



Submission to the Canadian Council of Insurance Regulators

Electronic Commerce in Insurance Products

By The Canadian Association of Financial Institutions in Insurance

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
ABOUT CAFII	4
INDUSTRY CONSULTATION	4
ALTERNATE DISTRIBUTION CHANNELS	4
UNDERSERVED MARKETS	5
CONSISTENT REGULATION ACROSS CHANNELS	6
RISK MITIGATION IN NON FACE-TO-FACE CHANNELS	7
APPROPRIATELY DESIGNED WEB EXPERIENCE	7
ACCESS TO A LICENSED INTERMEDIARY AT CLIENT REQUEST	8
LICENSED INTERMEDIARY REVIEW OF APPLICATION	9
LICENSED INTERMEDIARY AVAILABILITY	9
INFORMATION AND ADVICE TO BE AVAILABLE ON WEBSITE	10
DEALING WITH A REGULATED ENTITY	12
CONSUMERS HAVE AND UNDERSTAND THE NECESSARY INFORMATION ABOUT THE PRODUCTS	12
CONSUMER DISCLOSURE	12
HIGHLIGHTING OR SEPARATING EXCLUSIONS AND LIMITATIONS	12
ENSURING THAT INFORMATION IS WRITTEN IN CLEAR SIMPLE LANGUAGE	12
POSTING OF ADVERTISING ON WEBSITE APPLICATION PAGES	13
CONSUMERS HAVE THE OPPORTUNITY TO REVIEW THE ACCURACY OF THE INFORMATION THEY PROVIDE	13
CONSUMERS ARE AWARE OF THE TERMS AND CONDITIONS	13
SAFETY AND SECURITY OF THE TRANSACTION	13
BENEFICIARY DESIGNATIONS	14
CONCLUSION	14
APPENDIX 1 SUMMARY OF RECOMMENDATIONS	15

Executive Summary

Consumer demand for Internet distribution has been increasing. The Internet is particularly important for delivering products to consumers who are underserved by traditional channels. Electronic commerce can be used to provide consumers with broad access to clear and consistent information about insurance and the ability to purchase the coverage they need in a convenient manner, mitigating the risk that consumers do not buy necessary insurance coverage.

CAFII supports consistency of regulation across channels. The regulatory frameworks that are now in place have been, and can continue to be, adapted for the Internet distribution channel. CAFII supports the direction that products which do not now require a licensed intermediary would continue to not require a licensed intermediary under Internet distribution. Risk mitigation techniques for distributing insurance without an intermediary have been developed and can be utilized in Internet distribution. These techniques include plain language communication of key facts, advice tools, free-look features, complaint handling protocols, privacy requirements, and claims handling.

A web-based offering can greatly simplify the learning process for consumers. The web has the ability to clarify information and present it to consumers in a logical and consistent manner. It is incumbent on the insurer to build an application and consumer experience that both facilitates a transaction and provides sufficient guidance, disclosure and explanation in regard to the specific product being offered so consumers can fully understand the product offered and make an informed purchase decision. Consumer acceptance is key. Clients self-select a channel to achieve satisfaction.

For those products that require a licensed intermediary, we recommend that a licensed intermediary be available for contact at the client's request during business hours. Given that clients have chosen to do their research and transaction on the Internet rather than face-to-face and telephone, mandating the use of a licensed agent would add redundancy and costs and go against clients' needs and wants. Requiring a licensed agent to review an application is particularly problematic as it would mean that clients may be delayed or prevented from completing their transaction.

Internet channels are well suited to making information readily available on a consistent and clear basis. Websites of insurance providers typically provide online advice tools such as contact numbers and "click to chat", information screens, pop-up information screens, needs analysis tools which provide customized insurance advice based on information provided by the consumer, hints, suspend and resume, "click to accept" key information, frequently asked questions, and a glossary. Internet distribution could

make the terms and conditions and all policy documentation readily available in a form that provides for ready storage and retrieval.

CAFII appreciates the opportunity to work with the CCIR on assessing issues related to electronic commerce and insurance distribution, a channel that is increasingly in demand by consumers. We would be pleased to meet with the CCIR to discuss our submission in more detail.

The Canadian Association of Financial Institutions in Insurance (CAFII) is pleased to respond to the CCIR regarding its issues paper on Electronic Commerce in Insurance Products. CAFII members appreciate the involvement and leadership of the CCIR in reviewing Internet insurance distribution.

About CAFII

CAFII was established in 1997 and is the only association whose members are involved in all major lines of personal insurance. 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.

Industry Consultation

CAFII appreciates being consulted on electronic commerce and also the time spent by the Electronic Commerce Committee of the CCIR to meet in person with industry representatives. The discussion helped to clarify the questions and concerns in the issues paper to ensure a more informed submission on our part. CAFII is responding to this consultation on life and health products only. In particular, the submission will focus on travel insurance, creditor insurance and life & health products (such as term, critical illness and disability insurance). For ease of reference, we have provided a summary of recommendations in Appendix 1.

Alternate Distribution Channels

CAFII commends the CCIR for undertaking a review of electronic commerce to ensure that it continues and expands to meet consumer demand. CAFII members utilize electronic commerce and believe we share the CCIR's objective of ensuring consumers are protected while purchasing insurance products in their channel of choice. As the paper notes, the Internet is becoming increasingly popular especially with younger consumers. According to Industry Canada¹, 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

¹ Statistics Canada Canadian Internet Use Survey <http://www.statcan.gc.ca/daily-quotidien/100510/dq100510a-eng.htm>

bank for Canadians. In a July 2010 survey by the Canadian Bankers Association², it was determined that 45% of Canadians identified online banking as their primary means of conducting business - up from 8% in 2000. The survey also indicated that online is important to younger consumers as 62% of respondents aged 18 to 34 identified online banking as their primary means of conducting business. The survey indicated 63% of Canadians conducted banking transactions online during the past year.

And, according to a recent POLLARA survey commissioned by CAFII³, almost 50% of Canadians would be comfortable buying life and health insurance products online. Given that many Canadians do not have life and health insurance outside the workplace, this finding is noteworthy.

Almost 50% of Canadians would be comfortable buying life and health insurance products online

Underserved Markets

Alternate insurance channels such as the Internet are particularly important for the underserved and often uninsured middle market - those people whose insurance needs are too small to attract the personal attention of an individual insurance agent or broker or too geographically dispersed. More than one third of adults in Canada have no life insurance coverage at all⁴; 47% of households find it very or somewhat difficult to find an advisor/agent⁵; 60% of Canadian households do not have an insurance broker⁶. As one article noted “these first time

Alternate insurance channels such as the Internet are particularly important for the underserved and often uninsured middle market

² Canadian Bankers Association -Technology and Canada’s Banking Industry, Strategic Counsel, 2010

³ POLLARA Survey of Canadians’ Views on Purchasing Life Insurance Products Online, Conducted for CAFII, April 2012. All questions related to products that generally cost less than \$400 per year to buy, such as travel insurance and accidental death insurance.

⁴ LIMRA: 2007 Canadian Life Insurance Ownership, Person Trends, pg 10

⁵ LIMRA: Tracking Opinions of the Public in Canada (TOPIC) 2009 pg 18

⁶ LIMRA TOPIC 2009

buyers are part of a massive middle market who remain underserved in the insurance industry.”⁷

The average age of the insurance advisor is increasing. In 2009, the average age of a broker was 46 and in 2010 it was 47⁸. Statistics show that there is a trend towards fewer new individual life insurance policies sold each year and the average face amount of those policies is increasing. This trend reflects the reality that independent insurance agents, by necessity, focus on higher face value and more complex products. In a commission-based business, agents/brokers may be more likely to write higher value policies; it is difficult to make a living from the middle market with smaller needs. A high premium universal life policy is much more financially worthwhile for an insurance agent to place than a number of accidental death or small term policies. Nevertheless, consumers with smaller needs should have convenient access to financial protection and the direct option of electronic commerce responds to this critical need.

A number of products important to consumers are available via alternate distribution channels, and the online channel is becoming increasingly popular. For example, in 2011, Canadian consumers purchased over 180,000 insurance policies online from CAFII members. Electronic commerce provides access to clear and consistent information on insurance, and the ability to easily purchase needed coverage, mitigating the risk that consumers do not buy necessary insurance coverage.

We therefore see a need for regulators to build in flexibility in regulations to accommodate a channel that will inevitably continue to evolve in ways we cannot imagine today, but which will effectively deliver product to mass market customers.

Consistent Regulation Across Channels

CAFII notes that the issues paper is written in terms of desired consumer protection outcomes. CAFII supports this approach to regulation which will be more effective than defining specific rules in accommodating evolution of technology, as well as a range of products and product innovations. CAFII supports consistency of regulation across channels. The regulatory frameworks

The regulatory frameworks that are now in place have been and can continue to be adapted for the Internet distribution channel.

⁷ Source: Thompson World Insurance News. Banks flex insurance muscle Oct, 2009

⁸ SOURCE: Investment executive research - Investment Executive Chart

that are now in place have been, and can continue to be, adapted for the Internet distribution channel.

The first consumer protection outcome noted in the paper is “consumers have access to additional information/advice from a licensed intermediary. CAFII would like to note that not all insurance products are offered by a licensed intermediary. Employer and group life and health products generally are widely offered without a licensed intermediary. We support the direction that products which do not now require a licensed intermediary would continue to not require a licensed intermediary under Internet distribution. For insurance products that are offered by a licensed intermediary, CAFII supports having a licensed intermediary available for contact at the client’s request during business hours.

Risk Mitigation in Non Face-to-face Channels

The paper cites Incidental Selling of Insurance (ISI) as an example of offering insurance without an intermediary present. ISI channels have developed ways of mitigating risk that can be incorporated into online distribution. Risk mitigation techniques include best practices such as plain language communication of key facts, free-look features, advice tools, complaint handling protocols, privacy requirements, and claims handling protocols.

Appropriately Designed Web Experience

When products are to be offered over the Internet, it is incumbent on the insurer to build an application and consumer experience that both facilitates a transaction and provides sufficient guidance, disclosure and explanation appropriate to the level of simplicity/complexity of the product being offered. A web-based offering can greatly simplify the learning process for consumers. Web architecture gives the insurer the ability to clarify information and present it to consumers in a logical and consistent manner. Insurers can verify that all customers are able to access full and complete information. The web gives consumers the opportunity to invest their time to acquire information and to examine at their leisure key aspects or explore alternative options in order to make their decision. The design includes analysis of process flows, presentation of information screens, pop-up screens and customized advice tools so consumers can fully understand the product offering and make an informed purchase decision. Insurers have the incentive to ensure that a web offering is appropriately designed for a given product. Consumer acceptance is key. Clients self-select a channel to achieve satisfaction.

Access to a Licensed Intermediary at Client Request

CAFII believes that consumers should have access to the information and advice that they need to make an informed decision on their insurance purchase. Informed consumers contribute to a healthy financial marketplace. Increasingly, consumers are looking to the Internet to research, compare and buy insurance products. CAFII members are responding to consumer demands by developing interactive and dynamic sites that provide consumers with information and tools that help them choose the product that best meets their needs. According to a recent survey, Canadians expect to rely most on sources other than a licensed agent or insurance representative for guidance when buying life and health insurance products online⁹. It is our members' experience that consumers do not limit themselves to any one channel. Instead, consumers frequently have multiple points of contact before ultimately concluding an insurance transaction. They may consult the Internet, talk to an agent or broker, and/or call a contact centre for background information and then make their purchase decision.

Canadians expect to rely most on sources other than a licensed agent or insurance representative for guidance when buying life and health insurance products online

Online disclosure is one of a number of different ways to help consumers become informed about insurance products. Some providers have developed interactive simulations for consumers to work through a variety of scenarios helping them to better understand or choose a product. While most consumers are able to move through the research and application process independently, many companies offer further advice online or by telephone, if a consumer has that request or need. We support the consumers' choice to access information and advice in a channel and manner that suits their needs.

CCIR has outlined some potential negative consequences for consumers who are not well informed. CAFII members agree that there are risks for an ill-informed consumer of any financial product or service but also believe that online disclosure is an effective way to inform consumers. Consumer expectations drive insurance providers to deliver

⁹ POLLARA, Op. cit

high quality products and services online and to provide information about those products and services in innovative ways. Consumer accessibility and choice are enhanced through innovative technology which can be used to provide interactive information including simulations and scenarios to help consumers understand or choose a product.

Consumers have the ability to opt for whatever level of service they choose through multiple channels. Most consumers who are shopping for a straightforward insurance product will not ask for, or need, additional information to what is already provided during the application process. However, if or when a consumer has questions or would like to access advice, it can be provided online or in some cases by telephone through a certified insurance agent. Both are effective ways to ensure the consumer purchases the insurance product that best suits their needs. Given that clients have chosen to do their research and transaction on the Internet rather than face-to-face and telephone, mandating the use of a licensed agent would add redundancy and costs, and go against their needs and wants. For example, with travel insurance, it is important for people to have Internet access as they may need immediate coverage. We would further note that securities regulation has made the adaptation to electronic commerce many years ago and provide clients with the flexibility to transact online in the purchase of securities without the use of a licensed intermediary.

Licensed Intermediary Review of Application

Requiring a licensed agent to review an application is particularly problematic as it would mean that clients may be delayed or prevented from completing their transaction in a timely fashion. Furthermore, if the product has been purchased without the involvement of a licensed intermediary, we question the added value of an intermediary to that specific purchase, and would point out the additional cost incurred by insurance companies and distributors that are required to maintain a force of licensed agents on stand-by for internet purchases. There would not be a lot to review if an intermediary has not been involved with the client in completing the application.

Licensed Intermediary Availability

The paper notes that a licensed representative should be available at all times. It is the usual practice for websites to provide company contact information and /or instant access to chat online with representatives who are available during normal or extended business hours. We recommend that outside those hours, consumers can click to make an appointment to have a representative contact them the next business day. This would be consistent with existing practices in the face-to-face channel.

Information and Advice to be Available on Website

CAFII supports the CCIR recommendation of “having the relevant information and advice available on the provider’s website.” Necessary information should be made available to the consumer in all channels, including the Internet. Internet channels are well suited to making information readily available on a consistent and clear basis. Using the Internet, consumers have instant access to up-to-date information at any time. The information can serve to educate consumers on insurance features and options, and can be used to facilitate comparisons with other offerings. According to a recent POLLARA survey¹⁰, 75% of Canadians believe there would be sufficient information online when buying life and health insurance products online. We believe that Canadians are satisfied with website information as the CBA study¹¹ reported that 91% of respondents who had visited bank websites were satisfied with the experience.

75% of Canadians believe there would be sufficient information online when buying life and health insurance products online

Websites of insurance providers now typically provide information and online advice tools to guide the consumer through the decision-making process. While each provider will develop its own competitive advice tools, a general description of several of these tools follows:

Personal Contact: Websites offer a phone number to call with questions. This may also be in the form of a button where the consumer can “click to chat” online or make an appointment to have his questions answered.

Information Screens: As part of the design of the application form, insurers provide information in clear language with the ability for consumers to accept their understanding of such information and the facility to request more information.

Pop-ups: As a consumer moves through screens, he or she may see a question “Do you wish to learn more about this?” If the consumer clicks on the question, an information box will appear. Consumer may choose to have the additional information the first time through, but if they resume their information gathering at a later time, they can skip this step.

¹⁰ POLLARA , Op. cit.

¹¹ Canadian Bankers Association, Op. cit

Needs analysis tools: These tools provide personalized advice based on information that a consumer provides. The tools can be used to direct consumers to products that are appropriate. They can also be used to step consumers through key life scenarios and needs by asking such questions as:

- What province do you live in?
- Are you married?
- How many children do you have?
- How old are you?
- Key life events (e.g. marriage, career change, retirement)
- Do you have a mortgage?
- What are your cash needs? (E.g. balance owing on credit, final expense needs, emergency funds)
- What is your income?
- What are your assets?
- What insurance do you currently have?

Based on a consumer's profile, the tool will provide customized insurance advice.

Hints: Throughout needs analysis tools, there are "hints" to educate such as "It is estimated that on average it costs \$15,000 per year per child for post-secondary education," and "Did you know that outside of Canada medical treatment can be very expensive and government health plans may provide only limited coverage."

Suspend and resume: Web technology may also be used to allow consumers to visit a website and gather product information or commence use of a needs analysis tool. Consumers would be facilitated in their work by being able to end a session and come back to the same place in their tool or application process. This allows consumers to gather information at their own pace and convenience and to even gather other information before resuming their online transaction.

"Click through" applications: Applicants can be guided through the application process by having them click to accept key features (e.g. restrictions and limitations) as well as key client information such as age and coverage amounts.

FAQs: Most websites will include a "Frequently Asked Questions" section for common concerns and to provide information a consumer might not have thought to ask.

Glossary: A glossary sets out definitions and explanations of the terms used on the website.

Internet information and advice tools on insurance products are very important to increasing the financial literacy of Canadians, a result which is consistent with

Internet information and advice tools on insurance products are very important to increasing the financial literacy of Canadians

Canada's National Strategy on financial literacy. The federal task force on Financial Literacy defined financial literacy as *"having the knowledge, skills and confidence to make responsible financial decisions."* The federal government acted on one of the task force recommendations in December 2011 when it established the office of "Financial Literacy Leader" within the Financial Consumer Agency of Canada.

Dealing with a Regulated Entity

CAFII supports arrangements to ensure consumers are dealing with legitimate entities whether on the Internet or other channels. Recognizing the importance of this issue, we would like to work with regulators to develop a way for consumers to confirm that they are dealing with a licensed entity in the appropriate jurisdiction.

Consumers Have and Understand the Necessary Information about the Products

CAFII members support full disclosure of information in all channels so that the consumer can make an informed decision. The Internet is particularly good at ensuring that complete, clear and up-to-date information is available to consumers through the use of various interactive tools and educational aids as described above.

The description of this goal includes having specified information "drawn to the attention" of consumers prior to purchase. This suggests a process whereby the consumer is walked through key aspects of the product. This can be accommodated, and is part of the overall web design of an application. However, we caution against too many mandated requirements for consumers to "click to accept" as this could frustrate the consumer and the sales process.

Consumer Disclosure

CAFII members are in agreement with the types of information noted for posting on the Internet.

Highlighting or Separating Exclusions and Limitations

CAFII supports disclosure of exclusions and limitations.

Ensuring that Information is Written in Clear Simple Language

CAFII supports clear, plain language information for use in all channels.

Posting of Advertising on Website Application Pages

The provision of information is a key design consideration of a web offering. Insurers and their application designers are aware that extraneous information or advertising could distract the focus and attention of consumers at the application step. With distractions, the web design may not work well. It is therefore in the insurer's interest to ensure that only appropriate information is presented. We therefore recommend that, rather than mandating a ban or prohibition on the presenting of information, that the application design be part of the overall judgment of the provider in developing a suitable web offering. CAFII would be pleased to work with the CCIR to review in more detail your concerns and possible solutions in this regard.

Consumers have the Opportunity to Review the Accuracy of the Information they Provide

The paper calls for information from the application form to be provided in summary and presented to consumers before the contract is concluded, giving them an opportunity to validate their answers. This can be accommodated. Depending on the web design, insurers may provide a running summary of the transaction so there may be options available to ensure consumers can review the accuracy of the information they provide.

Consumers are Aware of the Terms and Conditions

CAFII agrees with this goal and notes that it holds true for all distribution channels. Internet distribution can make the terms and conditions and all policy documentation readily available in a form that provides for ready storage and retrieval.

Safety and Security of the Transaction

Electronic commerce and Internet channels are commonly used for consumer purchases - matters of safety and security of online transactions are not unique to insurance. Use of online banking is widespread and the reliability and security of the channel has been proven. Consumers receive a confirmation notice of transactions and can thus positively confirm that their transaction has taken place. Security of personal information is an important goal for all distribution channels. Information security online is very technologically advanced. According to the CBA survey¹², 82% of respondents were confident that banks are updating technologies to ensure that they are safe and secure.

¹² Canadian Bankers Association, Op. Cit.

There is not one consistent method of providing security features. CAFII members have different procedures and security providers. CAFII would be pleased to arrange for regulators to meet with members' information technology specialists who can outline the types of security built into online systems.

Beneficiary Designations

CAFII supports regulation that would permit insurers to receive beneficiary designations through the insured's channel of choice. The recently updated *Alberta Fair Practices Regulation* under the *Insurance Act* has waived the "in writing" requirements for a declaration designating, altering or revoking the designation of an insured, personal representative or beneficiary under a contract of life insurance or accident and sickness insurance, where the designation is made directly between the insured and the insurer.

Conclusion

CAFII appreciates the opportunity to work with the CCIR on assessing issues related to electronic commerce in insurance distribution, a channel that is increasingly in demand by consumers. CAFII would be pleased to meet with the CCIR to discuss our submission in more detail.

Appendix 1 Summary of Recommendations

1. CAFII supports consistency of regulation across channels.
2. Products which do not now require a licensed intermediary should continue to not require a licensed intermediary under Internet distribution.
3. For insurance products that are offered by a licensed intermediary, CAFII supports having a licensed intermediary available for contact at the client's request. Given that clients have chosen to do their research and transaction on the Internet rather than face-to-face and telephone, mandating the use of a licensed agent would add redundancy and costs. Requiring a licensed agent to review an application is particularly problematic as it would mean that clients may be delayed or prevented from completing their transaction in a timely fashion.
4. Insurance representatives are available during normal or extended business hours. We recommend that, outside those hours, consumers can make an appointment to have a representative contact them the next business day.
5. CAFII supports the CCIR recommendation of having the relevant information and advice available on the provider's website. Necessary information should be made available to the consumer in all channels including the Internet.
6. CAFII supports arrangements to ensure consumers are dealing with legitimate entities whether on the Internet or any other channel. We would like to work with regulators to develop a way for consumers to confirm that they are dealing with a licensed entity in the appropriate jurisdiction.
7. The Internet can draw attention to specified information by having the consumer "click to accept" key information. However, we caution against too many mandated requirements for consumers to "click to accept" as this could frustrate the consumer and the sales process.
8. CAFII members are in agreement with the types of information noted for posting on the Internet.

9. CAFII supports disclosure of exclusions and limitations.
10. CAFII supports clear, plain language information for use in all channels.
11. CAFII does not support a ban on advertising on application pages. The provision of information is a key design consideration of a web offering. The application design should be part of the overall judgment of the provider in developing a suitable web offering.
12. CAFII supports allowing consumers to review and accept application information they provided online before the contract is concluded.
13. CAFII agrees that terms and conditions and all policy documentation should be readily available in a form that provides for easy storage and retrieval.
14. CAFII would be pleased to arrange for regulators to meet with members' information technology specialists who can outline the types of security built into online systems.
15. CAFII supports regulation that would permit insurers to receive beneficiary designations through the insured's channel of choice.