

Attention: Carol Shevlin

As an executive who has spent over 20 years in the financial services industry, I would like to comment on the above consultation paper. Firstly, I would like to stress how much I agree with the entire spirit of the report as well as many of the suggestions made in the paper. However, I do have a number of comments relating to the practical implementation of the disclosure of the methods of compensation to clients, namely:

1. Compensation paid to advisors can vary widely among carriers and between the various distribution systems. Among the various forms of compensation, you may have:
 - a. First Year Commissions
 - b. First Year Overrides
 - c. Renewal Commissions (based on a %'age premium as well as investment account balance for variable products)
 - d. Renewal Overrides
 - e. Service Fees
 - f. Within various distribution systems a varying portion of the override may be paid to the advisor.
 - g. Within various distribution systems you may have levelized compensation as well as heaped compensation.
 - h. Within various distribution systems, particularly career/captive distributions systems may exchange commissions for other services (rent, secretarial services) or benefits (retirement, health plan)
2. The percentage range of commissions can be very misleading to the consumer expressed on the basis of commissions as a percentage of premium and doesn't necessarily have any bearing on the ultimate price to the consumer. Also, do you express commissions as a percentage of the annual premium? Is it total expected lifetime commissions divided by total expected premium? Does it include bonuses paid to the distributing company? Or only to the advisor?
3. Some companies pay a bonus (as a percentage of commissions) to the distributing entity. Some of this may or may not be passed on to the advisor. How does an advisor disclose these varying amounts to the consumer? You can actually have situations where one advisor is paid more than another advisors for the sale of the same product from the same company without it affecting the price to the consumer?
4. Throughout the 80's and beyond, a number of companies have transformed their distributions systems from career / captive systems to independent systems. The rationale around this change was a direct result of the cost of operating these systems. It is a known fact within the industry that captive/career systems cost more to operate and thus pay less commissions / compensation to their advisors as well as offer less competitive products from a pure price perspective to the consumer? How do you disclose this to a consumer without the consumer thinking the independent advisors are being paid more and thus they're cheating the customer, when in reality, the independent

advisor has to cover his own cost of operating a business, while the captive/career advisor is being paid less as a direct result of the cost of operating an inefficient distribution system?

5. How do you quantify in the consumers' mind non-monetary benefits? If you tell consumer "A" you're making \$1,000 on the sale and consumer "B" is only paying \$500 in commissions, however the advisor is receiving office premises, secretarial support, benefits etc in addition; who is being paid more? The advisor in situation "A" or "B"?
6. Can you please explain the meaning of contingent profit commissions? I've not heard that terminology used in the life insurance industry to describe any form of compensation?

As an executive who has been responsible for developing many of the policy commission schedules as well as compensation plans for advisors, the practical implementation of the above disclosure can be very difficult. While I agree that some disclosure is necessary, much consideration must be given to the various types of commissions and distribution systems to truly understand the impact of implementing such a policy.

Should you require any assistance in understanding the various forms of commissions among the different manufacturing and distribution systems in Canada, I would be happy to assist in any way.

Regards

Mr. Ken Rousselle
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