Canada’s Annuity Issuers Protect their Turf

By Editor Test *Wed, Jan 4, 2012*

The Bank of Montreal will halt new sales of its BMO Lifetime Cash Flow, a retirement income product that Canadian insurers said worked a bit too much like a variable annuity. The Canadian finance minister agreed.

In a win for Canadian insurers, the finance minister of Canada last month ordered the Bank of Montreal to stop selling issued an annuity-like retirement income product called BMO Lifetime Cash Flow, the subject of an article in Retirement Income Journal one year ago.

“The decision is a win for the country’s life insurers and a blow to Bank of Montreal,” the *Toronto Globe and Mail* reported on December 16. BMO Lifetime Cash Flow, not an insurance product, resembled and competed with variable annuities with guaranteed lifetime withdrawal benefits, such as the Sun Life Elite Plus contract.

The Bank of Montreal’s Lifetime Income Cash Flow product, when purchased with after-tax money, provided annual income payments of 6% of principal for life beginning after a 10-year deferral period. The first 15 years of payments were tax-free. The assets (C$5,000 minimum) were invested in target-date type mutual funds. The all-in fee was 2.75% of the account value.

A press release issued by the Canadian government in mid-December read in part:

> “The Honorable Jim Flaherty, Minister of Finance, today announced the Harper Government will introduce legislation to prevent banks from offering financial products that function like life annuities.
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> “Since taking office, this Government has taken steps to clarify the separation of banking and insurance activities,” said Minister Flaherty. “This will ensure the business of insurance continues to be subject to the appropriate rules and regulations.”
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> Annuities “are subject to the regulatory framework for insurance companies. As well, current federal legislation prohibits banks from promoting or selling life annuities, which are considered insurance products.”
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> “However, in recent years, some banks have introduced products that perform the same or similar functions as life annuities. These products are not subject to the same regulatory standards as those sold by insurance companies.
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> “The Minister said legislative amendments, which will be proposed as soon as possible, would allow the grandfathering of existing products, subject to contract terms and conditions.

According to the *Globe and Mail*:

> “The issue was highly contentious within the financial industry. As the baby boomers age, many of

them are expected to use products such as annuities to provide steady retirement income. So financial institutions are putting all of their muscle into ensuring that they have the right products for that demographic group.”

“The life insurers took this issue to the regulator, the Office of the Superintendent of Financial Institutions, complaining that if banks got into the business of annuities, they would have an advantage because they are not required to adhere to the same capital rules as insurers. The insurers also feared that BMO’s move would represent the ‘thin edge of the wedge,’ as banks become increasingly bold about pushing into the insurance arena in any way they can.”

“Royal Bank of Canada, for instance, in recent years began building insurance offices right next to its bank branches, a strategy that other banks and credit unions have since adopted to sidestep rules preventing them from selling insurance in their branches.”