Some see value in regulating annuities as securities

Philip Porado / December 30, 2008

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It remains to be seen whether Canada will follow the Securities and Exchange Commission's lead by adopting rules to govern indexed annuities as securities products, but the idea of stricter rules for the instruments has piqued some interest.

"Regulation of variable annuities by securities regulators and the requirement of a securities licence is something that needs to happen in Canada in order to ensure that agents marketing these products are proficient with both principles of insurance and investment," says Jason M. Pereira, a financial consultant at Woodgate Financial Partners and IPC Investment Corp. in Toronto. "Regardless of the insurance benefits of these funds, they are in their underlying structure a basket of investments — like any other mutual fund or pooled investment — and the sale of these products should require the same level of expertise as any other investment vehicle."

Should Canada adopt such rules, he says, the sales force would be "dramatically contracted" to only dually licensed advisors. This would force insurance-only advisors selling the products to become mutual fund–licensed or to abandon the product altogether. And, he says, that is not a bad thing for clients.

"Personally, I don't think that there's anyone out there who would debate the need to have better qualified representatives out there selling this product," Pereira says.

He adds that just because these products come with several levels of guarantees doesn't mean they are one size fits all, foolproof or risk free — only by understanding both sides of the coin of this product can advisors make fully informed and suitable recommendations to clients. "Regulation by the existing securities bodies in this country and licensing requirements is the first step," he says.

The change would be significant since many believe guaranteed minimum withdrawal benefit products will become the investment vehicle of choice for retirees and boomers in need of steady income. Over the long run, says Pereira, GMWBs could potentially become the largest investment vehicle in the country. "Securities regulators will not ignore this sector of the market for long," he says, "so why not step in sooner than later and hopefully limit the potential pitfalls that may occur in the meantime."

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Pereira has similar concerns about qualifications for advisors who sell segregated funds and suggests the industry, advisors and consumers would benefit from a straightforward solution to regulatory arbitrage.

"What clients should be looking for is an advisor, or team of advisors, that are dually licensed and demonstrate an understanding of both the insurance and investment aspects of these products and a systematic proven methodology for how they invest client money," he says.

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