Canadian Life and Health Insurance Association Inc.

Association canadienne des compagnies d'assurances de personnes inc.

CLHIA RESPONSE TO

Joint Forum of Financial Market Regulators Consultation Paper 81-403:

RETHINKING POINT OF SALE DISCLOSURE

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EXECUTIVE SUMMARY

The CLHIA is strongly supportive of the Joint Forum's proposed approach for making point of sale disclosure more meaningful for customers purchasing segregated funds and mutual funds. The Joint Forum is to be commended for examining fundamental issues from the perspective of first principles and proposing innovative solutions based on these principles.

In this submission, the life and health insurance industry puts forth the following key points:

- The disconnect between the first principles for disclosure and the effect of actual point of sale disclosure practices is consistent with anecdotal evidence within the industry.
- The objectives for point of sale disclosure should be to provide customers with key information about the product and to facilitate comparisons.
- The four pillars – a foundation document, continuous disclosure document, summary document and consumer guide – and the proposed principles for disclosure represent a sound approach.
- The concept of "access equals delivery" addresses the information needs of clients and offers the potential for substantial cost savings.
- The industry has strong reservations with the proposal to prescribe a fund-specific design for disclosure documents as this approach is inconsistent with the fundamental character of segregated fund contracts and unnecessarily limits the flexibility that insurers will need to realize substantial cost savings.
- Disclosure requirements should prescribe minimum levels of information but give insurers flexibility in determining how to present this information.
- To fully realize efficiencies and meet the expectations and needs of clients, it may be necessary to vary disclosure requirements according to distribution channel.

INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) welcomes this opportunity to comment on the Joint Forum of Financial Market Regulators' Consultation Paper 81-403, *Rethinking Point of Sale Disclosure*. The Joint Forum is to be commended for its analysis of current disclosure practices and for the innovative approach proposed in the consultation paper.

The CLHIA, established in 1894, is the oldest association operating in the insurance industry in North America, representing some 75 life and health insurance companies. Its member companies account for about 98 percent of the life and health insurance business in the country and virtually all of the segregated fund business, administer about two-thirds of the pension plans in the country, and serve more than 20 million policyholders across Canada and another 10 million elsewhere around the world. Life insurance companies' segregated funds in Canada totalled $91.2 billion at the end of 2001 and premium allocations to segregated funds in Canada totalled $16.4 billion in 2001.

This submission responds, on behalf of life and health insurance companies, to the issues for comment that are identified in the Joint Forum's consultation paper.

The submission is organized along the lines of the consultation paper, retaining the section headings of that paper and the exact wording of specific questions posed in the paper. Under each heading, the submission begins with general comments addressing issues or proposals raised in the consultation paper. The submission then responds specifically to each of the issues identified for comment in the consultation paper.

THE DISCONNECT BETWEEN THEORY AND PRACTICE

The consultation paper describes large and systemic gaps between the objectives of point of sale disclosure and the actual results.

The industry strongly agrees with the description of the disconnect that is provided in the paper.

> ***Issues for comment:*** *Do you agree with our description of the disconnect between theory and practice in this part of the consultation paper? Are there any differences between segregated funds and mutual funds that we should keep in mind as we work to improve their respective disclosure regimes?*

Current disclosure documents are not effective for clients.

The disconnect between theory and practices that is described in the consultation paper is entirely consistent with anecdotal evidence within the industry. More specifically, consumers often ignore the current point of sale documents, sales representatives tend to view the documents as a "necessary evil" and their production is costly for both issuers and policyholders.

There are fundamental differences between mutual funds and segregated funds that relate to both the product and the relation between the consumer and the issuer. In the case of mutual funds, the customer is purchasing units of the fund. These units are sold through a distributor and the manufacturer of the fund is not responsible for distribution. Finally, detailed information about the fund is delivered after the sale. In the case of segregated funds, an insurance company is offering a contract of insurance to a customer which, among other things, allows the customer to participate in a number of investment options, some of which include guaranteed investment certificates. While segregated funds and mutual funds may be sold through the same distribution channel, the insurance company remains liable for all aspects of the contract, including its distribution. Finally, information about the contract is delivered to a segregated fund customer in advance of the sale.

THE OBJECTIVES OF DISCLOSURE

The consultation paper discusses a number of objectives of disclosure.

Disclosure should provide key product information and facilitate comparison of products.

The industry suggests that the two key objectives for point of sale disclosure should be to provide consumers with key information about the product and to facilitate comparisons.

With respect to disclosure as a check and balance, the industry suggests that this imposes an onerous burden on this documentation that is borne by consumers trying to read and understand the material. What is more, in the case of segregated funds, the insurance company's liability for the product creates a more effective safeguard.

With respect to education, providing basic information at the point of sale is probably too late for consumers who are unfamiliar with the products and is unnecessary for consumers who know what they want. As a result, neither group is served by providing basic information this way.

WHAT DO WE DELIVER TO CONSUMERS?

The consultation paper describes current disclosure documents as comprehensive (i.e., everything the consumer needs to make an informed choice), repetitious and simplified (in comparison with earlier practices).

The industry would point out that the objective of providing all the information in one place at one time has resulted in documentation that is suited to the needs of few, if any, consumers. Or, to put it as the consultation paper does later, the documents end up trying to do too many things at once. And this is a problem that is only compounded by the repetition noted in the consultation paper. The industry agrees that current disclosure practices simplify previous practices but believes that considerable strides are still required before these documents will be read and used by the majority of consumers. Indeed, the consultation paper rests on this premise.

THE ROOT OF THE PROBLEM

The consultation paper suggests that the current requirements for point of sale disclosure assume that "consumers [of segregated funds and mutual funds] need more information than other investors." The paper then suggests four reasons for this assumption.

Three of these reasons are rooted in history and, as such, offer clear evidence of the need to rethink the requirements.

Segregated fund investors are as diverse as other investors.

The fourth reason is the assumption that consumers of these products are less sophisticated than other investors. If this was ever true, it is no longer the case. The range of contemporary customers is as varied for segregated funds and mutual funds as it is for any other investment product.

RECONNECTING THEORY AND PRACTICE

The consultation paper outlines an approach for addressing the problems associated with current disclosure requirements. The solution involves:

- unbundling the documents
- thinking about timing
- thinking about mode of delivery
- being realistic

- ensuring national implementation

The industry strongly endorses these as principles to guide any initiative in this area.

THE FOUNDATION DOCUMENT

The consultation paper describes the foundation document as containing information about the static features of a fund. It then goes on to say that, in the case of segregated funds, "each segregated fund's IVIC will be incorporated by reference into its foundation document."

Insurers should have flexibility in how the foundation document is designed.

It is respectfully submitted that this restriction is unnecessarily limiting. Disclosure requirements should provide insurers with the flexibility to determine how the prescribed information will be organized and presented in the foundation document. What is more, there are a number of reasons why the format suggested in the consultation paper is inappropriate for segregated funds.

In an earlier description of the root of the problem, the consultation paper suggested that, in the interests of devising a harmonized approach for both products, the point of sale disclosure requirements for segregated funds were modeled after those for mutual funds. The proposed fund-based approach threatens to repeat this mistake. The reasons for this lie, in part, in the fundamental differences that were noted previously for the two products.

In the case of mutual funds, a customer is purchasing a fund so it may make sense to think of the foundation document in relation to the fund or funds. In the case of segregated funds, however, the customer is entering into a contract for insurance. Among other things, this contract gives the customer exposure to any number of funds. Accordingly, if the foundation document is to accurately represent the fundamental nature of this product, it should be devised around the concept of a variable annuity contract.

What is more, as a practical matter, most clients use their contract to purchase a number of funds. Thus, it will be more convenient for many clients if all the information about the contract and the funds is presented in a single document.

Annual filing of the foundation document is not necessary.

The industry agrees that annual filing of the foundation document is unnecessary and refiling should only be required if there has been a material change. On this point, the consultation paper uses terminology that is more appropriate for mutual funds. The industry understands the segregated funds counterpart of "material or significant" change to be "fundamental or material" change.

"Access equals delivery" addresses the information needs of clients.

The industry strongly supports the concept of "access equals delivery" for the foundation document. While the information contained in the foundation document is very important, it is, by necessity, technical in nature and most clients largely ignore the printed document. With this in mind, a requirement that the printed document be delivered to each and every client imposes an unnecessary cost on consumers. "Access equals delivery" ensures that the information is available and will be read by those who will make effective use of it.

Insurance companies would post the foundation document on their websites. The industry assumes there is no intent to treat segregated funds as if they were securities and require posting on SEDAR.

Issues for comment: *Our proposals will require operators to post the foundation document and the continuous disclosure documents for each fund they manage on their web-sites. The IVIC used by an insurance company for its segregated funds will also be available electronically and in paper (on demand). Please comment on the pros and cons of this approach.*

For the reasons discussed above, insurers should not be restricted from having the foundation document be or contain the IVIC. Some insurers may incorporate the IVIC into the foundation document, while others may incorporate it into the application. Still others may develop different, but equally useful, and imaginative approaches depending upon their distribution structures. To the extent possible, the foundation document should be flexible enough to accommodate all possible approaches.

In light of provisions in the *Insurance Act*, there may be an issue concerning what counts as delivery of a contract. It is not clear that the requirement for physical delivery of a paper copy of the foundation document, if it is requested by a customer, within a specific number of days is appropriate. The industry suggests that delivery should be "timely" to allow for flexibility and minimize the implication that failure to deliver within the timeframe specified creates some form of rights of rescission. It is assumed that failure to deliver the foundation document within a set period would not have any automatic consequences, in particular, the right to withdraw.

Standards should specify content, not format.

It is not clear that the 10-15 page estimate for the length of a foundation document is realistic. As argued under the general comments above, it is more appropriate for standards to specify the information that must be included in a foundation document and leave it to the individual company to determine how that information is presented.

It is not clear if "paper upon request" is appropriate for all applications. For example, requiring an e-fund company distributing exclusively over the internet to provide paper documentation would add to the cost of this channel and be an inappropriate limitation for clients wishing to use it.

<u>Issues for comment</u>: *We recommend that consumers have access (either electronically or if they wish, in paper) to an individual foundation document for the fund of their choice. Would it be possible or advisable to allow a foundation document to describe more than one fund—for example, all of the funds in a fund family? Why or why not? How would such a document work?*

The industry strongly urges that insurance companies be able to describe the contract and all the funds to which the contract provides access in a single foundation document.

In addition to the theoretical concern, described above, with basing the foundation document on a single fund, there are a number of practical concerns with this approach.

Some fund families have 50, 60 or more funds. Any amendment to the foundation document would require the same change to each fund, and therefore separate refiling and approvals individually. The likelihood of error increases with the need for multiple filings.

The fund-based approach is unsuited to most purchase decisions.

Most industry estimates suggest that at least 70 percent of clients have more than one fund in an IVIC. For the vast majority of clients, therefore, a single document that outlines all of the client's options and rights would seem more appropriate.

A single foundation document on a website could be accessible via hyperlinks, making navigation relatively easy, without being confusing for the consumer. The contractual rights and descriptions of each investment option under the contract could be kept separate from each other and the customer could view just those sections relevant to his or her needs.

THE CONTINUOUS DISCLOSURE DOCUMENT

The consultation paper suggests that continuous disclosure will consist of audited annual financial statements, unaudited semi-annual financial statements and regular statements of fund performance.

Quarterly reporting is inconsistent with long-term investment.

In a footnote, the consultation paper notes that NI 81-106 is proposing that statements of fund performance be provided on a quarterly basis. Segregated funds with guarantees based on a maturation date are designed for long-term investment. For this type of product, quarterly reporting of performance may be an unnecessary expense for the issuer. Quarterly reporting, especially during a market slump, may also induce some clients to sell before the contract has matured and lose the benefit of the guarantee.

The comments that were made earlier for foundation documents about "access equals delivery" and requirements for delivery of paper reports upon request apply equally to continuous disclosure documents.

THE FUND SUMMARY DOCUMENT

The consultation paper describes a one- or two-page paper that will be used "during the sales process" and provide consumers with "readily digestible information that is necessary for making investment decisions." The paper proposes that the summary document contain, at a minimum, the following information:

- investment objectives and strategies
- risks

- the management expense ratio of the fund, including its key components

- identity of the operator and portfolio adviser and any other key service provider

- important information about the IVIC

- key past performance information

- where the consumer can locate more information—namely, the foundation document, the continuous disclosure record and the consumers' guide.

The industry strongly supports the concept of using a summary document for point of sale disclosure and agrees with the suggestion in the consultation paper that "simplicity, conciseness and the use of plain language will be the key to its success."

The summary document should describe the contract and all funds.

The industry has strong reservations, however, with the idea that this should be a fund-based summary. For all of the reasons cited previously in the discussion of the foundation and continuous disclosure documents, it is strongly recommended that the summary for a segregated fund describe the contract and all of the funds available through the contract.

From the consumer's perspective, this is the most effective way to present the information for the type of product comparisons that a consumer is likely to be making at the time of sale.

From the perspective of an agent or representative involved in face-to-face sales, a single summary document that describes the contract and all the funds is the most practical means of providing the information.

The concept of a fund-specific summary appears to be based on the assumption that a consumer only wants information about a single specific fund at the time of sale. The industry believes this assumption mischaracterizes many sales processes in two important respects. As noted in the discussion regarding the foundation document, consumers often buy more than one fund. Even where they buy a single fund, they are likely to want to compare this fund with either other funds they might buy or other funds in their portfolio. For these reasons, a fund-specific summary document is not especially helpful.

A model summary document is attached as Appendix 1. This illustrates the type of information that the industry believes should be included in this document and a possible way of presenting it.

With respect to delivery requirements for the summary document, the industry recommends that actual delivery be required for face-to-face sales situations and that insurers be able to provide proof that the document has been delivered to, or refused by, the client.

Issues for comment: *Operators will be required to prepare a separate fund summary document for each fund. How will they ensure sales representatives receive copies of these documents? How can this aspect of our proposals be handled administratively? Will technology assist? For example, can operators make these documents available on their web-sites for sales representatives to access?*

The industry believes that the most effective approach, for face-to-face sales, is to develop a single summary document describing the contract and the family of funds. This can be carried by the salesperson, used as part of the sales process and left with the client. A fund-based approach would simply be too large, too difficult to manage and readily ignored as a result.

As noted previously, a large percentage of clients invest in more than one fund. A fund-based disclosure model will require salespersons to carry a large number of separate fund sheets, depending on the number of funds in a family they sell.

While the material could be made available to the salesperson in digital form (web based/CD_ROM/DVD), this does not appear to offer an effective solution to the volume-of-paper problem in many sales situations. The salesperson would need to either set up a printer or ask the client to huddle around a computer screen as they look at the document. Neither approach is viable or effective.

Issues for comment: *How will operators update these documents? How will they ensure the updated versions of the documents are used appropriately by sales representatives?*

If the family approach is adopted, the current process will still apply. New documents will be sent to the field to replace the old stock. Old stock will be destroyed as of a certain date, and the new stock will be used.

If the fund-based approach is adopted, the same approach will be used, but the likelihood of confusion, error and loss is significantly higher. Changing just one fund out of a family of 60 or more is much more open to filing errors.

Issues for comment: *How will the proposed document work when sales are carried out by telephone or through another means that does not involve face-to-face meetings? We think there are several options. A sales representative could tell a consumer the information in the fund summary. We think that consumers who make their own investment decisions without further advice from sales representatives will already have done their homework and won't need anything further.*

Situations in which the customer approaches the sales process with a decision already made are a common occurrence. In these situations, the industry agrees that the customer is aware of the information in the summary and does not need to have it repeated.

Telephone sales and internet sales are two sales situations in which the presentation of a summary document may be problematic.

Client expectations for information vary by transaction method.

In the case of telephone sales, having a salesperson review the summary document is unlikely to be effective because the client will have difficulty absorbing the information in a meaningful way. A more appropriate approach would be to require the telephone salesperson to advise the client that the summary document is available and how to get it. If the client wants further information, he or she can obtain it. If not, then the trade proceeds.

In the case of internet sales, it would be possible to have the client click on a review/decline option for the summary before proceeding with the transaction.

__Issues for comment__: *What about consumers investing on a periodic basis (monthly, quarterly, annual debits for example)—what are their information needs? We do not think consumers need to receive a fund summary before each periodic purchase, for example. Won't consumers be kept informed about their fund through access to continuous disclosure?*

Currently such consumers receive no additional information for each deposit, and the industry does not think such additional disclosure should be required. Clients will be made aware of information through the continuous disclosure process and other information outlets, including the internet and newspapers.

__Issues for comment__: *These documents will be filed with regulators. Should they be reviewed and receipted?*

In a great many sales situations, the consumer will be likely to rely on the summary more than any other written documentation—perhaps even to the exclusion of other documents. For this reason, the industry believes that compliance with the IVIC Guideline, assuming the Guideline is used to specify the minimum disclosure requirements, is an important matter. If there is a review, the Guideline should specify criteria for changes that are permitted without subsequent filing or review to avoid unnecessary delays in revising the document.

> ***__Issues for comment__:*** *Please tell us about your business practices now using the existing disclosure documents. Do you use them in the sales process? Do you give them to consumers before a sale is completed? If we require you to give a printed fund summary to consumers before the sale, what impact will this have on your existing business practices? What about telling consumers what the fund summary says rather than always giving them a printed copy? Can we achieve our objectives of empowering consumers to make informed investment decisions without mandating a fund summary?*

Currently clients are given the Information Folder and Financial Highlights at or prior to the sale taking place. Using a family summary document will not significantly change the current process, but will result in the client receiving a more useful, less expensive summary of relevant information prior to signing the application.

> ***__Issues for comment__:*** *Please give us your views on the proposed content of the fund summary document.*

As noted above, minimum content should be prescribed, with sufficient specificity that issuers can be reasonably certain what is required. This could be done in the IVIC Guidelines.

Up-to-date performance data is readily available from many sources.

With respect to performance data, the industry does not believe it is appropriate to require this in the summary. A key public policy issue is at stake on this point. Events of the past several years have reinforced the public policy concerns over basing purchase decisions on past performance. Requiring disclosure of this information does nothing to reinforce this caution and, if anything, does just the opposite by appearing to endorse the usefulness of this information. In addition, significant practical issues also give rise to concern. Up-to-date and comparable data for all funds are readily available to the public from a number of sources. Requiring such time-sensitive data on the summary document would entail frequent reprinting and increased cost.

With respect to investment objectives and strategies, the industry recommends that the summary document identify the IFSC Fund Category and describe in plain language the investment style and the type of securities in which the fund is invested. More detailed information about specific holdings can be obtained in the foundation document.

With respect to risk, the industry recommends that this be a plain language description of the magnitude of risk, i.e., high, medium or low. More detailed information that identifies specific types of risk, e.g., market or currency, can be obtained in the foundation document. General information describing the nature of these risks should be regarded as education and not be a point of sale disclosure requirement. The industry would be pleased to work with the regulators to develop standardized descriptions of the various risks associated with investment products.

Issues for comment: *What are the pros and cons of a fund summary document that includes information on more than one fund? Why is a consolidated document desirable, having regard to the potential for consolidated documents becoming unwieldy?*

For an IVIC, the funds available for investing are considered part of the contract. Philosophically, documentation should respect the fundamental nature of the product and, where appropriate, reflect differences with other products. In addition, insurers may be subject to additional liability if the fund summary document is fund-specific and the advisor does not disclose all the funds available.

Since a very large number of funds are available through the IVIC, allowing a single summary to describe all of these funds overcomes a number of practical problems associated with the volume of paperwork entailed by a fund-specific approach. While there are limits to the number of funds that can be presented in a multi-fund summary before it becomes unwieldy, the problem of unwieldiness will always occur sooner for a fund-specific approach.

THE CONSUMERS' GUIDE

The consultation paper proposes the important features of segregated funds and mutual funds be explained to novice and unsophisticated investors in a joint regulatory-industry document. The industry would not be able to independently alter the guide and, accordingly, would not be accountable for its content. Salespersons would be required to offer the guide to novice consumers at an early stage in the sales process and take them through the guide to assist their understanding.

Point of sale is too late for general information.

The industry strongly supports the notion that point of sale disclosure should be limited to providing information about the specific product or products being considered for purchase.

The idea of presenting a guide "at an early stage in the sales process" is somewhat problematic because the entire process from initial contact to sale can often be a single meeting. Consumer research is currently underway that, among other things, is intended to develop a clearer picture of how consumers acquire knowledge about financial services and products. This research may shed light on potential uses for the guide as a document.

It is important that failure to deliver the guide should not be viewed as proof of a failure to disclose necessary information. There are a number of ways in which an agent or sales representative can ensure that the client understands the product and is making an informed purchase decision. Whether the actual guide is used in the sales presentation should not be important so long as the information is provided.

__Issues for comment__: *We need to agree on an approval mechanism whereby the regulators will approve and the industry will endorse the contents of the consumers' guide. We need to work out how this document would be periodically updated.*

The industry proposes that the Joint Forum (or CCIR and CSA) develop the guide in consultation with the industry. The industry, through CLHIA and IFIC, could endorse the guide which would be identified as a Joint Forum publication. Since the guide is intended to provide general information for unsophisticated investors (or potential investors), the content will likely remain current over a reasonably long period. A regular review by the industry and regulators could be scheduled for every five years with all parties having the right to request revisions in the interim if changes in the marketplace make these appropriate.

__Issues for comment__: *How will the consumers' guide be made available for use by industry participants and consumers?*

Industry associations and regulators could post the guide on their websites and individual companies may wish to do so as well.

Agents can educate clients without actually delivering a consumer guide.

<u>Issues for comment</u>: *Who will make the decision about which consumers should be offered the document? The consumer? The dealer firm? The sales representative? What consequences will flow when a novice consumer is not offered the document?*

To avoid the problems that the consultation paper has identified with a "one size fits all" approach, it is important keep two considerations in mind with respect to novice consumers. First, with the summary document clearly indicating the availability of the consumer guide, it is not unreasonable to ask that the customer take a role in determining what information he or she requires. Second, there are a number of ways to provide the customer with sufficient information to understand a segregated fund or mutual fund. For these reasons, no consequences should flow automatically from the fact that the guide is not explicitly offered to a customer. If it turns out that the customer did not understand what he or she purchased, failure to offer the guide should not necessarily be evidence of a breach of duty of care. This is a matter that can only be decided on a case-by-case basis.

<u>Issues for comment</u>: *Please comment on the content of the draft consumers' guide in Appendix 1.*

In keeping with earlier comments about the type of information and level of detail that should be required in the summary and foundation documents, the industry views the consumer guide as a repository of general information that a client would need to understand specific information in these other documents. Without the benefit of consumer research, it seems likely that additional information is required in a number of areas. For example, the description of risk should involve a more extensive discussion of the nature of different types of risk and conditions that trigger these risks. Similarly, the description of protection lacks details about the type and amount of coverage available from CompCorp. It also includes, as an aside, a vague reference to guarantees in the IVIC that may create confusion about the nature of the two types of protection.

The industry looks forward to working with the regulators to clarify the scope of the consumer guide and refine the information included in it.

CONSUMERS' RIGHTS

Issues for comment: *Please comment on cooling-off periods in the context of mutual fund and segregated fund sales. If you believe one should be retained (or introduced in the case of segregated fund sales) please explain why. How should a cooling-off period work given the changes in the market value of funds? How can we prevent market players from using a cooling-off period to play the markets? What would be a correct period for consumers to re-consider their investment?*

Effective disclosure at point of sale eliminates the need for cooling-off periods.

The requirement (new for mutual funds) to provide information about the product at the point of sale together with a new approach to disclosure that ensures this information will be more meaningful eliminates the need for a cooling-off period. To provide such a period creates a risk that some investors will seize on an opportunity to play the market at no risk. Remedies already available are sufficient to protect customers who, through no fault of their own, purchase insurance contracts that are not suited to their needs.

THE COSTS VERSUS THE BENEFITS

Issues for comment: *Although we will be preparing a formal cost-benefit analysis, we are interested in your views on the costs versus the benefits of our proposals. Please comment and explain your analysis.*

The concept of “access equals delivery” together with the recommended “contract plus all funds” approach for the foundation document and summary document offers the potential for meaningful cost savings.

With sufficient flexibility to design documents, meaningful savings are possible.

Those cost savings could disappear, however, if the foundation document and summary fund document are based on individual funds. In fact, that could actually lead to an increase in costs, which would be passed on to consumers through higher operating expenses of the funds. The costs will be due to the duplication of providing the feature information (guarantees, etc.) in each foundation document, and for all the fund summary documents for point of sale. There are also additional costs for maintenance and refiling where an amendment is made to the product.

There is additional liability to the insurer if advisors do not provide disclosure of their full contractual rights to the consumer. These rights include accessibility of all funds. To protect themselves, insurers may be forced to incorporate all the single-fund summaries into one point of sale document. Based on the current proposal for a one- or two-page fund summary, this would result in documents often in excess of 100 pages.

If issuers do not have the flexibility of using a single foundation document to describe the funds and the contract, the industry will have duplication of the contractual features of the product—contract version plus foundation document version. This is no different than what is done today with the Information Folder and Contract being separate documents with identical information contained within.

CONCLUSIONS

The Joint Forum is to be commended for its analysis of the problems associated with current point of sale disclosure practices and for its innovative solutions. In general, the approach based on simpler and more understandable disclosure together with the concept of "access equals delivery" addresses the needs and concerns of both the consumer and the industry. The proposals require some modifications, however, to ensure that they accurately reflect the nature of segregated fund contracts and the needs of different customers making purchases in different distribution channels.

Appendix 1

SUMMARY DOCUMENT MOCK-UP

Fund Summary Document:

Your Individual Variable Annuity Contract:

If you have completed an application and paid us your initial investment, then you have a contract with XYZ Life that allows you to make and invest contributions in various investment options, including guaranteed interest term deposits, a daily interest account and segregated funds. This document is only a summary of some important parts of your contract, and applies only to investments you make in segregated funds.

Full details of your contract and the investments available to you are set out in the Foundation Document, available at our website – www.XYZLife.com – or if you prefer a paper document, through your financial advisor or directly from XYZ Life.

XYZ Life Insurance Company is a Canadian life insurer with its head office located at 123 Big Building Boulevard, Prince Rupert, BC.

Fees and Expenses

Fees and Expenses

You can buy units of a segregated fund either by paying an up front sales fee, a declining fee on withdrawal or, for some funds if you meet the requirements, without a fee. You can select the option of your choice on your application.

If you buy units with an upfront sales fee, the fee will be determined by you and your advisor and the maximum fee will be 5%.

If you purchase units under the deferred sales charge option, and withdraw the units within 7 years of purchase, you will be required to pay a deferred sales charge which declines over time from 5.5% to 1.5%. There is no sales charge if you withdraw units that have been held for more than 7 years. You are allowed to withdraw up to 10% of the value of your account each year without a withdrawal fee.

The funds are charged investment management fees that vary by fund. In addition, all expenses incurred by the funds are paid from the funds. The total of the investment management fee plus expenses charged to the fund for the most recent audited period, as a percentage of fund assets, is known as the management expense ratio or MER, and it is shown in the fund specific information below.

You may have to pay other fees for specific services you ask of us. These fees are set out on our website in the Foundation Document. We reserve the right to change these fees from time to time.

Buying, Selling and Switching Fund Units

You can buy or sell fund units, or switch fund units to another fund available under your contract at any time at the unit value in effect when we process your request at our head office. We will process your request on the day we receive it at our head office if it arrives on a valuation day before our cut-off time, or on the next valuation day if later.

If you purchased units on a deferred sales charge basis, you may be charged a withdrawal fee when you sell units, depending upon how long you have held them.

Valuation of Your Investment

Your investment in a segregated fund is based upon the number of units of the fund allocated to you. Each fund carries a variable "unit value", which is simply the total amount of all investments in the fund divided by the total number of units in the fund. This amount goes up and down based on the changing values of the investments held in the fund.

Capital Guarantees

Your segregated fund investments come with two capital guarantees:

- A maturity guarantee – this guarantees a certain level of protection on the net amount you invest in segregated funds, on the maturity of the contract

- A death benefit guarantee – this guarantees a certain level of protection on the net amount you invest in segregated funds when the annuitant dies.

Each guarantee is designed to pay 75% of all deposits made to the segregated funds less a proportional amount for withdrawals from the funds.

Maturity Options

Your contract will mature:

- If held in a registered plan, on December 31 of the year you turn 69.
- If not held in a registered plan, on December 31 of the year you turn 100.

At maturity, unless you advise us otherwise, the value of your contract will be converted into an annuity contract that will pay the annuitant annual payments for life, with payments guaranteed for ten years. The beneficiary in place at the maturity date will continue into the annuity contract. We will advise you prior to maturity of your options on maturity, in addition to this default annuity.

Fundamental Change Rights

We reserve the right to change fundamental investment objectives, investment management fees, methods of valuation of units and the insurance fee limit, amongst other things. However, if we do change any of these four items, we will give you 60 days prior written notice of the change, during which time you may switch to another comparable fund without charge, or, if no comparable fund is available under your contract, you may withdraw your affected investments without charge. We will give you details of your rights if we make such a change. If we change other items of a material nature, we will generally give you 60 days prior notice of the change.

Foundation Document

This is only a brief summary of your rights and obligations under your contract, and with respect to the segregated fund available to you under your contract. For full details see the Foundation Document, available to you at our website noted above, or on paper, from your financial advisor or directly from XYZ Life.

Subject to the maturity and death guarantees, any money that you invest in a segregated fund is not guaranteed, and will increase or decrease in value with the assets in the fund.

Fund Highlights

Fund Name	IFSC Fund Category	Risk	Investment Style	MER at Dec. 2001 (BEL)	Description
ASSET ALLOCATION FUNDS					
Conservative Portfolio Fund	Canadian Balanced	Low to Moderate	N/A	2.57	This fund invests in other Great-West Life segregated funds according to a strategic asset allocation process. The fund aims to be invested 25% in equity and 75% in fixed income investments.
Moderate Portfolio Fund	Canadian Balanced	Low to Moderate	N/A	2.73	This fund invests in other Great-West Life segregated funds according to a strategic asset allocation process. The fund aims to be invested 40% in equity and 60% in fixed income investments.
Balanced Portfolio Fund	Canadian Balanced	Low to Moderate	N/A	2.91	This fund invests in other Great-West Life segregated funds according to a strategic asset allocation process. The fund aims to be invested 60% in equity and 40% in fixed income investments.
Advanced Portfolio Fund	Canadian Balanced	Moderate	N/A	2.94	This fund invests in other Great-West Life segregated funds according to a strategic asset allocation process. The fund aims to be invested 80% in equity and 20% in fixed income investments.
Aggressive Portfolio Fund	Canadian Balanced	Moderate to High	N/A	3.03	This fund invests in other Great-West Life segregated funds according to a strategic asset allocation process. The fund aims to be invested 100% in equity investments.
FIXED INCOME AND CASH EQUIVALENT FUNDS					
Money Market (GWLIM)	Canadian Money Market	Low	N/A	1.31	This fund invests primarily in high-quality, short-term Canadian money market securities, such as treasury bills, bankers' acceptances and commercial paper.
Fixed-Income Portfolio Fund	Canadian Bond	Low	N/A	2.38	This portfolio fund invests in a variety of fixed-income investment funds, including Canadian and foreign investment funds, to provide a 100% fixed-income investment..
Government Bond (GWLIM)	Canadian Bond	Low	N/A	1.99	The fund invests primarily in securities issued or guaranteed by a government in Canada.
Mortgage (GWLIM)	Canadian Mortgage	Low	N/A	2.36	This fund invests primarily in mortgages on Canadian property. It holds mortgages attached to a wide variety of properties. They are situated in all provinces, with an emphasis on commercial properties in major urban centres.
Canadian Bond (GWLIM)	Canadian Bond	Low	N/A	1.95	This fund invests primarily in Canadian federal and provincial government debt securities and in high-quality corporate debt securities.
Global Income (AGF)	Foreign Bond	Low	N/A	2.64	This fund invests primarily in bonds denominated in a foreign currency and issued or guaranteed by a government in Canada, debt securities issued by Canadian companies, and selected international fixed-income securities, such as bonds.
Bond (Beutel,Goodman)	Canadian Bond	Low	N/A	2.17	This fund invests primarily in Canadian federal and provincial government debt securities and high-quality corporate debt securities.
Bond (Sceptre)	Canadian Bond	Low	N/A	2.08	This fund invests primarily in federal and provincial government bonds as well as medium- to high-quality corporate debt securities
BALANCED FUNDS					
Income (GWLIM)	Canadian Balanced	Low	Top down, growth	2.17	This fund invests primarily in a wide variety of short- and medium-term government bonds and up to xx% may be invested in shares issued by Canadian companies with a proven record of paying dividends.
Diversified (GWLIM)	Canadian Balanced	Low to Moderate	Top down, growth	2.6	This fund invests in the units of other Great-West Life segregated funds. The underlying funds cover a wide range of investment types, including Canadian and foreign shares, real estate, bonds, mortgages and short-term investments.

Fund Name	IFSC Fund Category	Risk	Investment Style	MER at Dec. 2001 (BEL)	Description
Equity/Bond (GWLIM)	Canadian Balanced	Low to Moderate	Top down, growth	2.7	This fund aims for a long-term asset mix of 55% shares of Canadian and foreign companies and 45% fixed-income securities, such as bonds and short-term investments. The advisor changes the mix to take advantage of expected changes in the markets.
Income (Mackenzie)	Canadian Bond	Low	Top down, value	2.24	This fund invests in fixed-income securities, including government debt securities and corporate bonds. It also invests in the shares issued by Canadian companies, and may also invest up to 10% of its net assets in units of other Mackenzie sponsored funds.
Growth & Income (Mackenzie)	Canadian Balanced	Low to Moderate	Bottom up, value	2.59	This fund invests primarily in fixed-income investments of Canadian governments and companies, and in shares issued by Canadian and foreign companies.
Balanced (Mackenzie)	Canadian Balanced	Low to Moderate	Top down, value	2.79	This fund invests primarily in high-quality government bonds as well as common and preferred shares issued by companies that the investment advisor expects will provide above-average returns.
Growth & Income (AGF)	Canadian Balanced	Low to Moderate	Bottom up, growth	2.82	This fund invests primarily in Canadian shares, bonds and short-term securities, but may also invest in some foreign securities.
Balanced (Beutel,Goodman)	Canadian Balanced	Low to Moderate	Bottom up, value	2.79	This fund invests primarily in a balanced selection of shares issued by Canadian and U.S. companies, Canadian bonds and short-term securities.
Balanced (Sceptre)	Canadian Balanced	Low to Moderate	Top down, value	2.78	This fund invests primarily in high-quality shares issued by Canadian and foreign companies, Canadian bonds and short-term securities.
Canadian Balanced (MAXXUM)	Canadian Balanced	Low to Moderate	Bottom up, growth	2.81	This fund invests primarily in a wide variety of Canadian common shares, bonds and debentures. It may also invest in preferred shares.
CANADIAN EQUITY FUNDS					
Dividend (GWLIM)	Canadian Dividend	Moderate to High	Bottom up, growth	2.58	This fund invests primarily in the shares issued by Canadian companies that pay attractive dividends.
Equity Index (GWLIM)	Canadian Large Cap Equity	Moderate to High	N/A	2.36	The advisor will generally hold no less than 85% of the number of stocks included in the S&P/TSX Composite Index in close proportions to their weightings in the Index.
Mid Cap Canada (GWLIM)	Canadian Equity	Moderate to High	Top down, growth	2.74	This fund invests primarily in mid-sized Canadian companies.
Canadian Equity (GWLIM)	Canadian Equity	Moderate to High	Top down, growth	2.63	This fund invests primarily in Canadian companies that have the potential for above-average growth.
Dividend/Growth (Mackenzie)	Canadian Large Cap Equity	Moderate to High	Bottom up, value	2.66	This fund invests primarily in Canadian companies that have a long-term potential for strong growth. It also invests in shares issued by Canadian companies that pay attractive dividends.
Larger Company (Mackenzie)	Canadian Large Cap Equity	Moderate to High	Top down, value	2.89	This fund invests primarily in publicly traded shares issued by large Canadian and foreign companies.
Equity (Mackenzie)	Canadian Equity	Moderate to High	Bottom up, value	2.82	The fund invests mainly in securities of large capitalization Canadian companies.
Smaller Company (Mackenzie)	Canadian Small Cap Equity	Moderate to High	Bottom up, value	2.94	This fund invests primarily in shares issued by small to mid-size Canadian and United States companies.
Growth Equity (AGF)	Canadian Small Cap Equity	High	Bottom up, growth	3.31	The investment advisor seeks to invest in companies at an early stage of their development and hold them until they achieve success through rising sales, earnings and cash flow.
North American Equity (Beutel,Goodman)	Canadian Equity	Moderate to High	Bottom up, value	2.86	This fund invests primarily in medium to larger Canadian and U.S. companies that have superior growth potential but which may be undervalued.

Fund Name	IFSC Fund Category	Risk	Investment Style	MER at Dec. 2001 (BEL)	Description
Equity (Sceptre)	Canadian Equity	Moderate to High	Bottom up, value	2.88	This fund invests primarily in shares issued by Canadian companies that have the potential for above-average growth over the long term.
Canadian Equity Growth (MAXXUM)	Canadian Equity	Moderate to High	Bottom up, growth	2.88	This fund invests primarily in the common shares issued by Canadian-based companies that offer above-average potential for growth.
Dividend (MAXXUM)	Canadian Dividend	Moderate to High	Bottom up, blend	2.88	This fund invests primarily in the preferred and common shares issued by Canadian, U.S. and other foreign companies that pay a high level of dividend income.
CANADIAN SPECIALTY FUNDS					
Real Estate (GWLIM)	Real Estate	Moderate to High	N/A	2.95	This fund invests primarily in prime quality income-producing properties in Canada, including commercial, retail, industrial and multi-family residential. It holds properties in many different locations.
Canadian Opportunity (Mackenzie)	Canadian Equity	High	Bottom up, growth/ value blend	2.77	Approximately 50% of the portfolio is invested in Canadian and U.S. companies which are knowledge and service intensive or which utilize new technologies and the balance of the portfolio is invested in more mature industry sectors.
Canadian Resources (AGF)	Natural Resources	High	Top down, growth	3.31	This fund invests primarily in the securities of Canadian oil, gas and natural resource companies.
Canadian Science and Technology (GWLIM)	Science & Tecnology	High	Top down, growth	3.1	The fund invests primarily in the shares issued by publicly traded Canadian companies with strong growth potential in science and technology sectors.
Ethics (GWLIM)	Specialty or Miscellaneous	Moderate to High	Top down, growth	2.78	This fund invests primarily in shares issued by publicly traded Canadian companies that conduct their business in a socially responsible manner and that show strong prospects for growth.
FOREIGN EQUITY FUNDS					
U.S. Equity (GWLIM)	U.S. Equity	Moderate to High	Top down, growth	2.78	This fund invests primarily in medium to large U.S. companies with above-average potential for growth.
American Growth (AGF)	U.S. Equity	Moderate to High	Bottom up, growth	2.93	The investment advisor looks for U.S. companies that have above-average earnings growth, are dominant in their industry and can sustain their competitive position.
International Equity (Putnam)	International Equity	Moderate to High	Top down, growth	3.01	This fund invests primarily in high-quality foreign shares outside North America.
U.S. Mid Cap (GWLIM)	U.S. Small and Mid Cap Equity	Moderate to High	Top down, growth	3.15	This fund invests primarily in publicly traded shares issued by small to mid-size U.S. companies with above-average growth potential.
Foreign Equity Fund (Mackenzie)	Global Equity	Moderate to High	Bottom up, value	3.13	This fund invests solely in units of a mutual fund called the Mackenzie Ivy Foreign Equity Fund which invests in equity securities worldwide, emphasizing companies that operate globally.
FOREIGN SPECIALTY FUNDS					
Asian Growth (AGF)	Asia/Pacific Rim Equity	High	Bottom up, growth	3.43	IKnvestments are largely in shares of companies located or active in Asia or the Pacific Basin whose shares are principally traded on Asian stock exchanges.
European Equity (Sceptre)	European Equity	High	Bottom up, value	2.49	This fund invests primarily in companies located or active in Western and Eastern Europe and whose shares are principally traded on European stock markets.
International Bond (Putnam)	Foreign Bond	Low to Moderate	N/A	2.48	This fund invests only in units of a pooled fund called the Putnam Canadian Trust: International Bond Fund which invests primarily in high-quality debt securities issued by governments and government agencies in countries outside Canada.
International Opportunity (Putnam)	International Equity	High	Bottom up, growth	3.21	This fund invests primarily in shares issued by companies based outside Canada and the U.S. The investment advisor chooses a diversified mix of shares in both emerging and established markets.

Fund Name	IFSC Fund Category	Risk	Investment Style	MER at Dec. 2001 (BEL)	Description
Emerging Markets (Mackenzie)	Emerging Markets Equity	High	Bottom up, growth	3.98	This fund invests solely in units of a mutual fund called the Mackenzie Universal World Emerging Growth Capital Class Fund which invests primarily in equity securities of larger capitalization companies operating in emerging markets throughout the world and smaller capitalization companies in developed markets other than North America.
Japan Equity (Mackenzie)	Asia/Pacific Rim Equity	High	Bottom up, blend	3.69	This fund invests solely in units of a mutual fund called the Mackenzie Universal Select Managers Japan Capital Class Fund which invests mainly in a diversified portfolio of Japanese equity securities.