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Reference Document:

Serving Clients Through Needs-Based Sales Practices

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Introduction:

When a consumer is considering the purchase of a life or health insurance product, it is important that they have good information about the product, how it meets their needs, the company offering the product and the advisor and the advisor's business relationships.

This training module focuses on the needs-based sales practices described in the CLHIA reference document [*The Approach*](#).

This module was developed in cooperation with Advocis, the Independent Financial Brokers of Canada and the Canadian Association of Independent Life Brokerage Agencies.

Adherence to these disclosure practices supports the principles for managing conflicts of interest adopted by the Canadian Council of Insurance Regulators (CCIR).

Serving Clients Through Needs-Based Sales Practices

Notes:

- 1. To qualify for continuing education (CE) credits, this course must be administered by an approved instructor.*
- 2. This course may be offered by multiple providers. You may only earn CE credits for this course once.*



Background

In Spring of 2006, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulators Organization (CISRO) endorsed three principles for managing conflicts of interest that might arise when selling life and health insurance products.

These are that the interests of the consumer must be placed ahead of those of the advisor, actual and potential conflicts of interest that must be disclosed, and that the recommended product must be suitable to the needs of the consumer.

The recommended Canadian Life and Health Insurance Association [CLHIA] process for making a suitable sale based on a client's needs is outlined in the reference document "The Approach" [explained in this presentation].

Background (con't)

Given the global focus on fostering a consumer-focused culture in the life insurance sector the CLHIA established a task force to review the distribution of individual insurance products. In 2016 the CLHIA released a public policy paper entitled “Insurance Distribution in Canada: Promoting a Customer-Focused System” outlining the task force’s recommendations.

One of these recommendations was to provide clients with a summary of the reason why an advisor recommended a particular product. In response, the CLHIA has added sending a “reason why letter” as a new element to their recommended approach to needs-based selling.

Needs-Based Sales Practices – Promoting a Customer-Focused System

Maintaining a strong customer focus and having processes and procedures that protect customers have long been fundamental underpinnings of insurance legislation, marketplace regulation and the life and health insurance industry in Canada.

More recently, the concept has emerged as a central tenet in the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors.

Needs-Based Sales Practices – Promoting a Customer-Focused System

Conducting a needs-analysis prior to making a recommendation, and providing a copy of this information and a brief and understandable description of the recommended insurance product and how it meets the customers needs is an essential component of treating customers fairly.

Providing customers with clear information, before, during and after the point-of-sale, reduces the risk of sales which are not appropriate to the customers needs' and helps advisors manage customer expectations and deal with customer complaints and disputes in a fair manner.

Key Messages

- Needs-based sales practices are part of a customer focused approach to insurance distribution. They are an industry expectation, and a regulatory expectation and requirement in some jurisdictions.
- Needs-based selling includes conducting a needs analysis and providing a “reason-why” letter with every sale.
- Insurers and MGAs should include needs-based sales practices in their training programs.
- Insurers’ reviews will incorporate checking for evidence of needs-base analysis and “reason-why” letters within the next 12 months.

“The Approach”

“The Approach: Serving the Client Through Need-Based Sales Practices” outlines the process for making a suitable sale.

Updates to “the Approach”:

- Principle and Supporting Elements
- Q&A's
- An appendix has been added

Sales Suitability

Supporting Elements:

- Client Expectations
- Needs Assessment
- Disclosure
- Advise and Recommend
- Fact Finding
- “Reason Why” letter

Client Expectations

The advisor and client should have a common understanding about the services that the client expects in the immediate transaction and ongoing relationship

Advisors should confirm:

- If advice and recommendations are to be provided?
- Have advisory fees been disclosed?
- What level of service will be provided?

Advisor Disclosure

Written advisor disclosure should include:

1. License and Jurisdiction
2. Company (ies) that the advisor represents
3. Nature of relationship with company (ies) represented
4. How the advisor is compensated
5. If the advisor is eligible for additional compensation
6. Conflicts of Interest
7. A reminder that the consumers right to ask for more information

Needs Based Selling



Sending a Reason Why Letter

Purpose of a Reason Why Letter

For the Advisor:

- Confirm Facts
- Verify the direction received from the client
- Identify needs that the product meets and needs left uninsured
- Document that the sale is suitable
- Substantiate the client's understanding of the sale

For the Client:

- Check accuracy
- Review that the product meets their needs
- Review any gaps in coverage
- Review the reason for the advisors recommendation
- Contact their advisor if something is incorrect or forgotten
- Documentation about why a particular product was purchased

Content

Each reason why letter should identify the:

- Product being purchased
- Type of insurance, the carrier, and brand name
- Key facts
- Needs and gaps in coverage identified
- Plans to follow-up on unmet needs
- Discretionary fee choices

Delivery

Send a “reason why” letter:

- No later than the date he or she receives the policy
 - Via e-mail if the client consents
 - After each transaction
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- * Always retain a copy of the letter in the client file
 - * Clients should also be encouraged to keep copies of these letters for their own purposes

Structuring a Letter

Suggested structure:

- Recommendation
- Summary of facts and needs
- Amount of coverage & gaps in coverage
- Suitability of fee structure [IVIC only]
- A call to action

Writing the Letter

Questions?

- Do I need a reason why letter if the client plans to fully implement my advice?
- Do I need to restate all the facts and needs Identified?
- What level of detail is required regarding the amount of coverage purchased?

Example 1: Recommendations Fully Implemented

I am recommending that you buy a ten year renewable term life insurance policy. The policy is called [name of policy] and it is offered by [name of insurer].

When we met, you indicated that you and your husband are both young and healthy, you are expecting your first child and just bought a house. You said you are the sole income earner in the family want an inexpensive option to pay off the mortgage if you die.

This policy meets your needs by providing the coverage you want (\$250,000) in the least expensive way. You could extend the coverage with a longer term but this is more expensive. A ten year renewable policy means the insurer will continue the coverage for ten years provided you pay the premium each year.

If any of this information about you or your needs is not correct, please let me know right away. If you have any questions about the policy or why I am recommending it, don't hesitate to ask me now or at any time in the future. You should also keep this letter with your personal papers as a reminder of why you have the policy.

Questions?

- How do I describe situations where my client is not taking my advice?
- Should gaps in coverage be identified?
- Is it appropriate to include plans to review unmet coverage needs at a later date?

Scenario 2: Recommendations Partially Implemented

I am recommending that you buy a universal life policy and critical illness insurance. The universal life policy is called [name of policy] and it is offered by [name of insurer].

The critical illness policy is called [name of policy] and it is offered by [name of insurer]. When we met, you indicated that you are quite well off and are primarily concerned about building up an inheritance for your children in a tax efficient manner. You also indicated you are healthy but would like some additional financial security if you become sick and can't work.

We have discussed various ways you can use the universal life policy. For now, the most effective way of meeting your needs is for you to simply pay the premiums. You also indicated that the critical illness insurance is not an immediate priority so you will think about it some more.

About this time next year, we will discuss the critical illness issue.

If any of this information about you or your needs is not correct, please let me know right away.

If you have any questions about the policy or why I am recommending it, don't hesitate to ask me now or at any time in the future. You should also keep this letter with your personal papers as a reminder of why you have the policy.

Questions?

- Can I use a standard reason why letter for each transaction?
- What should I say about the choice of fee options (IVICs)?
- Do I still need to summarize my fact find, needs analysis, and recommendation when I sell segregated funds?

Scenario 3: Wealth Product with Fee Options

As we discussed, I have sent in the application for an individual variable insurance contract. The policy is called [name of policy] and it is offered by [name of insurer].

When we met, you indicated that you wanted to invest in the equity market but did not feel comfortable with the risk that goes with investing in mutual funds. Instead, you said, you wanted put your money in a segregated fund.

The IVIC you bought has the basic death and maturity guarantees. This means the most you can lose is 25% of your investment. This guarantee applies if you keep your money invested in the contract until it matures or you die. As we discussed, if you need to withdraw money before then and the market value is down, the value of your investment will be down by the same amount.

You put your money in a Canadian equity fund. You can invest additional amounts in this fund at any time. You can also switch your investment to another fund in the contract or invest additional amounts in a different fund.

This contract has different fee options. You selected the no-load option because you wanted all your money invested up front and you thought you might want to withdraw some of your money while DSCs still applied.

If any of this information about you or your needs is not correct, please let me know right away.

If you have any questions about the policy or your investments, don't hesitate to ask me now or at any time in the future. You should also keep this letter with your personal papers as a reminder of why you have the policy.

Questions?

- Is a reason why letter necessary if the client knows what they want and is essentially placing an order?
- Do I still summarize facts and needs if the client states that they do not require advice?

Scenario 4: Order Execution

On your request, I have submitted an application for [name of policy] with [name of insurer].

This 20-year term policy for \$500,000 corresponds to the term and amount of your mortgage. As your bank requires, the policy is collaterally assigned to [name of bank]. If you die and the death benefit is greater than the amount owing on your mortgage, the difference will go to the beneficiary you named.

If any of this information about you or your needs is not correct, please let me know right away.

If you have any questions about the policy, don't hesitate to ask me now or at any time in the future. You should also keep this letter with your personal papers as a reminder of why you have the policy.

Conclusion

A properly constructed reason why letter:

- Confirms and documents that a suitable sale has been made
- Reminds the client about which of their needs they have insured and where they may still need insurance
- Summarizes the facts and details surround a transaction in a manner that is easy for a client to understand

More Information

Canadian Life and Health Association Website:

<https://www.clhia.ca>

Find the CLHIA Reference Document: **“THE APPROACH: SERVING THE CLIENT THROUGH NEEDS-BASED SALES PRACTICES”** at:

<https://www.clhia.ca/TheApproach>

APPENDIX 1

Quiz Questions

1. A reason why letter can be sent electronically if the client has consented to electronic communications?
 - a. **True**
 - b. False

2. Which of the following is not summarized in a reason why letter?
 - a. A call to Action
 - b. Recommendation
 - c. Gaps in coverage
 - d. Amount of Coverage
 - e. **The companies that an advisor represents**

3. When an Individual variable insurance product is sold what additional items is included in a “reason why letter”?
 - a. **A description of why the fee option selected is suitable**
 - b. The amount of money the advisor receives from the sale
 - c. Fund facts
 - d. None-of-the-above

4. Should the reason-why letter include recommendations by the advisors, not accepted by the client?
 - a. **Yes**
 - b. No

5. Should the reason-why letter be endorsed/signed by the client?
 - a. No, not necessary. They were sent a copy
 - b. No, but should be reviewed at time of policy delivery
 - c. Yes, and a copy kept in advisor file
 - d. **Yes, and a copy kept with the policy on delivery and in the advisor file**

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6. The reason-why letter should include (select all that are applicable):
 - a. **Product being purchased**
 - b. **Type of insurance, the carrier and the brand name**
 - c. **Key facts**
 - d. **Need and gaps in coverage identified**
 - e. **Plans to follow-up on unmet needs discretionary fee choices**
 - f. Provinces in which the advisor is licensed

7. What is the purpose of the reason-why letter? (select all that are applicable)
 - a. **Confirm facts**
 - b. **Document that the sale is suitable**
 - c. Proof that the sale was face-to-face
 - d. **Substantiate the client's understanding of the sale**
 - e. **Contact the advisor if something is incorrect or forgotten**
 - f. **Documentation about why a particular product was purchased**

8. Bob is a good friend of yours and already a client. He wants your help in setting up a small term life policy for his cottage mortgage. Do you need to provide Bob with a reason-why letter?
 - a. **Yes**
 - b. No

9. If a regulator or insurance company audits your files, can they ask for a copy of the reason-why letter?
 - a. **Yes**
 - b. No

10. When should a "reason-why" letter be provided to a client?
 - a. Only once, at the delivery of the first policy for the client
 - b. **After each transaction, no later than the date he or she receives the policy**
 - c. Only once, no later than the date he or she receives the policy