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Borrowing to Purchase Life Insurance Products - Risks and Suitability

Bulletin

No. G-05/14

-General

To the attention of all insurance agents licensed to conduct business as life insurance agents in Ontario

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An order that is made regarding a licence holder reflects a situation at a particular point in time. The status of a licence holder can change. Readers should check the current status of a person's or entity's licence on the [Licensing Link](#) section of FSCO's website. Readers may also wish to contact the person or entity directly to get additional information or clarification about the events that resulted in the order.

These bulletins may include forms that are no longer up-to-date or accurate. Readers should visit the [forms](#) section of the FSCO website, to ensure they are using the most recent version of a FSCO form.

The Financial Services Commission of Ontario (FSCO) is issuing this Bulletin to remind life insurance agents of their responsibilities when recommending life insurance and insurance-related investment products and strategies to clients.

Identifying the Risks

It is the responsibility of life insurance agents to determine their clients' risk tolerance and make recommendations that are appropriate to that risk tolerance. Agents should also explain to clients the rationale for a particular recommendation.

Agents must make clients aware that borrowing to purchase life insurance products may increase investment risk and that there are additional costs and obligations associated with these arrangements. Agents should explain to clients that:

- borrowing to purchase life insurance products involves greater risk than purchasing using cash
- they will need to repay the loan in full

- they will need to pay all accumulated interest
- there is a risk that the value of any related investment may decline over time
- leveraging magnifies both gains and losses
- both interest rates and investment value will fluctuate and returns are not guaranteed

Ensuring Suitability

Life insurance agents have a duty to ensure that the life insurance products they recommend to their clients are suitable. Agents must determine suitability on a case-by-case basis, taking into account the client's risk tolerance, insurance needs, financial position and other relevant circumstances. The recommendations made should address the needs that have been identified and agents should explain to clients, the rationale for a particular recommendation.

Before recommending that a client borrows to invest in a life insurance product, agents must consider factors including the client's risk tolerance, investment knowledge, income, life stage, cash flow and ability to withstand loss.

Notwithstanding, agents should be mindful that leveraging, or the strategy of borrowing money to purchase insurance products, is usually only suitable for clients with a high risk tolerance and sufficient disposable income.

Complaints to FSCO

Life insurance agents should be aware that in the event of a complaint to FSCO, where the client has borrowed to purchase a life insurance product, the agent will be required to demonstrate to FSCO that:

- the product was clearly suitable for the client's insurance needs
- the client was adequately informed about the product and any financial implications or risks
- the necessary fact finding and needs assessment were done and there was a rationale for the recommendation
- both the upside and downside implications of the loan were discussed with the client; and
- the client provided a written acknowledgement of the risks associated with the purchase decision, especially where the client proceeds with a transaction other than the agent's recommendation.

FSCO will not consider simple evidence of the client's signature on the relevant documentation to be sufficient proof that the client was adequately informed about the product and the risks.

It is FSCO's expectation that agents ensure that recommendations, analyses and disclosures are documented in writing, and where appropriate, written acknowledgements are obtained.

For this reason, it is essential for agents to maintain appropriate documentation including:

- disclosure documents
- letters of engagement

- needs assessments
- policy illustrations
- insurer approved marketing materials/brochures
- records detailing client discussions

Resources

[The Approach](#)  and [IVIC Suitability](#)  prepared by industry associations to provide guidance on needs-based sales practices to determine product suitability.

Other resources include FSCO's [Life Insurance Product Suitability Report](#) and the Ontario Securities Commission brochure [Borrowing to Invest](#) .

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