



Special Project on Credit Card Balance Protection Insurance

Request for proposal submission

MARCH 28, 2019



Executive Summary

CAFI is looking for assistance to lead business research, modeling and strategic recommendations regarding the future of CCBPI in Canada

- Learning from other jurisdictions including Australia, US, UK and Ireland
- Benchmarking of key metrics across CAFI members
- Business modeling of impact of potential scenarios
- Business strategy recommendations for the industry and individual companies, in line with regulatory constraints

We believe CAFI should use this effort to explore a broad range of scenarios to sustainably bring this useful product to Canadian consumers, while addressing current risks. The case for action is strong as CCBPI is a sizable profit contributor for CAFI members.

- Although CCBPI has real value for certain segments of consumers - protection against life-altering situations and financial hardship...
- ...A number of practices associated with CCBPI have come under scrutiny in Canada and abroad, at times with far-reaching consequences

CAFI could consider a number of moves to drive industry evolution and provide a sustainable value proposition to Canadian consumers

- Fix the basics to address important concerns such as the appearance of high-pressure sales tactics and unfair claim procedures
- Explore fundamental moves such as rebalancing product economics across time-horizons, expanding value pools through a consumer lens

We believe BCG is the best partner for you for this engagement

- We go deep to unlock insight and have the courage to act: Strategy is in our DNA
- We bring a global network with extensive coverage of your geographies of interest: ~4,000 staff across Canada, UK, Australia and US
- We understand the Canadian context: we work for 5 of the largest Canadian FIs, we have 3 offices and a Center for Canada's Future
- As an option, we bring a fit-for-purpose financial services benchmarking capability: Expand, a 100% subsidiary of BCG

A number of practices associated with CCBPI have come under scrutiny in Canada and abroad, at times with far-reaching consequences

United Kingdom



- FCA announced deadline of Aug 2019 for final PPI¹ claims for up to 64M policies deemed 'mis-sold'
- Prohibition of selling payment protection at the same time as credit card
- Many incumbents no longer use individual sales targets



- 5 major banks dominate the industry
- Minister of finance has a large role
- Regulated by a small number of agencies that have aggressively enforced consumer protection regulations

Ireland



- Central Bank updated Code with general principles (e.g. does not mislead, full disclosure of all charges)
- FCA² announced new rules and guidance for handling PPI complaints
- Deadline of Aug 2019 for PPI claims



- 4 major banks dominate the industry with a competitive market similar to Canada
- Regulated by a small number of agencies that have implemented more stringent requirements

Australia



- Sales commission capped at 20%
- FSRA introduced licensing, training and regulations
- Unbundling of packaged accounts
- Strengthening process for obtaining consent and improved disclosure of cost/duration



- 4 major banks dominate the industry with a competitive market similar to Canada
- Regulated by a small number of agencies that have implemented more stringent requirements

America



- Banks such as AMEX, BoA, Capital One etc. have suspended the sale
- Several states suing banks over marketing practices
- Consumer Finance Protection Bureau and Federal Deposit Insurance Corp are jointly investigating Discover for business practices



- ~5,000 banks with vast amounts of credit card providers
- Intense competition between 5 vertical players
- Decentralized regulators with competing federal agencies

Canada



- Similar to UK/AUS/Irish markets in political and banking systems, except regulators/ politicians have prioritized financial system stability (safety and soundness)
- Some banks have moved away from individual sales targets, and are self-policing consumer protection issues
- Liberals expected to strengthen the mandate of FCAC³ to enforce consumer protection rules, especially with upcoming elections

Regulatory changes and responses

Similarities and differences with Canada

Deep dive UK: Impact extends beyond credit cards to branch sales incentives and scrutiny on packaged accounts

Impact on credit card economics



PPI complaint claims

- PPI has been sold alongside credit cards since the 1990s, which has since been banned
- Lloyd's Banking Group set aside billions to compensate customers who were mis-sold PPI, to date they have **spent £18.7bn¹**
- **Credit card ROE has been significantly impacted** as a result of customer revision spend

Broader impact on other dimensions



In-branch incentives

- Regulatory focus on sales incentives led to **termination of individual sales tactics** by large incumbents
- Impact varied across products; **essential products** (eg. checking acct.) **experienced sales improvement** while non-essential products (eg. insurance) saw sales declines



Packaged accounts

- New rules designed to **help customers understand** whether the product was right for them
- **Prohibitions put in place** at different stages of the selling process to avoid packaged account mis-selling



Product management

- Focus on **conduct risk** in the product approval governance process, leading to **increased monitoring of product usage** through metrics such as:
 - Packaged account composition
 - How many uses
 - How many claims processed etc.

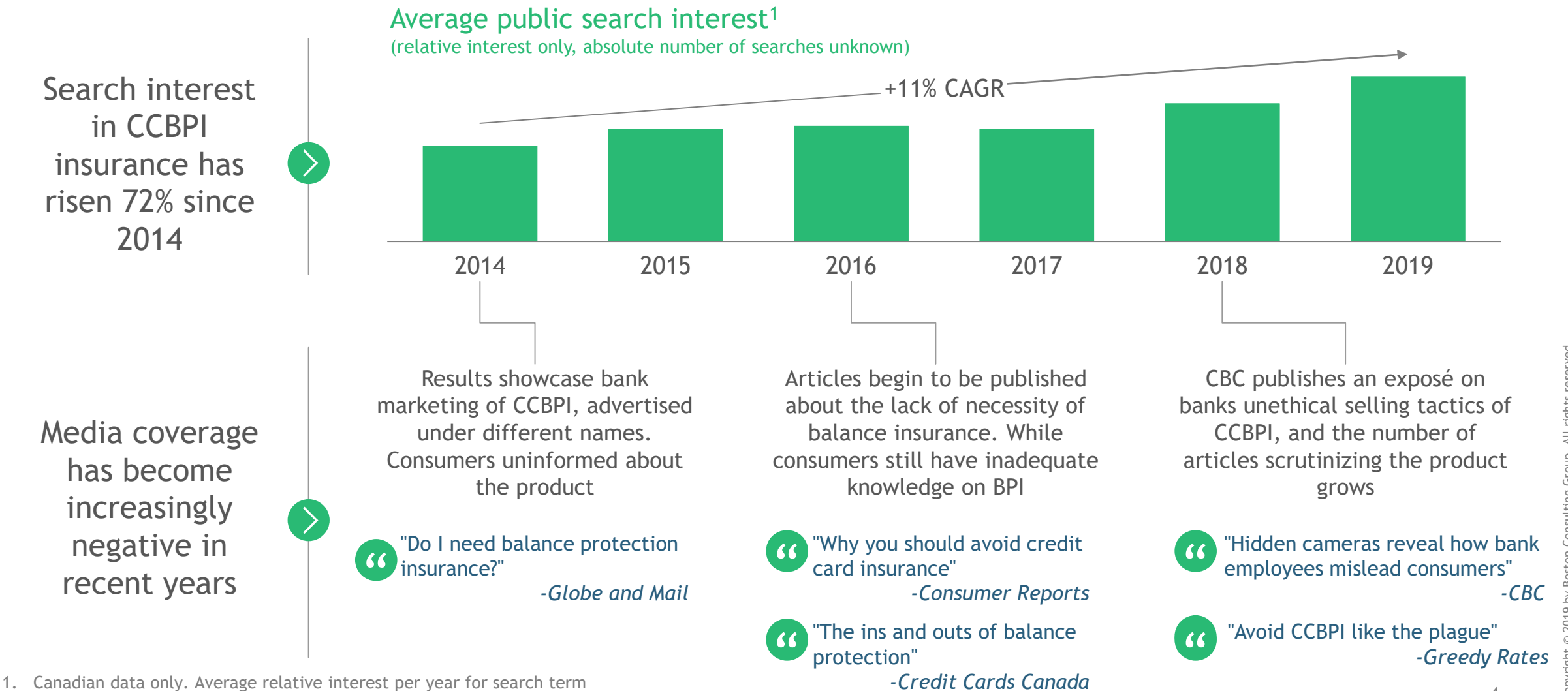


Considerations for Canadian market

- UK market tends to be more competitive than Canadian market - e.g. direct and aggregator models more prevalent across FI businesses
- Canadian regulator putting more emphasis on stability than innovation - e.g. direction and progress on Open banking
- Consumer protection tends to have more teeth in the UK - e.g. FCA rules on Asset Management practices

1. All PPI revisions (e.g. mortgages, loans, credit cards etc.)
Source: BCG analysis

CCBPI has become an increasingly public issue in recent years, and press coverage has become more negative



1. Canadian data only. Average relative interest per year for search term "Balance Protection Insurance"
Source: Google Trends, News articles, investment websites

As public and regulatory scrutiny of CCBPI increases, there is a range of potential scenarios to be prepared for

Minimal impact

Significant impact

Increased public scrutiny and press coverage

- An increase in press coverage & scrutiny harms public perception of CCBPI, potentially forces a decrease in premiums and/or an increase in claims
- No major response from regulators
- Overall, no major changes to industry

More stringent regulatory requirements

- Increased public scrutiny forces reaction from regulators, e.g.
 - Controls on how CCBPI can be marketed & sold
 - Caps on commissions of policy sales, etc.
- Significant impact on premiums and economics

Regulatory ban on sales practices

- Regulatory ban on sales of CCBPI products at the same time as credit card sales, or government steps in with low-cost offer as an alternative to consumers
- Significant reduction in new sales and revenue of CCBPI coupled with increased claims from outstanding policies

Example
countries



CAFII members could consider a number of moves...

Preliminary—to be developed

Fix the basics to address important concerns



Revise sales incentives to ease public concern over appearance of high-pressure sales practices

- Remove individual sales tactics (e.g. high commission, various consumer pressure tactics)
- Define and publicize value proposition to clearly highlight benefits to consumers
- Enforce complete transparency of product and disclosure of associated terms such as:
 - Monthly fees
 - Length of time valid
 - Payout amount



Educate and empower consumers with information

- Provide consumers with detailed information and tools required to determine if balance payment insurance is the right decision for them (e.g., fact sheet, coverage calculator)



Clarify claim eligibility and procedures

- Implement quick turnaround and effective processing through knowledgeable support staff to provide consumers with claim reimbursement

Explore fundamental moves



Rebalance economics across time-horizons

- Lower CCBPI premiums and target efforts on attrition reduction to maintain customer lifetime value
- Increase product benefits eg. maximum benefit amount, period of validity






Explore adjacent value pools through a consumer lens

- Debt restructuring
- Insurance of purchased goods
- Monetization of data

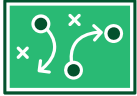


...

We will deliver strategic recommendations grounded in international best practices and in-line with regulatory constraints (I)

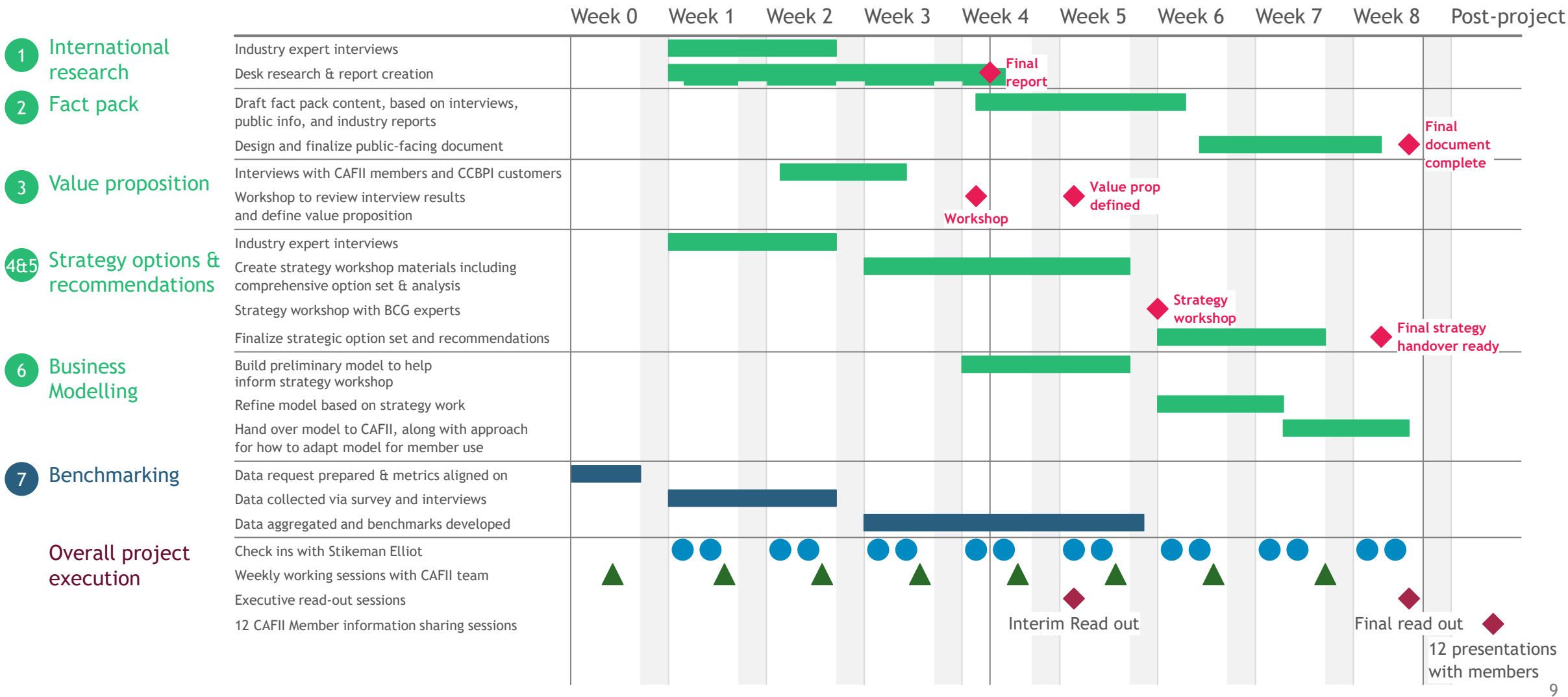
	Deliverables	Methodology / Activities		Sources of information
1 Comparative international research 	<ul style="list-style-type: none"> Overview and comparison of the CCBPI landscape in Canada, UK, US, Australia, and Ireland, including detailed summary of consumer concerns and activity, along with information on recent and future regulatory environment changes Prioritized list of both existing and potential future concerns, relevant for CAFII and its members 	<ul style="list-style-type: none"> Desk research to generate detailed fact base on CCBPI within each market Interviews of 3+ experts from each geography to collect fulsome view of each market and relevant issues 	➤	<ul style="list-style-type: none"> Public information (Press search, public corporate communications) Interviews with experts from banks, regulators, and insurers Market reports¹
2 CCBPI Fact Pack <i>Public document</i> 	<ul style="list-style-type: none"> Primer on CCPBI - what it is, who it is for, how it is sold, and who it is sold by Simple, easy to digest summary of CCBPI products offered by CAFII members Vignette examples of CCBPI products successfully used around the world FAQ section 	<ul style="list-style-type: none"> Interviews with key staff at CAFII member organizations familiar with CCBPI products Leverage BCG's design team to ensure document is highly compelling, aesthetic, and digestible by a public audience 	➤	<ul style="list-style-type: none"> Interviews with CAFII member organizations Public information (Press search, public corporate communications)
3 Value Proposition 	<ul style="list-style-type: none"> Detailed definition of consumer value proposition of CCBPI products to Canadian consumers Tangible examples of CCBPI product applications in the Canadian market place List of shortcomings of CCBPI products 	<ul style="list-style-type: none"> Interviews or focus groups with Consumers of CCBPI Workshop with small CAFII team to review interview results and define collective view on value proposition 	➤	<ul style="list-style-type: none"> Interviews or focus groups with consumers Public information (Press search, public corporate communications)

1. E.g. *Payment Protection Insurance report* by UK Office of Fair Trading, *Market Investigation into Payment Protection Insurance* by UK Competition Commission

We will deliver strategic recommendations grounded in international best practices and in-line with regulatory constraints (II)

	Deliverables	Methodology / Activities	Sources of information
4&5 Strategy options & recommendations <i>Industry & proprietary</i> 	<ul style="list-style-type: none"> Comprehensive list of strategic options for enhancements to CCBPI on an industry level Comparative analysis of strategic option set to guide CAFII and it's members in decision making process, including risk and opportunity analysis Review of options with law firm to ensure recommendations consistent with regulations 	<ul style="list-style-type: none"> Conduct interviews with BCG experts and industry experts from various geographies Leverage results of business modeling exercise to inform recommendations Ensure close collaboration with law firm 	<ul style="list-style-type: none"> Interviews with experts from banks, regulators, and insurers BCG internal expertise Law firm guidance on regulation
6 Business Modelling 	<ul style="list-style-type: none"> Analytical model to illustrate impact of various scenarios e.g. changes to loss ratios, premiums, payout rates, etc. Analytical approach to share with CAFII members to serve as a starting point to identify best mix for themselves from menu of possible product changes 	<ul style="list-style-type: none"> Identification of appropriate scenarios to model & incorporation of data from Benchmarking exercise Leverage BCG's business modelling expertise and advanced analytical tools 	<ul style="list-style-type: none"> Benchmarking output BCG expertise
7 Benchmarking (Optional) 	<ul style="list-style-type: none"> Aggregated set of benchmarks covering CAFII member organizations Benchmarks cover topics of average number/amount of policies, premiums, claims received and paid, loss ratios, applications, employees, complaints etc. 	<ul style="list-style-type: none"> BCG Expand, a specialist FI benchmarking research outfit, to complete this work Data collection via interviews and data request surveys (must be launched in week 1 of project to get data in time) Close collaboration with CAFII in survey design and launch 	<ul style="list-style-type: none"> Data collection survey sent to CAFII members Interviews with executives as CAFII member companies (as needed)

We propose a robust work plan for this project



We will run
"high-frequency"
interactions to
give you
visibility in
progress and
engage
stakeholders



Meeting

Check-ins
with
Stikeman
Elliot

Cadance

2
*times per
week*

Purpose

Ensure all work completed in compliance with competition law, and to engage Stikeman Elliot as subject matter experts



Working
meeting with
CAFI team

1
*time per
week*

Share interim output, collect and incorporate feedback, and collectively make important decisions



Readouts

2
*times
total*

To keep leadership informed of progress being made and the direction of the work, as well as provide updates on emerging findings

We will bring deep strategic expertise and knowledge of priority markets

Execution team



James Tucker
Partner
Toronto

Lead BCG FI practice in Canada ;
Expert in Canadian retail banking
market. Experience in benchmarking
the Canadian bancassurance market



Thomas Foucault
Partner
Toronto

Expert in Canadian Retail Banking
and Insurance markets; Deep
experience in financial services
strategy



Sucharita Sridhar
Principal
(potential project manager- subject to
availability)
Toronto

Experience leading strategy and research
projects in retail banking and insurance.
Core member of BCG's Financial Services
practice area



Experts with topic expertise across countries (Selection)



Ian Walsh
Senior Partner
London

Global leader of Retail Banking
segment and member of the FI
practice area leadership team



GB Taglioni
Senior Partner
NYC

North American leader for the
Insurance practice area. Expert in
Global bancassurance with a focus
on the United States



Norbet Gittfried
Associate Director
Frankfurt

Expert on risk and regulation in
Financial Services. Previously
advised projects on topic of CCBPI



Alasdair Keith
Knowledge Expert
London

UK Retail banking topic expert.
Deep expertise in topic of CCBPI



Wendy MacKay
Partner
Sydney

Core member of BCG's Financial
Institutions practice areas.
Extensive experience working with
Retail Banks
and Insurers



Benchmarking Expertise



Raz Hussain
Director - Expand
NYC

Financial Services benchmarking
expert. Leads Expand in
North America



BCG, best partner to take up the challenge



We have a global network with extensive coverage of geographies of interest

- We will bring a global team, with offices in the UK, Australia, the US, and Canada
- Access to local experts and industry practitioners in all relevant markets



We have access to world-leading experts in insurance and retail banking

- 100+ dedicated FI and Insurance partner teams across geographies of interest
- 15 dedicated FI & Insurance Knowledge Analysts/specialists supporting clients globally
- Access to 45+ senior advisors in the Banking and Insurance spaces (former industry executives)
- Through third-party partnerships, access to network of 1000s more former FI and Insurance executives around the world



We know the Canadian retail banking and insurance markets extensively

- ~50 Canadian FI staff who have worked with the largest Canadian banks and Insurance companies over the past 3 years
- Dedicated expert partners focused on Insurance and bancassurance in Canada
- We have worked with ~5 CAFII member institutions in the past 3 years



We understand the Canadian context

- BCG Canada has three offices and over 300 staff across the country
- We run the BCG Center for Canada's future, a think tank focused on shaping the national agenda
- We co-founded and host the LEAP-Pecaut Center for social impact



BCG Expand is a recognized leader in benchmarking for the financial services industry

- A 100% BCG owned company that provides research & benchmarking to global financial players
- Expand provides independent, impartial and anonymous benchmarks of firms' business, operations and technology performance relative to peers.

Proposed commercial terms

James Tucker and Thomas Foucault (Partners and managing directors) will oversee the delivery of this project and be accountable for overall work quality on behalf of BCG. They will actively involve supporting experts and will ensure to bring the best of BCG to the table during this project

To deliver the support outlined in this document, they will be supported over 8 weeks by a BCG team as described below:

- A project manager and a team of 2 BCG consultants
- Experts mobilized and deeply engaged in content, in particular to provide first-hand expertise on the Canadian markets and main players on your geographies of interest (Western Europe, Australia, USA)

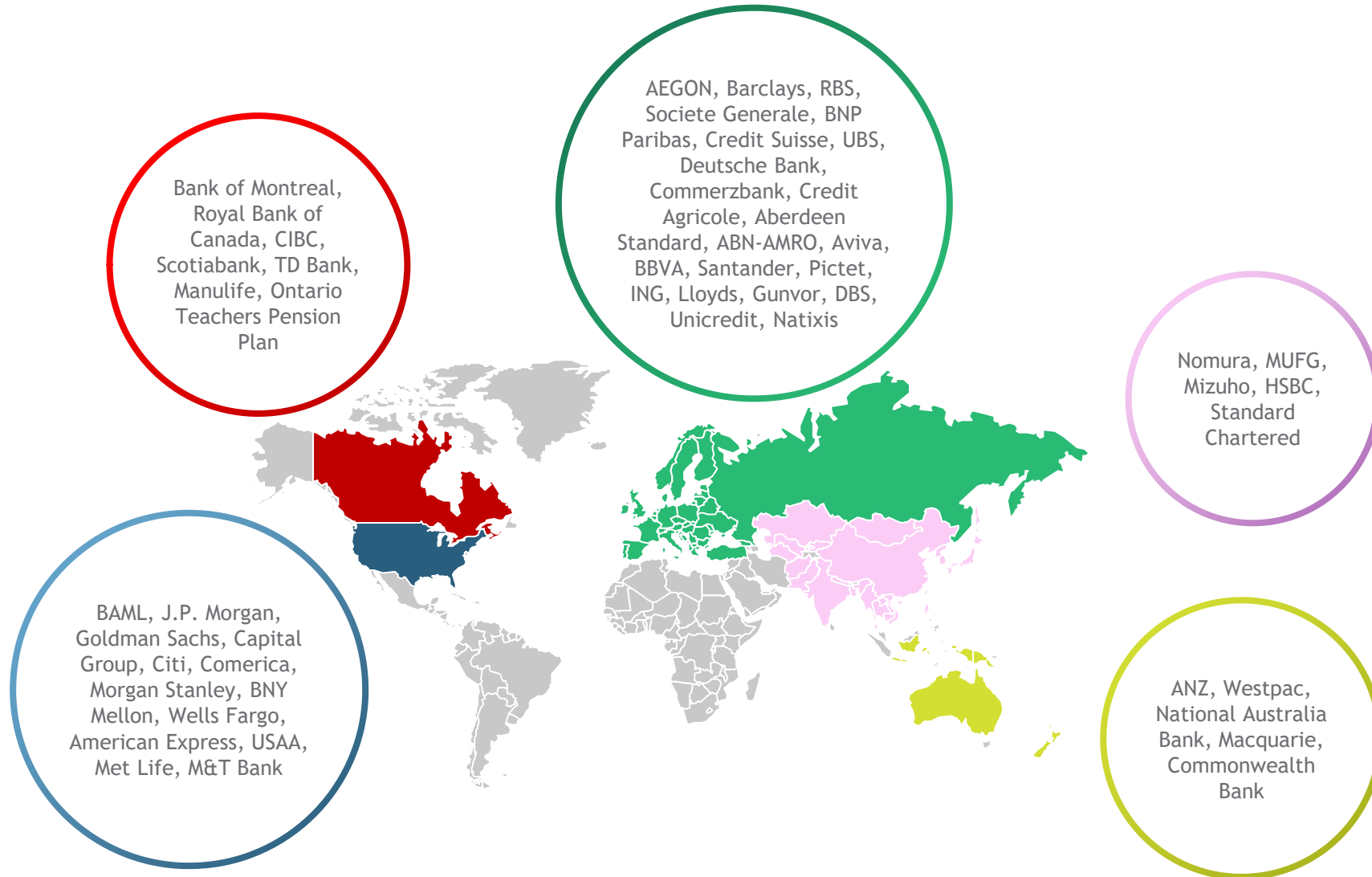
Our professional fees to conduct this work on the basis of the scope and timeline outlined in this document (excluding benchmarking) will be CAD \$1.1M (Includes all expenses and excludes applicable taxes)

The benchmarking exercise would be an additional CAD \$0.25M (Includes all expenses and excludes applicable taxes). This portion of the project will be conducted by BCG Expand (further details in Appendix)



Appendix- BCG Expand

Expand works with some of the most globally respected financial institutions



Expand are market leaders in providing benchmarking and research solutions to all areas of a financial institution



Business Strategies

Trading Strategies, Client Intelligence, Business Productivity



Technology Strategies

IT Total Cost of Ownership, Human Capital Strategies, IT Effectiveness



Operational Strategies

Operational Costs and FTEs, Operational Metrics and Efficiency, Client Impact



Corporate Functions

Management & Strategy for transversal functions incl. Risk, Finance, Compliance



Market Data

Market Data cost and consumption analysis



FinTech

Online portal with FinTech profiling, Tailored research calendars



Forums & Working Groups

Regular face to face peer reviews, Platform for cross industry initiatives



Bespoke Research

Strategy & investment validation, competitive landscaping

Over the past 18 years expand has developed and launched over 50 current benchmarks

Expand currently works annually with over 60 of the world's top Financial Institutions across its product suite

Unique approach to data normalisation



- Expand leverages years of experience to ensure unparalleled accuracy while maintaining a low burden on participant firms.
- Benchmark data is collected via MIS extracts, is standardized by Expand analysts and verified by the client. This ensures minimal work for participants while allowing for the strongest like for like comparisons.

Detailed gap analysis



- Expand's benchmarks focus on identifying cost and performance deviations of the firm from the benchmark and best-in-class, as well as the impact of human capital strategies across the different functional areas
- All data is scaled to key business performance metrics allowing for truly actionable insights

Unparalleled Market Insight



- Expand facilitates numerous industry roundtables and forums to supplement the benchmark data with market leading insight
- Firms using Expand's benchmarks gain first hand insight from peers by being part of the community

Price point



- Cost of all the benchmarks are syndicated across the industry allowing for competitive fees
- Commercial offering ensures both skin in game for participating firms and neutrality of Expand as a stand alone entity.

Granularity & Trending Data



- By downloading data directly from a firm's MIS, Expand is able to benchmark at an increasingly granular level
- Unparalleled granularity and trending of data can be used to provide historical analysis if required

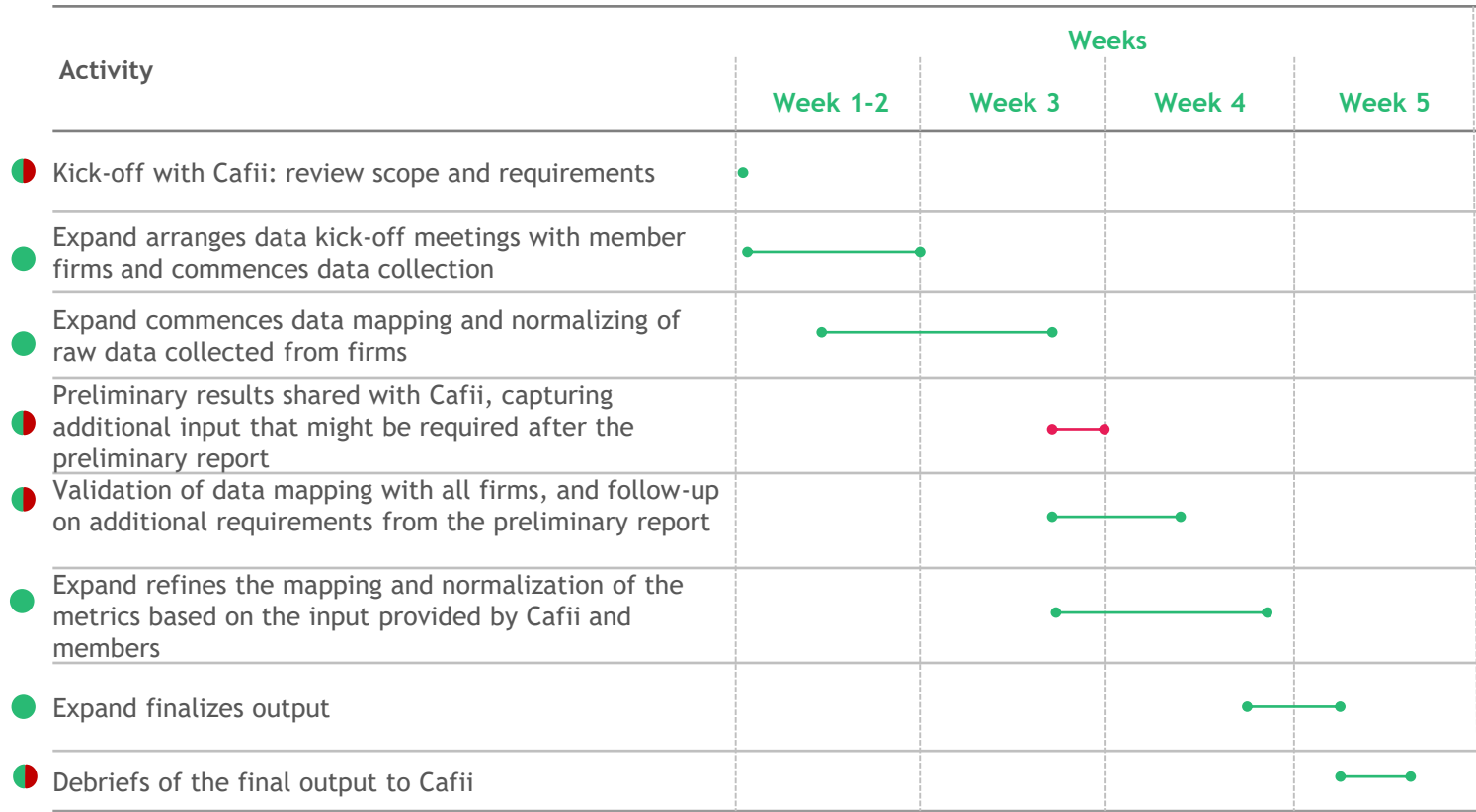
Accessible and timely data



- Using Expand's proprietary database, dedicated analysts are able to turn around bespoke reports ensuring the closest possible comparability
- Ad-hoc work, within reason, is available through Expands dedicated analysts to ensure a full benchmark service

Expand is widely acknowledged as the industry leader for benchmarking

Proposed benchmark timeline



Key

Expand Action

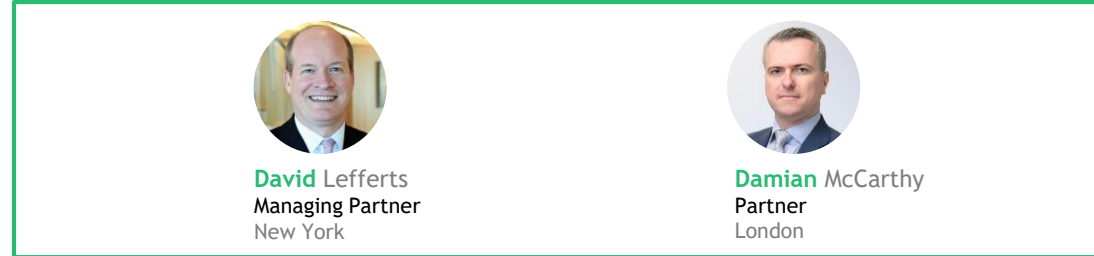
Joint Action

The Expand Team



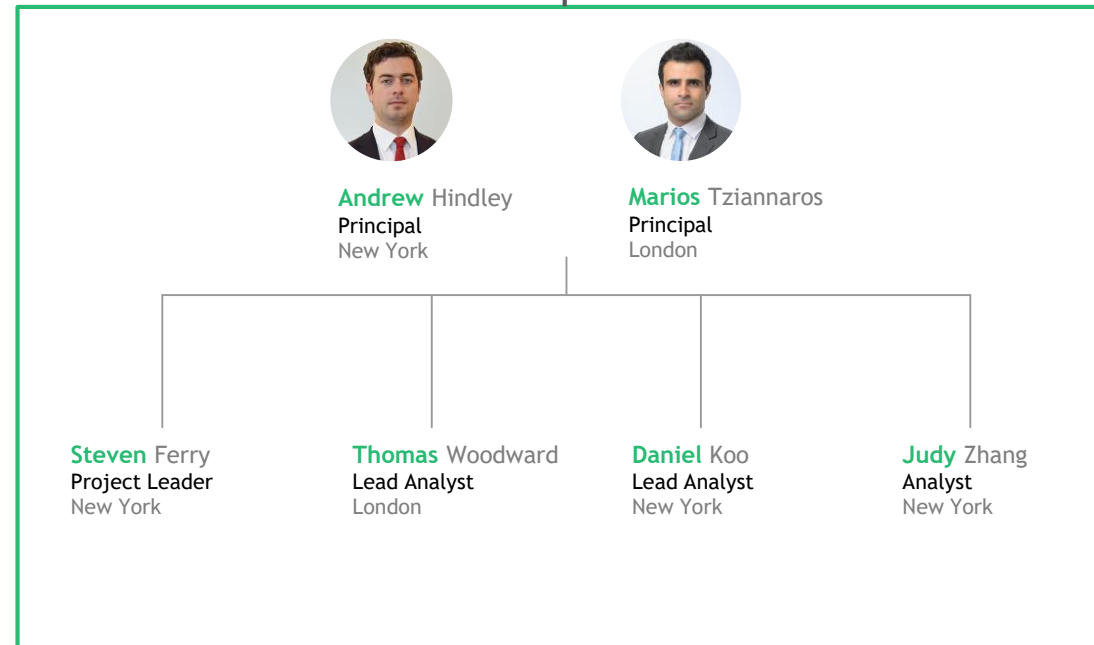
Leadership team

- Review/approve recommendations
- Set expectations for team output
- Provide overall guidance for team



Working team

- Expert perspective on benchmarking
- Manage day-to-day work of team
- Focus on meeting deliverables
- Lead benchmarking activities





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