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## NEWS RELEASE

For Immediate Release

Canadian Council of Insurance Regulators

### **Insurance Regulators to Introduce Full Cost Disclosure for Segregated Funds**

December 13, 2017

TORONTO – The Canadian Council of Insurance Regulators (CCIR) published its position paper on segregated funds which outlines the regulators’ expectations regarding the information that is to be provided to segregated fund contract holders ([link](#)). The position paper follows a significant amount of research and stakeholder engagement on potential gaps in the information currently provided for segregated funds, behavioral economics and disclosures provided for similar financial products.

The new expectations for segregated fund disclosure come at a time of increasing demands and requirements for a greater degree of transparency in the financial services industry. Consumers and regulators around the world are calling for more detailed and practical information to assist in decision making as well as to promote a better understanding of product suitability and performance.

“Times are changing and so are consumer needs. Consumers want to understand and be able to compare the products that are available to them. But, they also want to know what it is going to cost.” Patrick Déry, Chair of the CCIR said, “The new disclosure framework will ensure that consumers are informed of not only the performance of their segregated funds, but also all of the details of what it costs.”

The new disclosure framework to which Mr. Déry refers introduces a significantly heightened degree of information consumers will receive in terms of the costs. Currently, consumers are provided with information on the key features of the insurance contract as well as the risks and past performance of the funds included in the contract when purchasing a segregated fund. Additionally, consumers receive periodic statements regarding the performance of their funds. With the new increased disclosure requirements, consumers will continue to receive this information, however they will also receive additional details regarding the costs related to the contract’s insurance features as well as the distribution and administration costs of the segregated fund.

The position paper outlines a host of other measures intended to improve consumer protection beyond cost disclosure. These include an expectation that needs-based sales practices should be adopted with

copies of the rationale for sales advice being provided to consumers and a requirement to disclose incentives related to travel and accommodations.

Segregated funds are often compared to mutual funds as they both involve the pooling of financial assets, diversification and professional management. However, segregated funds differ significantly from mutual funds in that segregated funds are life insurance contracts that guarantee 75% to 100% of the contract holder's contributions, thereby mitigating the risk of loss for the contract holder.

With the introduction of the "Client Relationship Model Phase 2" or "CRM2" for mutual fund disclosure, the information provided to consumers also differed between the two products. With the expectations outlined in the CCIR position paper being introduced, consumers can now expect a more consistent experience when purchasing segregated funds and mutual funds. The similarities in requirements extend beyond the disclosure of distribution costs and will also include aligning the requirements for the delivery of updated Fund Facts, establishing consistent risk classifications used for the funds and promoting an equivalent standard of care for those dealing in segregated funds and those dealing in mutual funds. The position paper also recommends that insurance regulators consider harmonizing or adopting the Know-Your-Product due diligence requirements that currently apply to mutual funds.

In early 2018, the CCIR also intends to publish a prototype disclosure document for segregated funds. The prototype will provide an example of what compliance with the new disclosure requirements will look like. The content and structure of the prototype form were subject to extensive consultation with industry members and through comprehensive consumer focus group testing. It is important to note that the insurance regulators will not introduce a prescribed form for segregated funds disclosures. Insurers will be required to ensure that consumers are provided with all of the new information outlined in the CCIR's position paper, however they will have flexibility in terms of the layout and look of their disclosure documents. In addition, insurers will be able to adapt their disclosures to ensure that the language and terminology are consistent with the insurance contract and Fund Facts documents.

Further information on the segregated funds initiative is available on the CCIR's website ([www.ccir-ccra.org](http://www.ccir-ccra.org)).

#### **About the CCIR:**

The Canadian Council of Insurance Regulators is a national association of insurance regulators that traces its roots back to 1914. The mandate of the CCIR is to enhance insurance supervision and regulation to serve the public interest and to foster increased cooperative supervision and information sharing among regulatory authorities.

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