



March 1, 2012

Leah Anderson
Director, Financial Sector Division
Department of Finance
L'Esplanade Laurier
20th Floor, East Tower
140 O'Connor Street
Ottawa, ON K1A 0G5

**RE: Consultation on Strengthening Canada's Anti-Money Laundering and
Anti-Terrorist Financing (AML/ATF) Regime**

Dear Ms Anderson,

I am writing to you on behalf of the Canadian Association of Financial Institutions in Insurance (CAFII) regarding proposed changes to Canada's AML/ATF regime.

About CAFII

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 believes consumers are best served when they have meaningful choice in the purchase of insurance products and services.

CAFII is the only insurance association today whose members are involved in all major lines of the insurance business. For example, CAFII members offer travel, life, health, property and casualty, and creditor's group insurance. Our members provide insurance through client contact centres, agents and brokers, travel agents, direct mail, branches of financial institutions and the Internet. Our members distribute products and services that consumers often purchase to compliment other insurance products. CAFII's diversity in membership enables our association to take a broad view of the regulatory regimes governing the insurance marketplace.

Proposal 2.4

CAFII is very concerned about Proposal 2.4 in the consultation paper on proposed changes to *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations on Ascertaining Identity*. This proposal would eliminate the exemption from client identification and record-keeping requirements for products with an immaterial cash component available to the client and a \$10,000 threshold for the cost of an annuity or policy. This exemption was put in place

because the products do not pose risk; CAFII concurs with the government that products covered by the exemption do not pose risk and should therefore continue to be exempted. The goal, as noted in the paper, is to have the regulations cover policies that pose AML/ATF risk. CAFII's concern is that by removing the exemption, the regulations will inadvertently capture a number of products which are offered in alternate distribution channels that are important to Canadian consumers and which may not be readily available if the exemption is removed.

Alternate Distribution

A significant number of the products the current exemption covers are sold using alternate distribution channels such as Ecommerce/Internet, direct mail and telephone. ECommerce is becoming increasingly popular especially with younger consumers. According to Industry Canada, in 2009, 80% of Canadians aged 16 and older, or 21.7 million people, used the Internet for personal reasons, up from 73% in 2007. Online transactions were more prominent than in 2007 with 50% of home users ordering goods or services over the Internet. Online banking is the most popular way to bank for Canadians. In a July 2010 survey by the Canadian Bankers Association, it was determined that 45% of Canadian respondents identified online banking as their primary means of conducting business with 63% of Canadians having conducted banking transactions online during the past year.

CAFII has reviewed the non face-to-face identification methods in the regulations. It is our view that they would create a significant barrier to transactions carried out using alternate distribution channels. The removal of the exemption would therefore mean more than a cost increase or an inconvenience; it would mean that it would not be viable to offer a number of important insurance products to consumers that are only available via alternate distribution channels. Removal of these distribution channels would have a great impact on the underserved middle market- those people whose insurance needs are too small to attract the personal attention of an individual broker. Indeed, statistics show that there is a trend to fewer new individual life insurance policies sold each year and that the average face amount of those policies is increasing. Furthermore, removing the exemption is not compatible with the growing trend to ECommerce and would inconvenience the large number of consumers who prefer to seek comparative product information online and to transact electronically.

Products Affected

CAFII has identified the following product examples that would be unduly affected by removal of the exemption. These products were previously exempt due to the immaterial nature of the risk they posed. We would like to point out that, using a risk-based approach, a continued exemption is warranted as these products continue to pose very little AML /ATF risk. In addition, consumers would be greatly inconvenienced if the products were no longer readily available.

We recommend that the regulations be structured to continue to exempt products of immaterial (or no) cash value to the client and those below a \$10,000 threshold for the cost of an annuity or insurance policy including the following product types which CAFII members offer:

- **Term Life Insurance** –Simplified term life policies with no cash surrender value. There is an immaterial cash amount available and the policyholder has to die before a cash payment is made.
- **Travel Medical Insurance and Trip Protection** – Covers customers when they travel out of their province or country and is frequently purchased over the Internet or by phone on a last minute basis. While some payments for travel health claims may be significant, the payment is not to the policyholder but to healthcare providers for specific medical procedures. This product structure is not susceptible to AML/ATF risk.
- **Hospital Cash** – Provides relatively small amounts of cash to ensure that people are able to cover daily expenses while they are admitted to a hospital for an illness or accident.
- **Personal Accident Insurance**– Pays a benefit in the event of an accidental death helping the insured’s family maintain their lifestyle.
- **Simplified Critical Illness Insurance** (no return of premium) – Provides coverage to the insured should he be diagnosed with any of a number of serious illnesses. Products are simple with low face amounts.

It is CAFII’s view that the removal of the exemptions will reduce the availability of important insurance offerings. CAFII recommends that the government use a risk-based approach and leave in place the exemption for products which have no investment component and therefore pose little or no material risk. We would be pleased to discuss this with you in more detail.

Yours truly,

Cathy Honor
Chair, Canadian Association of Financial Institutions in Insurance