance, although applicants may become members when they are issued an insurance policy. While there are about 40 fraternals registered in Canada, they account for only a tiny percentage of total life insurance in force.

Practical Differences

For most practical purposes, the types of insurance companies that the average consumer or agent has encountered are mutual and stock companies. From the policyowner's perspective, competitive pressures over the last 100 years have resulted in there being only minor differences between the net prices and net returns of policies sold by either type of organization. As the largest mutual companies demutualize, the average consumer will likely encounter mainly stock insurers in the future.

Demutualization

Demutualization is the process of converting a mutual life insurance company into a stock life insurance company.

As the traditional four pillars of the financial services industry have become less distinct, it has become possible for the various players to offer once forbidden services through conglomerates, subsidiaries, etc., resulting in a need for much new capital. After demutualization, by selling shares in capital markets the new stock insurance company will be better able to compete in globally competitive markets with banks and other financial institutions. At the same time, there should be increased accountability, through requisite reports to shareholders.

The 1992 revised Insurance Companies Act made demutualization much easier than previously. Demutualization involves establishing a market value for the insurance company, based on its surplus, and then offering free common shares to the policyholder owners of the company in exchange for their ownership rights. Due to demutualization of a number of large insurers during 1999-2000, it is estimated that more than three million participating policyowners in Canada received about $10 billion, in addition to retaining their continuing life insurance coverage and policy cash values.

Each demutualizing company has its own demutualization procedure. The number of shares issued to a policyowner will depend on the age of the policy, the amount of its accumulated cash value and the amount of premium. If the shares are accepted, they will be subject to capital gains tax when sold. If a cash equivalent is taken, this will be treated by tax authorities as a taxable dividend from a Canadian Corporation and will be eligible for the dividend gross-up and tax credit.

Between 1989 and 1999, the number of mutual life insurance companies in Canada dropped from 41 to 13 and mutuals now represent only about 10% of the total number of companies and 5% of the market

Not all insurance companies will choose to demutualize.

Smaller companies would not expect their shares to hold great appeal to the public and they may wish to continue to enjoy the "protection" of being a mutual company. While mutual insurers may merge by mutual consent, they cannot be "bought out" by a stock company in an unfriendly takeover bid.

Some mutual companies may not agree that their mutual structure is a deterrent to participating in the global market. Also, demutualization can take as much as two years, limiting the company's available resources and tying up valuable assets and personnel.

THE EVOLUTION OF THE DISTRIBUTION OF LIFE INSURANCE

LEARNING OBJECTIVES
To learn the changes in distribution methods that have evolved in the life insurance industry.

From earliest days, the majority of life insurance company products sold in Canada have been arranged by an insurance agent or broker contacting an individual or company and assisting that person or organization in determining protection or savings needs and meeting those needs appropriately with a company product or products. In the following material we will first discuss alternative distribution methods, then consider the evolution of the agency system in Canada.

Debit Insurance

In the early 1900s, insurance "prospects" (i.e., prospective purchasers) were often working-class individuals who were only able to afford a few cents per week, which would provide enough insurance to cover burial costs. Millions of workers regularly paid their small premiums to "the insurance man," who made the rounds of his customers each week. The close relationships that developed from this frequent contact ensured that new sales opportunities were promptly attended to, and the agent became almost a member of the family.

Under this form of insurance distribution, each agent had a geographical "route" and a "debit" book in which each family's premiums were debited, and then subsequently offset with credits as the premiums were collected. This became known as the home service or debit system and the agents were known as debit agents. During and after World War II, labour shortages and cost pressures made the debit system too expensive to continue. The majority of the policies were changed to automatic bank payment systems. As the century progressed, salaries and income aspirations increased, credit rose and the average policy size increased substantially. In-home weekly collection of premiums made less and less financial sense. Currently, relatively little insurance is sold on the debit system in Canada.

Group Insurance

Group life insurance was first issued in Canada in 1919. As the century wore on, life insurance arranged through employers, unions, trade associations, etc., mushroomed, becoming a larger factor in providing personal security for many families. By 1999, group life insurance in force totaled $950,576 million vs. individually owned life insurance at $989,344 million. By 1997, new sales of group life insurance approached those of life insurance purchased by individuals ($104 billion vs. $128 billion, respectively, however, group sales include transfers of coverage from one insurer to another).

While there are advantages to be achieved through the purchase of insurance on a "wholesale" basis, and through group's ability to provide coverage to some individuals who might otherwise not qualify for insurance, the system has some limitations. For example, many small firms still do not offer this employee benefit. The coverage can be lost if one changes jobs or if the employer cancels the plan. The group plan features are seldom flexible and thus will not always match one's particular needs.

Sales and maintenance of employee benefit plans are also sensitive to the health of the economy and the protection can be withdrawn when circumstances dictate. Personal financial planning for one's family should be built on a more solid foundation.

Direct Marketing and the Internet

Some insurers will offer life insurance (and/or other company products) by mail or on television, or in an airport, mall, etc., without the intervention of an agent. More recently, insurance is being offered over the Internet. Direct marketing is felt to be a more inexpensive method of selling relatively simple insurance products, but it is not necessarily appropriate for more complex products and for varying client circumstances. Importantly, such solicitations lack the motivational presence of an agent who helps the prospect to take action at once. Consequently, the amount of insurance sold by these methods is relatively small, compared to agent-assisted sales.

The Agency System

EARLY FIELD OFFICE ORGANIZATION

In earlier material, we have seen that the first insurance companies sought out reputable and trustworthy individuals in each area to represent them and to sell their products to the public. These persons acted as "agents" of the insurer, in the strict legal sense of the word. The agents were expected to undertake at least a preliminary consideration of the prospect's risk (through, for example, only approaching healthy and reputable citizens). In recognition of this risk assessment function, they were also known as "life (insurance) underwriters."
An underwriter is a Head Office insurance specialist in assessing risk.

In cities and larger districts, it quickly became economical and advantageous for an insurer to hire a manager to set up a field office that would recruit, train and supervise agents. Field offices were supervised by the agency department that was usually located in the insurer's head office (called the home office in the U.S.). The agency department selected the managers of the field offices, planned training programs for new agents, developed sales aids and maintained necessary detailed records.

THE GROWTH OF INSURANCE NEEDS

As the country prospered and grew, the strength and advantages of the agency system resulted in the growth of many large life insurance companies, each with a number of field offices in each city across the country. An enormous amount of necessary insurance coverage was sold, policy by policy, to protect the families of an increasingly urban, prosperous working class.

During the 20th century, workers became increasingly dependent upon wages, the extended family played a diminishing role, owning one's home and car became the norm as was use of mortgages and other forms of credit. With an increasing divorce rate, greater longevity, an increase in single parent and single-person families and greater participation of women in the workforce, ensuring one's family's financial security became more and more necessary, and, thanks to an increase in prosperity, more affordable.

During the last half of the 20th century, with new government support programs to integrate, life insurance agents began to offer simple needs analysis and estate planning programs. These new programs opened the eyes of family heads to the depth and complexity of their financial responsibilities.

Insurance needs now greatly exceeded the protection offered by the earlier small "burial policies," and the purchase of relatively large amounts of personal life insurance became routine. The average size of a new insurance policy sold to an individual grew consistently during the 20th century, from a few hundred dollars in 1900 to more than $150,000 by 1999.

The growth of the public's insurance needs was accompanied by similar growth in the agency system.

SINGLE COMPANY REPRESENTATION (SCR)

Originally, an agent signed a contract with the single insurance company which sought him or her out and which provided training, supplies, advertising, management and sometimes office space. Insurance regulators also expected insurers to take responsibility for the quality and actions of their agents, and companies were required to sponsor the agent for his or her license. In addition, companies, supposed to have "deep pockets," were almost always included in the suit when an agent was sued. In return, the agent was to sell only the products of that company. Such agents have been known as "career agents," "exclusive agents" or "captive agents."

Strengths

The single company representation system meant that insurers were able to find tens of thousands of bright, personable and energetic young people who could be equipped, trained and supervised closely until they were well launched in their careers as insurance agents. The assurance that the agent would sell only the insurer's products meant that a lifelong relationship could be counted on. This prospect meant that companies were prepared to invest large sums in training and financially supporting new agents. As early as the 1970s, it was estimated that an agent who had been with the insurer for two years represented an investment of more than $100,000 by the insurance company. It required quite a few years of service before the company could feel that its investment had been recovered.

Problems

Single company representation sometimes led to paternalistic relationships between head offices and their agents and occasional perceived abuses. The insurer, having financed and trained the agent, felt entitled to all the agent's business. However, the agent was sometimes tempted by the hot new product (or higher commission) of the competing company down the hall. To be fair, when a client actually needed a product that was not available from the agent's company, a competitor's product could usually be used, as an exception to the rule.

When an agent left her company, she felt quite entitled to take away all of the policy records relating to "her" clients. To the insurer, the clients were customers of the company, who only incidentally happened to have been introduced by the agent. Agent contracts specified that all client documentation belonged to the company.

As companies experimented with new ways of financing newer agents, remunerating established agents and encouraging persistency of all business (i.e., ensuring that policyowners continued to renew their policies), sometimes agents would be presented with changes in their contracts with the company, with little option of refusing the changes. If he or she felt strongly enough, sometimes the agent could only leave the company and walk away from his or her client base. This, in turn, sometimes led to cases of agents "twisting" (i.e., replacing the old company's policies with policies of their new insurance company), often to the disadvantage of the clients, and almost always to the disadvantage of the previous insurer.

CHANGING TIMES

While the life insurance industry was prospering greatly under SCR, the property & casualty business had successfully evolved a system of brokerage. In the brokerage system, the general insurance agent acted somewhat as an agent of the consumer, seeking out the best product from any of a dozen or more general insurance companies.

In the life insurance industry, companies were happy to sell insurance on a policy-by-policy basis through life-licensed members of employee benefit consulting firms and employees of some general insurance brokerages. Similarly, companies commonly sold group products to agents of other companies. Some insurers were much more liberal in their application of the single company representation rules than others, allowing their agents considerable leeway in deciding with which insurer their business should be placed.

Finally, and most importantly, smaller life insurance companies were unable to undertake large-scale recruiting and financing of new agents, so they attempted to grow by offering incentives such as much larger commissions to agents who placed business with them. The more business an agent placed with such companies, the higher the rate of commission he or she would be paid. At times, an agent could receive immediate commission of as much as 300% of a policy's first annual premium. These companies were quite willing to sponsor the licenses of experienced and productive agents.

Eventually, the larger insurers all set up brokerage offices to secure a share of this business, often while maintaining their SCR restrictions on their own agents.
Earlier, we discussed the evolution of provincial attitudes (now most provinces allow experienced life agents to act as a broker, representing more than one insurer), and the growth of the general agency system (wherein a "general agent" acts as an independent businessperson, contracting with a number of licensed agents whom he or she supports and represents in placing insurance with various insurance companies).

Currently, all but a very few of the largest insurers have ceased hiring, training and financing inexperienced agents. Sales of insurance through brokers has become very widespread, with intense competition among all companies by way of innovative product design, technical support to brokers and competitive commission arrangements.

THE CANADIAN LIFE AND HEALTH INSURANCE MARKET

LEARNING OBJECTIVES
To understand the size of the life insurance marketplace.

The Canadian life and health insurance industry provides a wide range of unique financial security products to about 23 million Canadians and their dependants. By the end of 2003, there were 108 active life insurance companies in Canada providing a total of $2,484 billion of life insurance coverage.

The life and health insurance industry is a major investor in Canada's economy. Assets held on behalf of Canadian policyowners and annuitants at the end of 2003 totaled $314.9 billion.

The industry paid out $43.8 billion in benefits in 2003, or $842 million a week. Of this total, about 90% goes to living policyholders as annuity or disability benefits, reimbursement of health care costs, dividends, cash surrender values and matured endowment policies. The remaining 10% is paid to beneficiaries as death claims.

The industry is one of the country's largest employers, with about 53,000 full-time employees and 65,000 independent agents.

The industry is internationally successful. $36.4 billion of premium income (about 54% of total premium income) was received from foreign operations in 2003.

During 1999 for example, Canadians paid $10.5 billion for life insurance, $20.0 billion of premiums for annuities and $8.9 billion for health insurance. Total premium income grew by 9.7% during 1999, and by an annual average of 6.4% during the previous decade. Continued premium growth indicates that life and health insurers are highly competitive.

As major players in the financial services industry, Canadian insurers are actively developing new products to meet consumers' needs and expectations. For instance, interest-rate sensitive life insurance policies (universal and variable life); new approaches to group insurance (the so-called "cafeteria" and "spending account" options); a variety of flexible retirement options (RRIFs and LIFs); and new or expanded health insurance products (travel health insurance and critical illness).

The industry continues to develop guidelines, voluntarily and proactively, to respond to emerging consumer issues and to ensure consumer interests are protected.

LEARNING OBJECTIVES
To understand the process of evaluating the financial ratings of insurance companies.

INSURANCE COMPANY FINANCIAL RATINGS

Perspective

Consumers and agents alike wish to be reassured that the insurance company with which they are dealing is likely to remain solvent. It should be observed, however, that insurers' conservatism in selecting investments, their close supervision by governments, and the levels of reserves that insurance companies must carry, all ensure that the failure of a life insurance company is a very rare event indeed.

There have been only three failures of life insurers in Canada in at least the past 50 years. The industry's compensation fund has ensured that only an extremely small number of insured's (1%) of those three companies have lost any money at all as a consequence of these failures.

Much more important than an insurer's solvency, in the usual purchase scenario, will be the quality of financial services advice being acted upon, and the particulars of the insurance product selected. Purchasing the wrong product to meet one's objectives, or purchasing a product that has less desirable features than a product from another provider, can, over the period of ownership, have a very significant effect on the financial results experienced by the buyer.

All that being said, the insurance agent or broker will sometimes wish to make reasonable enquiries as to an insurer's financial soundness, even if only to protect himself or herself from future legal liability. There are a number of rating services which provide such information.

Rating Agencies

Established in 1900, Moody's provides Insurance Financial Strength Ratings, which are opinions of the ability to repay punctually senior policy claims and obligations. Moody's (www.moodys.com) uses rating symbols for companies which are identical to those used to show the credit quality of bonds:

Secure companies: Aaa – Exceptional
Aa – Excellent
A – Good
Baa – Adequate

Vulnerable companies: Ba – Questionable
B – Poor
Caa – Very Poor
Ca – Extremely Poor
C – Lowest

Each of Canada's eight largest life insurers falls into Moody's "Secure companies" category.

Fitch IBCA, Duff & Phelps (known as "Duff & Phelps") provides ratings on over 220 North American life and health insurers making up close to 85% of the industry, based on assets (www.dcrco.com/corporate/sectors). Insurer Financial Strength Ratings (AAA, AA, AA-, etc.) may be found for insurers that are included in the firm's review.

Weiss Research (www.weissratings.com) produce Weiss Safety Ratings that track the financial safety of approximately 1,500 U.S. life, health and annuity insurers every quarter. Unlike the other major rating firms, Weiss does not accept compensation from the companies it rates. In at least one study of ratings between August 1989 and June 1992, Weiss proved to be more accurate than other agencies, however, it is extremely difficult to make such comparisons (which, at any rate, may not be predictive of subsequent accuracy).

Weiss ratings range from "A" – Excellent, to "F" – Failed. Standard and Poor's (standard and poors.com/ratings/insurance/) has been rating the financial strength of insurers since 1971, although the company's roots go back to 1860. Ratings are alphabetical, supplemented with a plus (+) or minus (–) showing relative standing in a category. A financial strength rating will be supplied for a rated company, including a brief overview and limited financial statement information.

Each of the above rating organizations have rated some Canadian companies, however, not all companies subscribe to a particular firm for a rating. Rating agencies contact and usually interview in depth the management of the insurer, often requesting and getting large amounts of data and executive time. The time required and the direct and indirect expenses of such reviews are reasons why not all insurers feel that participation with more than one rating agency is required.

Failure by an insurer to subscribe to a rating agency should not be interpreted as an unfavourable rating.

The A.M. Best Company of New Jersey has been assigning Financial Strength Ratings to life insurers for over 100 years. In June of 1999, the firm acquired TRAC Insurance Services Limited, which had been evaluating Canadian life insurers since 1991. Renamed A.M. Best Canada Ltd. (www.ambest.ca), the firm reports on virtually all life insurers licensed in Canada, offering a free, somewhat brief Insurer Profile online. One may also

purchase a full Company Report for more in-depth analysis, delivered by email and currently costing $35. Ratings range from A++ to Below B+.

Agents or consumers may wish to review company ratings, if available, from each of the above firms, and, where necessary, purchase more complete reports. Of course, ratings may be supplemented by examining insurers' annual reports to policyowners and/or shareholders, and by even analyzing the very detailed financial reporting data annually forwarded by each insurer to governments. The amount of time invested can be open-ended, depending on the circumstances of the case and the interest of the consumer or agent.

It should be noted that each rating agency carefully disclaims any implied guarantee or recommendation in their rating. Further, today's rating may not be relevant five or 10 years in the future. The conscientious financial advisor will, of course, be monitoring developments in the area of solvency, just as in all areas important to his or her clients.

APPENDIX

LEARNING OBJECTIVES
A quick reference chart listing the most common insurance products and benefits.

TYPE	ADVANTAGES	DISADVANTAGES	COMMENTS
INSURANCE PRODUCTS – LIFE INSURANCE			
Temporary (Term) Life	Less expensive Affordable to all Can match period of need Frees funds for investment, Etc.	Expires or renews at higher cost Often lapsed or not renewed No savings element	Variations include Term 100 and reducing term.
Permanent (Whole) Life	Coverage for entire life Accumulating values Non-forfeiture values Cash values available "Forced" savings Flexibility and control Usually has dividends	Relatively expensive	Variations include Endowment and Paid-up policies. Dividends reduce cost
Universal Life	Extreme flexibility Control of investments	Risk assumed by Potential for loss	Policyowner can control and vary the amounts of insurance and types of investment.
INSURANCE PRODUCTS – ANNUITIES			
Life Annuities	Income for entire lifetime Guaranteed return Flexible option RRSP-eligible	Loss of control of funds	Can pay during second lifetime, guarantee full return of funds, etc. Can match inflation.
Term Certain Annuities	Matches needs exactly	Annuitant may run out of $	Pays for x years or to selected age.

TYPE	ADVANTAGES	DISADVANTAGES	COMMENTS
INSURANCE PRODUCTS – HEALTH			
Critical Illness	Pays $ for serious illness	Limited to certain diseases	Distracts from total needs.
Major Medical (EHC)	Reimburses some medical costs	Can be expensive, limited	Supplements prov. coverage.
Disability Income (LTD)	Income when disabled Coverage may be to age 65	Expensive for some Must qualify (health occup'n.)	Definitions are important.
Business Disability Insurance	Can buy out disabled partners, insure staff, pay Loans, etc.	Strict underwriting	Lump sums are available
Accidental Death & Dismemberment	Pays for specified losses	Doesn't pay income	Pays lump sum for specific losses, eye, foot, etc.
Overhead Expense	Pays office costs when disabled		Premiums are deductible.
Drug, Dental Plans	Cover expensive personal costs	Coverage is expensive	Not always available.
Long-Term Care	Nursing, residential care	Expensive	
Travel Health Insurance	Out-of-country coverage	Expensive Restrictions,	definitions are critical.
INSURANCE PRODUCTS – OTHER			
Segregated Funds (RRSP-eligible)	Similar to mutual funds Guaranteed returns, insurance		Different disclosure.

TYPE	ADVANTAGES	DISADVANTAGES	COMMENTS
INSURANCE DISTRIBUTION ALTERNATIVES			
Agents, Brokers	Expertise, lifetime advice, service Can seek best plans, premiums Prompt action	Paid by fee or commission	Guidance offsets premiums fees, etc. May suggest tax savings, investments.
Salaried Personnel	Specialized training	Sell group products	Often help agents, etc.
Group Coverage at Work	Life and health insurance, pensions Employer may contribute	Inflexible, may not suit May lose/reduce at retirement May lose if change jobs May not be available	Can be low-cost
Association Group	Various coverages	As with Group at work	Available through assoc., university, other groups.
Creditor's Insurance	Pays loans, mortgage on death or disability	Pays bank, etc., not the insured	May be expensive, inflexible.
Direct Response	Sold by mail, phone, in Malls, by Internet, etc.	Coverage may be inappropriate Can be expensive No planning, personal service	No advice available.
Fraternal Benefit Societies	Service, ease of purchase	May not offer planning or complex products Members only	Through lodges, clubs, church, etc.

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