

**DATE:** 28 October 2020

**Nº. 2020-33**

**CATEGORY:** COMPLIANCE

**TO:** Managing General Agents, Associate General Agents, Brokers, General Agents and Independent Financial Advisors, Direct Advisors, and National Accounts

**SUBJECT:** FRONTING

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*This circular replaces Information Circular 2013-01.*

**Description** Any advisor who meets with a client and solicits an application for an Empire Life product must be authorized to sell Empire Life products under a contract with Empire Life or because they are employed or engaged by an entity that is authorized under a contract with Empire Life (ie advisors under a corporate broker contract). Advisors will be assigned a code by Empire Life for submitting business to Empire Life.

**ALL advisors soliciting applications must have a code set up with Empire Life.**

If two advisors are working together, both advisors must be coded with Empire Life and disclosed on the application for insurance. Fronting occurs when an advisor who was not involved in the completion of the sales transaction with the client, signs the application as the soliciting advisor.

Examples of fronting include:

- Mr. A does not have an insurance licence, but has met with a client who wants insurance and completed an Empire Life application. He makes arrangements with Advisor B to sign and submit the application to Empire Life.
- Advisor A is licensed and has completed an Empire Life application with a client. He gets Advisor B to sign and submit the application to Empire Life because Advisor A does not have a contract with Empire Life and does not work for an entity that has a contract with Empire Life.
- Advisor A and Advisor B are licensed and have contracts with Empire Life. Advisor A completes an Empire Life application with a client and has Advisor B sign and submit the application to Empire Life due to a compensation arrangement between the Advisors A and B.

In these examples, Advisor B has never met the client, but signs as soliciting advisor, implying that he completed the application with the client.

In the Mutual Fund industry, this type of activity is called "Stealth Advising". According to the Mutual Fund Dealer Association (MFDA), this occurs when a "non-registered individual maintains a book of business without registration, by executing trades through a registrant".

### **Corporate Set-ups**

In the corporate broker situation, each advisor under the corporate broker must be assigned a code by Empire Life in order to solicit or service Empire Life business.

If two corporate broker advisors work together on a case, both advisors need to be noted on the application and have codes with Empire Life. The client must be aware of both advisors and the roles they play in the application and servicing of their policy(ies).

### **Non- Compliance**

Any advisor found to be involved in fronting or stealth advising may be subject to:

- Vesting of their Empire Life contract
- Removal of the ability to service Empire Life clients
- Chargebacks of compensation

In addition, any advisor found to be involved in fronting will be reported to their provincial insurance regulator.

It is imperative that both the client and Empire Life know who is involved in the soliciting of an application and the servicing of the resulting policy. Please ensure that all advisors who solicit and submit applications to Empire Life are properly coded and noted on the application. If you have a unique situation and are unsure how to handle, please speak to your MGA or your Empire Life Regional Vice President (RVP).

### **Reference**

**Lisa Lawlor, Director, Distribution Practices**