The Canadian Institute of Financial Planning

RETIREMENT INSTITUTE

Holders of the Registered Life Insurance Specialist ® designation shall maintain the highest standards of professional conduct in dealing with clients and the public. Registered Life Insurance Specialist professionals have obligations to the practise of insurance planning and financial advising more generally. The following provides Registered Life Insurance Specialist licensees a framework of principles and a process to be followed for insurance planning and financial advising engagements.

REGISTERED LIFE INSURANCE SPECIALIST LICENSEES: PRACTICE STANDARDS

The role of a Registered Life Insurance Specialist professional in insurance planning, and financial advising more broadly, extends beyond merely selling the client a set amount of insurance or making recommendations to maximize investment returns on segregated fund products.

While these are clearly important functions and may well be integral to the Registered Life Insurance Specialist professional's engagement with a client, an RLIS professional must adopt a more holistic approach to insurance planning and financial advising that is in keeping with the six-step financial planning process. This means a Registered Life Insurance Specialist professional must account for all aspects of a client's finances as well as his or her goals, objectives and values to formulate a comprehensive insurance plan.

Insurance recommendations and risk management strategies in general, can only be made following a detailed analysis and understanding of the existing and prospective financial risks to which a client is exposed and their relative importance, understanding the current and future financial resources of a client (based on reasonable and prudent projections) from all possible sources, factoring in the wishes of the client to provide support for dependents in the event of the death or disability of the client, identifying potential constraints and opportunities to these objectives, assessing the appropriateness of risk management strategies already in place and finally, determining how much and what type of insurance or, other risk management strategy (within the scope of the RLIS professional's licensing and qualifications), given the entirety of the client's circumstances and needs, is best-suited to mitigate a financial risk that may be triggered by an unforeseen event.

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A Registered Life Insurance Specialist professional should assist his or her client to develop realistic expectations regarding their objectives and desired living standards for their current situation as well as in future phases of their life. They also have to help ensure their client is aware of the decisions and adjustments that they may have to make to realize their financial goals.

A Registered Life Insurance Specialist professional must comply with the following Practice Standards.

STEP 1: ESTABLISH THE CLIENT ENGAGEMENT

The purpose of a client engagement is to ensure both the client and the Registered Life Insurance Specialist professional are aware of what to expect from each other and to make each party aware of their responsibilities to contribute to the development of the relationship. In effect, an engagement ensures both the client and the Registered Life Insurance Specialist professional are on the 'same page'.

A Registered Life Insurance Specialist professional will work with his or her client to define and agree on the scope of the advising engagement. The details of the engagement should be documented in writing and it is strongly recommended that a letter of engagement be used and signed by both the Registered Life Insurance Specialist professional and the client.

From the perspective of the Registered Life Insurance Specialist professional, he or she must spell out exactly what the insurance planning and financial advising process entails and the benefits the client will realize by following them. The Registered Life Insurance Specialist professional will also detail what services he or she is able and willing to provide to the client based on his or her qualifications and/or licensing.

The Registered Life Insurance Specialist professional must disclose his or her responsibilities to the client, his or her qualifications—which includes the fact he or she holds the Registered Life Insurance Specialist credential in good standing (assuming this is factually accurate)—how he or she is compensated for the advisory services he or she provides and any referral fees he or she may receive.

In addition, the full details of any conflicts of interest—real or perceived—to which the Registered Life Insurance Specialist professional may be party must be disclosed to the client immediately upon the RLIS licensee becoming aware of the conflict or the potential for a conflict. This disclosure must be in writing and must fully explain not only the nature of the conflict but also, the possible implications of the conflict to the client. This disclosure will allow the client to make an informed decision as to whether he or she wants to continue working with the Registered Life Insurance Specialist professional within the scope of the engagement notwithstanding the existence of the conflict. While it is strongly advised that where a conflict exists, the engagement should be terminated (without any harm to the client), if the client makes the informed decision to continue with the engagement, in all instances, the Registered Life Insurance Specialist professional must manage the conflict in favour of the client.

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Finally, the Registered Life Insurance Specialist professional should identify his or her expectations of the client and provide a clear explanation as to why these expectations are important to the relationship.

It is imperative that the Registered Life Insurance Specialist professional get clear written confirmation from the client that they understand the process, their respective responsibilities and that the client agrees to be a willing participant in the relationship.

Together, the client and the Registered Life Insurance Specialist professional should then discuss the scope of the advising engagement and come to an agreement as to how decisions will be made going forward. For example, some clients prefer a hands-off approach essentially deferring to the expert judgement of the Registered Life Insurance Specialist professional to provide them with advice and recommendations as the Registered Life Insurance Specialist professional sees fit (in such cases, the Registered Life Insurance Specialist professional must be mindful of the rules prohibiting discretionary trading and the limitations of their licensing). Other clients, to varying degrees, prefer to have some involvement in their risk management planning and the decisions that are ultimately made.

Following the establishment of the engagement, the client will be able to distinguish between what expectations concerning the engagement are realistic and what expectations are not.

STEP 2: ESTABLISH RISK MANAGEMENT OBJECTIVES AND GATHER DATA

Establishing the risk management objectives of the client is a fundamental step of the insurance planning and financial advising process.

A Registered Life Insurance Specialist professional should help his or her clients be as specific as possible in stating their objectives and the desired outcomes of these goals. These objectives must be documented and can be both quantitative and qualitative in nature.

Objectives should be realistic rather than idealistic or hypothetical. Frequently, a client will state their objectives vaguely, as in the following example: 'I want to make sure my family is protected in case something happens to me'.

A Registered Life Insurance Specialist professional should encourage and assist his or her clients to be specific and to reflect anticipated lifestyles, as in the following examples:

- If I were to die, it is important that my children will have financial resources in place to cover their post-secondary education.
- If I were to die, especially while my children are minors, I would like my surviving spouse to have the option to take a leave of absence from work and stay-at-home with the children. This means my surviving spouse will need sufficient funds to cover the lifestyle expenses for the family during this period of adjustment and grieving (e.g. for at least one year).

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A Registered Life Insurance Specialist professional helps his or her clients paint a picture of their current and future life and offers them solutions to help make their preferred lifestyle achievable in all phases of their life. Including a lifestyle perspective to planning will add a dimension to the engagement that will enhance the value of the services offered by the Registered Life Insurance Specialist professional.

When assisting a client with setting his or her objectives, a Registered Life Insurance Specialist professional should encourage the client to ask himself or herself questions about their expected lifestyle, as in the following examples relating to risk management planning:

- If either spouse dies, will the surviving spouse continue to live in and maintain the current family home? Even if they wish to do so and have the finances in place, will they be able to manage the upkeep of the property on their own?
- If either spouse dies, will the surviving spouse continue with his or her employment in its current form?
- If either spouse dies, will the surviving spouse have sufficient financial resources to maintain the existing lifestyle for him or her and their children and other dependents?
- If both spouses die, what will happen to the children particularly, if they are minors, and other dependents? Are there sufficient financial resources to support them?

In addition to helping identify their objectives, these types of questions will help the client to prepare psychologically for the prospect of unforeseen changes in their lives. Moreover, the objectives themselves can become powerful motivators, giving the clients the resolve to make the current lifestyle changes that may be required to achieve their risk management goals.

There is a strong likelihood that a client may not be able to achieve all of their risk management objectives in the precise manner that they have stated. In addition, many of their objectives may conflict with other objectives they may have. For example, it may be the case that the cost of a risk management strategy may limit the funds available for long-term savings thereby, impacting the client's goal to retire early or to expedite the repayment of their mortgage.

A Registered Life Insurance Specialist professional should be able to assist clients to prioritize their objectives based on the relative importance of each objective to the client. Where it is not possible for a client to achieve a goal as stated, a Registered Life Insurance Specialist professional should be upfront and honest about the challenges the client faces. At the same time, the Registered Life Insurance Specialist professional should be able to propose trade-offs to the objective that the client may be prepared to accept even if it may not be a perfect solution based on the original wishes of the client.

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STEP 3: CLARIFY PRESENT STATUS AND IDENTIFY PROBLEM AREAS AND OPPORTUNITIES

It is important for a Registered Life Insurance Specialist professional to gain a full understanding of the risk management strategies the client may already have in place and the current and future financial and lifestyle expectations of his or her client. A Registered Life Insurance Specialist professional should also ascertain whether other obligations or other goals may interfere with the client's primary risk management objectives.

To assess the financial position of a client, a Registered Life Insurance Specialist professional can work with his or her client to complete net worth and cash flow statements and a comprehensive needs analysis. These important statements can help a Registered Life Insurance Specialist professional identify the client's assets and liabilities and their cash inflows and cash outflows and any shortfalls in offsetting financial risks. Information from these statements is integral to understanding the amount and the sources of income available to the client, how the client disposes of their income and what financial resources may be available to fund the risk management objectives of the client.

Depending upon the scope of the engagement, a quantitative analysis will generally include projections to assess whether the client can reasonably expect to fund goals, such as a desired lifestyle in the event one spouse dies prematurely, based on their current financial position and their savings habits.

For example, in the case of an insurance plan, a needs analysis will be affected by the following:

- the estimated financial needs for the period of time coverage is required/desired
- the period of time coverage is required
- the anticipated income from employer-sponsored pension plans, Canada Pension Plan, Old Age Security program and other potential sources of income (e.g. part-time employment during retirement)
- the current value of investments and other assets that might be used to provide a source of income (e.g. home, cottage, business) and the rate of growth on these assets
- current savings being set aside for retirement and other long-term goals
- health status and life expectancy of the client and his or her spouse
- the anticipated inflation rate for the remainder of his or her life expectancy
- the anticipated rate of return on investments
- the anticipated income tax rates leading up to retirement and post-retirement

While many of these factors are difficult to predict with certainty, if the time horizon is sufficiently long, history may provide a basis to make reasonable assumptions for interest rates and inflation into the future.

Despite the best efforts of a Registered Life Insurance Specialist professional to develop realistic projections, it is important that the client understands that no one can precisely predict the future. The best a Registered Life Insurance Specialist professional can do is provide reasonable

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assumptions for the purpose of providing direction to the client. A Registered Life Insurance Specialist professional should discuss, review and document the applicable assumptions with the client and make it clear that any illustrations contained within the plan are meant for illustrative purposes only.

To emphasize the point that a plan can provide a sense of the range of outcomes a client can expect—rather than an absolute number—it is prudent for a Registered Life Insurance Specialist professional to provide three scenarios for any projection or needs analysis: one based on historical norms, one with more conservative assumptions and one with more aggressive assumptions. A Registered Life Insurance Specialist professional should advise his or her clients that regular monitoring is essential and adjustments to the assumptions should be made as required.

Not all objectives can be resolved through quantitative analysis alone. Qualitative data (e.g. personality style, personal values and biases, health issues and family dynamics) should also be gathered and assessed to determine its impact on projections and to aid a Registered Life Insurance Specialist professional provide appropriate, long-term solutions.

STEP 4: IDENTIFY APPROPRIATE STRATEGIES AND PRESENT INSURANCE PLAN

After a thorough quantitative and qualitative analysis has been completed, a Registered Life Insurance Specialist professional will need to identify strategies and solutions that are appropriate for the client to achieve their stated objectives.

For example, once a Registered Life Insurance Specialist professional has determined the insurance coverage a client will require to facilitate his or her desired bequest for their children (e.g. the client may need $2 million in insurance coverage to offset tax liabilities on death so that their children will inherit their real estate holdings in tact), he or she can then develop strategies to pay the insurance premiums. These strategies could be relatively simple, such as covering the cost through the client's existing cashflow or more involved, such as the use of a trust or a business or implementing an estate freeze.

A Registered Life Insurance Specialist professional may determine that the cost of funding an objective exceeds the available cash flow of the client or exceeds the amount the client wishes to allocate to fund the risk management strategy. In this case, a Registered Life Insurance Specialist professional should work with the client to arrive at a workable trade-off. Upon closer examination, perhaps the client can reduce the amount needed to fund their goal or perhaps, the client can ask his or her children to pay all or part of the premiums given that they are the ultimate beneficiaries of the parents' assets.

Alternatively, it may be possible for the client to adjust their current lifestyle—perhaps by reducing his or her discretionary expenditures—such that he or she can allocate additional funds to meet the premium cost. Where a universal life insurance policy or segregated funds is part of the plan, a Registered Life Insurance Specialist professional can help assess whether amending

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the asset mix can increase the client's investment returns and thereby, bring them closer to achieving their risk management objective. Of course, any changes must factor in suitability issues and the client's financial and psychological tolerance for risk.

Recommended strategies should also account for qualitative lifestyle considerations. For example, a client should be made aware of how dramatically his or her life will change should an income earner for the household (e.g. his or her spouse) die unexpectedly. A Registered Life Insurance Specialist professional can assist his or her client to prepare for the emotional transition they will likely experience. A Registered Life Insurance Specialist professional should encourage his or her client to reflect on having a support system (e.g. family and friends) to manage the trauma, arranging to spend more time with children, particularly, if they are minors, to help them cope with the loss of a parent, determining whether the surviving spouse will be able to continue with their job while dealing with the loss of their spouse, determining how to help children to maintain focus on their studies while managing their emotions as well as other qualitative considerations.

The recommendations of a Registered Life Insurance Specialist professional should also include a range of options and supporting rationale in a documented plan. The plan should be understandable to the client (without being condescending, be mindful of using language and financial/insurance jargon and terminology that may not be at the appropriate level of the client based on his or her knowledge, experience and sophistication). The plan should enable the client to gain a better understanding of their circumstances and to make informed, long-term decisions.

STEP 5: IMPLEMENT THE INSURANCE PLAN

Once a Registered Life Insurance Specialist professional has secured an agreement from the client with regards to the strategies and solutions that have been recommended and has obtained permission from the client to proceed to the next step, a time frame for the implementation of the action items should be arranged. The schedule should be documented in the client's file and within the insurance plan itself so that the client also has a record of it. It is imperative that the Registered Life Insurance Specialist professional disclose any conflicts of interest that may result from the implementation of the recommended strategies and solutions.

Many people are procrastinators by nature especially when it comes to making complex decisions. A Registered Life Insurance Specialist professional should encourage clients to implement strategies and solutions as soon as possible. Typically, it is more advantages to act with urgency rather than delaying an action (unless deferral is part of the strategy). For example, a Registered Life Insurance Specialist professional should encourage his or her clients to acquire the required amount of life insurance coverage and/or disability coverage as soon as possible to mitigate severe negative financial implications for dependents in the event of the premature death of the client or the client suffering a serious accident or illness.

If the Registered Life Insurance Specialist professional is not appropriately qualified or licensed to implement the action items, he or she should refer clients to qualified professionals as appropriate. For example, when proposing risk management strategies for a business owner, a

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referral to an insurance specialist who routinely deals with these types of individuals and the unique scenarios they face should be made. Similarly, an estate planning specialist, such as a lawyer, may be required to deal with the complexities of a blended family or, to a tax planning and/or succession planning specialist for a business owner seeking an estate freeze.

It is standard practice to provide clients with three referrals so that clients do not feel they are being pressured into any one particular direction by the Registered Life Insurance Specialist professional. Also, the Registered Life Insurance Specialist professional must disclose any conflict of interest—real or perceived—arising from the referral (e.g. where the lawyer to whom the client is being referred is the spouse of the Registered Life Insurance Specialist professional) as well as any compensation he or she may be in line to receive by making the referral.

If there are action items that have been assigned to the client or outside professionals (e.g. medical certification from a healthcare professional), the Registered Life Insurance Specialist professional should help with the implementation of those items by providing the client with objective advice and guidance where he or she is adequately qualified to do so.

STEP 6: MONITOR AND UPDATE THE INSURANCE PLAN

A Registered Life Insurance Specialist professional should determine with the client how often a plan review should be undertaken. At a minimum, an annual review should be scheduled but, more frequent reviews may be appropriate for complex planning situations or clients who are undergoing or, who are expected to undergo, material changes in their circumstances (e.g. a divorce, change in employment, birth of a child).

Routine monitoring is an essential component of the planning process because current assumptions may not remain valid over the duration of a long planning horizon. Periodic reviews and updates are needed to evaluate progress towards the client's stated objectives. If the client's personal situation changes, their investments are not performing as expected or, if inflation, interest rates, economic conditions or income levels have deviated significantly from the assumptions in the original plan, the strategies may have to be modified to ensure objectives can still be achieved.

The actual implementation of an insurance plan is the first step—ongoing review is crucial to ensure the original objectives and assumptions remain valid. The plan should be reviewed to identify: material changes in the life of the client, (e.g. a change in marital status, a change in health), changes in the client's risk management objectives (e.g. a client wants to retire earlier than anticipated, client realizes a significant increase in income, client loses his or her job) and economic changes (e.g. an environment of high inflation).

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DOCUMENTATION

A Registered Life Insurance Specialist professional cannot prepare an insurance plan without a clear understanding of the client's resources or without making certain assumptions (e.g. rate of inflation, income growth rates, return on investments, tax rates). Any planning exercise must include full documentation of the data gathered and assumptions used to develop the plan. A statement regarding the possible variability of these assumptions should also be included so the client understands that the projections within the plan are illustrations and not guarantees.

The strategies developed in *Step 3: Clarify Present Status and Identify Problem Areas and Opportunities* are critical to the implementation of a successful insurance plan and should be delivered to the client in writing by the Registered Life Insurance Specialist professional.

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