



January 20, 2011

Committee - Incidental Sale of Insurance  
c/o Ms Erin Pearson  
Executive Director  
Manitoba Insurance Council  
167 Lombard Avenue, Suite 466  
Winnipeg, MB R3B 0T6

Dear Ms Pearson and Committee,

**Re: Proposed Regulatory Approach  
Restricted ISI Agent License  
Manitoba Insurance Council**

**About CAFII**

The Canadian Association of Financial Institutions in Insurance (CAFII) is a not-for-profit association dedicated to the development of an open and flexible insurance marketplace. CAFII was established in 1997 to provide a voice for financial institutions involved in selling insurance through a variety of distribution methods.

CAFII is the only insurance association today whose members are involved in all major lines of the insurance business, including creditor's group insurance, travel, life, health, property and casualty insurance. Our members provide insurance through call centres, agents and brokers, travel agents, branches of deposit-taking institutions (DTIs), direct mail and the Internet. Our members sell products and services that consumers often purchase to complement other financial products.

CAFII's diversity in membership enables our association to take a broad view of the regulatory regime governing the insurance marketplace. CAFII works with government and regulators (primarily provincial) to develop a legislative and regulatory framework for the insurance sector that helps ensure Canadian consumers get the insurance products that suit their needs. Our aim is to ensure appropriate standards are in place for the distribution and marketing of all insurance products and services.

## **Overview of CAFII Response**

Consistent with the direction of the Canadian Council of Insurance Regulators (CCIR) to industry in the past several years, CAFII's response focuses on three primary themes:

1. Risk-based regulation
2. Harmonization across provinces
3. Elimination of red tape and bureaucracy

## **ISI Regulation**

The covering letter to the ISI consultation notes that "expanding the Manitoba regulatory framework to include ISI was desirable from a policy perspective". It does not say, however, what problem the new regulatory regime would resolve. CAFII is of the opinion that ISI regulation is not necessary for deposit-taking institutions (DTIs). Insurers and DTIs have been offering ISI products, mainly creditor's group insurance and travel insurance (see Appendix 1 for description) to consumers for decades with very few complaints. This relatively complaint-free delivery can be attributed to a balanced combination of existing legislation and industry guidelines, adhered to by insurers and DTIs. In particular, we note that:

- A robust framework of provincial regulation already governs creditor's group insurance providers and contracts.
- CAFII members adhere to Canadian Life and Health Insurance Association (CLHIA) Guidelines 7 (Creditor's Group Insurance) and 9 (Direct Marketing) which cover key processes (e.g. refund process) and customer communication (e.g. product disclosures). Under CLHIA G7 insurers take responsibility for their distributors and the province regulates the insurers so Manitoba already has a great deal of control and influence over distribution.
- The offer of creditor's group insurance is subject to the Canadian Bankers Association (CBA) Code of Conduct for Authorized Insurance Activities.
- Federal legislation requires DTIs to have extensive customer complaint handling systems in place<sup>1</sup>.
- Insurance companies track and report complaints including those on ISI products, to provincial regulators, including Manitoba, through the provincial central complaints registry.
- The Financial Consumer Agency of Canada (FCAC) monitors compliance with federal consumer protection measures as well as bank adherence to the CBA Code of Conduct for Authorized Insurance Activities.

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<sup>1</sup> Details on how to levy a complaint are easily accessible to all customers through the branch, internet, and on the phone. Escalated complaints are tracked and customers are provided with information on how to contact an independent ombudsperson, should they choose to escalate their complaint in this manner.

- Prescribed federal regulation explicitly controls key market conduct issues such as tied selling and privacy.

Financial Institutions offer ISI products as one component of a larger financial relationship they have with their customers. Since there is an ongoing client relationship at stake, financial institutions are attuned to ensure that their creditor's group insurance products are understood and offer value to their customers.

We believe risk based regulation should be based on evidence of risk. CAFII members are not aware of any metrics that would indicate that there is a problem with DTIs' ISI products or distribution practices. The FCAC, in its most recent annual report (2009-10), noted that it handled only four complaints related to authorized insurance activities of banks. This is a very small number considering the millions of certificates in force. CAFII contacted the Ombudsman for Banking Services and Investments who confirmed that there were very few complaints relating to bank distribution of creditor's group insurance. If the Manitoba Insurance Counsel believes there are issues, we would appreciate knowing about them, as we are prepared to work with regulators to address them. Given the robust nature of existing regulation and control, we would ask that the province consider, from a risk-based regulation perspective, what specific problems they feel additional regulation will address. From CAFII's perspective, there may be issues in other parts of the industry that pose more risk to consumers than the distribution practices of our members.

### **Manitoba's ISI Regime**

CAFII firmly believes it is unnecessary to have a restricted license regime for insurance products distributed through DTIs. However, in the event the province proceeds with an ISI regime, we recommend a number of changes to Manitoba's proposed regulatory approach, to better harmonize with the Saskatchewan and Alberta ISI regimes, to apply the principles of risk-based regulation and to reduce red tape and bureaucracy. For insurers and DTIs, which offer these products nationally, harmonized regulation facilitates consistency in training and compliance with regulations and codes, all of which supports the best possible customer experience.

### **Proposed Requirements for a Restricted ISI Agent License**

- Clause (a) agency contract: We question the wording in the second sentence that suggests that the insurer must have entered into an agency contract with the applicant. It is our view, to be consistent with the Saskatchewan regulations, that the insurer should have a distributor contract with applicant and that the applicant should have an agency contract with an agent (i). We would be pleased to discuss further.
- Clause (b) provincial registration: We note that the regime would have licensees "provide evidence that the business is registered with the Companies Office of the Government of Manitoba where required". Consistent with Saskatchewan, CAFII would like to confirm that the requirement for provincial registration would exclude DTIs that are federally registered.
- Clause (d) reasonable written policies and procedures to ensure an ISI seller is knowledgeable, competent and suitable: We are concerned about the requirement for

“written” policies and procedures. This is not a requirement in Saskatchewan or Alberta. In many cases, CAFII members’ policies are embedded in systems and processes rather than a procedures manual. For our members, representatives gain knowledge through a range of practices including:

- 1) Formal or on- the- job training,
- 2) Oversight and supervision ,
- 3) Systems designed to cover the product offering, with mandatory prompts, field inputs and controls

Accordingly, we recommend you set a standard that the seller be knowledgeable, with the licensee accountable for the methodology to achieve this outcome.

We understand the general approach that Council has taken but recommend that wording be harmonized with Saskatchewan, which limits this requirement to the seller being knowledgeable. We therefore recommend removing the phrase “competent and suitable with respect to the ISI product being offered”. Our members have hiring processes that identify and attract staff suitable to offer a range of financial services, including but not specifically for ISI products. While many of the attributes would be similar, the need is broader than that required for ISI products only.

- Clause (e) providing “a roster of all persons authorized by the agent to act in the transaction of an ISI product “: In Saskatchewan, the roster concept is not applicable to DTI licensees who file at the maximum tier. We recommend that Manitoba’s ISI regime harmonize with Saskatchewan on this aspect of the roster requirement. A roster requirement is particularly problematic for DTIs employing large numbers of employees. Thousands of branch staff and call center staff offer ISI products. As a result, such a requirement would place an enormous and unnecessary administrative burden on the DTIs as well as regulators. It is important to reduce regulatory burden and red tape with which businesses must comply. Should the provincial regulator need information about a specific employee, this could be obtained by contacting the licensee’s designate.
- Clause (f) errors and omissions insurance: CAFII recommends that DTIs be exempt from this requirement as they are exempt in both Saskatchewan and Alberta. DTIs are of a size and scale to be able to self-insure their risk in regards to errors and omissions made in respect of ISI products.

### **Compliance Responsibilities of the Holder of a Restricted ISI Agent Licence**

Clause (c) re annual licensing report: Assuming this is the annual renewal, CAFII recommends that Manitoba adopt the simplified annual renewal approach that Alberta uses successfully.

### **Obligations of a Restricted ISI Agent to Disclose Information**

CAFII is particularly concerned with the requirement for written notification to an applicant prior to permitting an ISI seller to complete an application. Such notification is not possible where coverages are offered by telephone.

The telephone channel (both for inbound and outbound sales) is an important distribution channel for both banking and ISI products. It is also a distribution channel that lends itself readily to consistent and controlled communication and ultimately a positive customer experience. Our members construct telephone scripts to adhere to CLHIA G7 and G9 Guidelines. These guidelines require specific disclosures be given to the customer at time of sale to ensure that the customer is sufficiently informed about the product they are purchasing. The customer is sent the Certificate of Insurance shortly after their phone conversation and a coverage review period (minimum 20-30 days) is provided during which the customer can cancel their insurance and receive a premium refund<sup>2</sup>. This allows consumers sufficient time after the purchase to review all written documentation and to ensure that they have made the right purchase decision. The telephone channel can also easily be monitored for compliance. Strict and continuous training and supervision of all representatives and real time listening of calls are all effective tools used to ensure script adherence. As well, calls are recorded and retained for as long as the insurance coverage is in place. Telephone sales are subject to CRTC rules and, in addition to the “do not call list”, provides consumer- friendly conditions such as acceptable calling hours and protection from unsolicited telecommunications.

Travel insurance in particular is often purchased over the phone immediately prior to departure. As such it may not always be possible to deliver written documentation evidencing the insurance at the very moment of application. If consumers had to be provided with written documentation prior to the product being offered, consumers could lose the ability to obtain needed coverage. In summary, it is CAFII’s view that a restricted license regime needs to accommodate telephone sales, so that consumers are able to access required insurance protection.

CAFII is also concerned about the requirement to disclose the full terms, including limitations and restrictions of the ISI product. The Alberta and Saskatchewan regimes call for a summary of these processes. This is an important distinction. It makes for better customer understanding if we point out a summary of the important features. Upon receipt of the certificate of insurance the customer can review in plain language the terms of coverage in full during the 20-30 day coverage review period and, if required, direct any specific questions to the insurer.

### **Interest Charges**

CAFII recommends removing the interest charge disclosure requirement. Cost of borrowing disclosure is already handled as separate federal legislation, thus this requirement would create unnecessary duplication and administration. It was removed from the Saskatchewan regime for this reason.

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<sup>2</sup> After the coverage review period, the customer can also cancel their coverage at any time without penalty.

### **Council Composition**

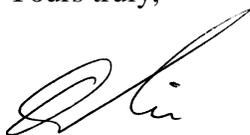
If the province proceeds with ISI regulation, CAFII recommends that you make provision for restricted certificate holders to be represented on the Insurance Council. CAFII members' products and channels are different from other parts of the market and we feel that Council discussions and decisions would benefit from the knowledge that industry representatives would bring.

### **Presentation to Council**

CAFII is pleased to appear before council as scheduled on February 22 to answer any questions you may have about this submission. CAFII would also appreciate the opportunity to comment on the legislation, regulations and/or bylaws related to this new regime.

We appreciate being including in this industry consultation. Please feel free to contact us at any time for further information or discussion.

Yours truly,

A handwritten signature in black ink, appearing to read 'D. Minor', written in a cursive style.

Dave Minor, Chair  
Canadian Association of Financial Institutions in Insurance

## **Appendix 1 – Creditor’s Group Insurance and Travel Insurance**

### **Creditor’s Group Insurance**

CAFII members offer important ISI products to consumers - one of the key products is creditor’s group insurance. An important example of creditor’s group insurance is mortgage life insurance. It pays off the balance of the mortgage loan if the borrower dies, thus ensuring that the surviving family does not lose their home.

Creditor’s group insurance has many benefits:

- Simple, affordable and convenient access to insurance protection, especially to consumers in remote areas.
- Coverages that are not readily available elsewhere (e.g. Job Loss Insurance on credit card balances).
- Creditor’s group insurance products for mortgages are offered at a price that is comparable to the average price of term insurance.
- Can be one component of an insurance plan that complements other forms of insurance that a family may have.
- Provides broad access to insurance protection to families in the underserved lower and middle income market who may not otherwise have insurance. About two-thirds of Canadian households do not have a life insurance agent or broker. Many consumers without a personal insurance agent do not know where to go to obtain insurance coverage. It fills a need for insurance that would otherwise not be addressed.

### **Travel Insurance**

Travel Insurance is another key product offered by CAFII members. Travel Insurance offers people peace of mind during their travels as it provides important benefits. Provincial health insurance coverage may not be sufficient to cover emergency medical expenses, especially outside of Canada. The Canadian Government (Consular Services, Foreign Affairs and International Trade Canada) recommends that all Canadians purchase supplemental health insurance when leaving the country. Foreign medical costs can become a major financial burden if the traveller is not protected. Travel insurance is also beneficial if someone has booked an expensive trip (e.g. a \$15,000 cruise). This is a big investment to lose if you must cancel your plans at the last minute due to illness or death of a family member. CAFII members offer travel insurance online 24 hours per day, in branch, by phone, and as a feature on credit cards. Its broad availability is an important service to consumers.

Creditor’s Group Insurance and Travel Insurance are simplified and very specific in terms of the risk covered.