

Agenda Item 1(c) (New Item)
June 8/21 Board Meeting

MEMORANDUM

To: CAFII Board of Directors
From: CAFII Member Applicant Review Committee (Chris Lobbezoo, Peter Thompson, Martin Boyle, Monika Spudas, Brendan Wycks, Keith Martin)
Copy: CAFII EOC Members
Date: June 5, 2021

Recommendation: The CAFII Member Applicant Review Committee unanimously recommends to the Board of Directors that it approve Canadian Tire Bank (CTB)'s application for Initiation Membership in the Association.

On May 12, 2021, the CAFII Member Applicant Review Committee (Chris Lobbezoo, Peter Thompson, Martin Boyle, Monika Spudas, Brendan Wycks, Keith Martin) met virtually with CTB representatives to review their application to become an Initiation Member of CAFII.

Representing CTB at the meeting were

- Megan Jones, Vice-President, Financial Products & Services; and
- Adam Vespi, Associate Vice-President, Insurance & Services.

The meeting was notable for the strong engagement and openness of the CTB representatives in the get-better-acquainted dialogue which discussed issues of alignment and fit. They were highly professional and enthusiastic, and answered all questions thoroughly.

Megan Jones, who is Adam Vespi's boss at CTB, emphasized that Adam has convinced her of the benefits to CTB in becoming a member of CAFII; and she fully supports the initiative that Adam is leading to secure CTB's Initiation Membership in the Association. Megan noted that she is actively involved in the Canadian Bankers Association, and would therefore be delegating CTB's participation in CAFII to Adam, but with her strong support and keen interest in the background.

Adam Vespi advised that the Insurance & Services division which he heads up is a newly formed group at CTB; and that he has been with CTB for four years.

Adam indicated that CTB has learned a lot about CAFII and its initiatives and effectiveness as an Association from Assurant, which is the underwriter of the credit protection insurance coverage which it offers to its credit card holders. (Because Assurant is CTB's CPI underwriter, Rob Dobbins, current CAFII Board Secretary & EOC Chair from Assurant, recused himself from sitting on the CAFII Member Applicant Review Committee; and he was replaced by Immediate-Past Board Secretary & EOC Chair Martin Boyle of BMO Insurance.)

Megan and Adam also indicated that they had had a thorough recent conversation with CAFII Board member Zack Fuerstenberg of Scotiabank Financial about the benefits of being a CAFII member. The information and testimonial perspective which Zack had shared, along with Assurant's encouragement, had contributed to CTB's decision to apply for CAFII Initiation Membership.

Adam and Megan indicated that they were inspired to seek CAFII Initiation Membership for CTB mainly because they would like to have a direct pipeline to the regulatory intelligence and insights that CAFII provides for its Members; and to have a seat at the table and be able to bring its own information, insights, and influence to the Association, for the general betterment and advancement of the industry.

The CTB representatives described the research and analysis they had done about CAFII to assure themselves that their bank's corporate aims and objectives and its future vision of the CPI marketplace aligns well with CAFII's goals and policy positions around consumer choice; fair treatment of customers (FTC); alternate distribution; efficient and effective regulation; and harmonization in regulation.

The CTB representatives advised that if the CBA ever decided to pursue, with CAFII's support, changes to the federal Bank Act and the Insurance Business (Banks and Bank Holding Companies) Regulations to permit chartered banks to retail all types of insurance products from their branches – rather than just Authorized Insurance Products as at present – that pursuit would not cause any difficulty for CTB as a member of CAFII. They also responded that neither would the possible pursuit of federal and provincial regulatory change on the issue of online promotion of more than just Authorized Insurance Products on banks' corporate websites be an issue of concern for CTB.

It was noted that if CTB joins CAFII as an Initiation Member, it will be the only Member of the Association at the present time which offers CPI around a single type of debt obligation, i.e. optional credit card balance protection insurance (CCBPI). The CTB representatives emphasized that that difference/uniqueness *vis a vis* other Members of the Association would not be a cause for any concern for their company.

In November 2018, CTB was the subject of negative media coverage by CBC's "Go Public" around its dealings with a widow arising from her recently deceased husband's outstanding credit card balance. Megan Jones advised that that experience had driven home at CTB how critically important it is to be proactive, well-prepared and poised to correct factual inaccuracies in dealing with the media, especially an investigative journalism program such as Go Public. Adam Vespi indicated that as a Member of CAFII, CTB would be willing to share its experience and insights around that sort of media relations challenge and around other issues, for the benefit of all Members.

Brendan Wycks explained to the CTB representatives that with respect to the negative media story they had to handle in November 2018, if CTB had been a Member of CAFII at the time, the Association would not have been able to get involved as it does not represent individual members in their media dealings. Megan Jones and Adam Vespi said they understood that CAFII position and were completely comfortable with it.

The Member Applicant Review Committee reviewed with CTB's representatives the volunteer commitments expected of CAFII Members, including on the Board, EOC, and subcommittees, and they expressed a strong interest in participating fully in all of those activities. They said that while CAFII can bring much value-added to CTB, they also felt that with their active participation they can add value to the Association.

The Member Applicant Review Committee has determined that CTB is a strong and well-aligned candidate for CAFII Initiation Membership; and resolved unanimously to recommend to the CAFII Board of Directors that CTB be admitted as an Initiation Member.

Appendix A

Canadian Tire Bank (CTB) is a federally chartered bank operating as a subsidiary of Canadian Tire Financial Services Limited (CTFSL), a financial services arm of Canadian Tire Corporation.

In 1995, CTFSL became the first non-deposit taking, financial institution in the world to launch a MasterCard called the Options MasterCard. Today, the Bank issues Canadian Tire Options MasterCard, Gas Advantage MasterCard and Cash Advantage MasterCard. It is the eighth-largest credit card issuer in Canada with 1.8 million active accounts.

It also offers high interest savings accounts, guaranteed investment certificates (GICs), tax free savings accounts, online and phone banking.

In 2009, CTB sold its lending portfolio to [National Bank of Canada](#) and no longer provides mortgage products.

In 2014, [Bank of Nova Scotia](#) (Scotiabank) acquired 20% stake in Canadian Tire's banking business for C\$500 million.

As of May 31, 2017, Canadian Tire Bank had total assets of C\$5.655 billion. It employs over 1,600 people with offices in Welland, St. Catharines and Oakville, Ontario. The company was established in 2003 and is a member of the Canada Deposit Insurance Corporation (CDIC).

Appendix B

Canadian Tire Settles After Go Public Makes Inquiries

By Erica Johnson, CBC News, November 4, 2018

Almost 30 years ago, George Graves signed up for a Mastercard at his local Canadian Tire store. He was also sold insurance on that credit card, designed to help with payments in the event a cardholder loses their job, becomes disabled or gets sick.

"My husband paid for Credit Protector insurance all these years in case something bad should happen," says his 72-year old wife, Jolante Graves.

"Now it's happened, and the company doesn't want to live up to ... expectations."

George Graves, 84, a farrier from Addison, Ontario, had a stroke in February that put him in long-term care and quickly led to vascular dementia.

"I thought we'd be OK because of his credit card insurance," his wife told Go Public.

It's estimated that millions of Canadians pay for insurance on their credit cards.

But financial experts say the product is pricey, carries numerous conditions to qualify for coverage and often doesn't pay out. In many cases, the insurance will only cover the minimum monthly payment — not the entire balance.

"Credit card protection is fantastic for the banker, usually horrible for the consumer," says personal finance expert Kerry Taylor, from Vernon, B.C.

In the months following her husband's stroke, Jolante Graves says he became unable to recognize her and couldn't read or write.

She says employees from Canadian Tire Bank repeatedly phoned her at home, demanding she pay her spouse's outstanding credit card bill, which was about \$17,000. She had not co-signed for the credit card, and had no obligation to pay it off.

"They have been evasive, rude and unkind," Graves wrote in an email to Go Public. "This is causing me a lot of distress."

Graves says she told them her husband had dementia, and was unable to file a claim on his own, but because the policy was in her husband's name, she was told by bank officials that they could only deal with him.

In July, a letter arrived from Canadian Tire Bank, saying her husband's overdue account was being "escalated to our Credit Recoveries Department," and demanded immediate payment.

George Graves died four weeks ago.

Canadian Tire settles

Two days after Go Public contacted Canadian Tire Bank, a spokesperson phoned Jolante Graves and apologized for the harassing phone calls.

He also said that although her husband would have to make the insurance claim, he was willing to erase the debt — which had grown to over \$18,000 — if she agreed to keep the deal confidential.

She signed a confidentiality agreement, but CBC had already interviewed her.

Canadian Tire turned down a Go Public request for an interview, and instead emailed a statement, saying, "We take any concern raised by our customers seriously and in this particular case, we were able to quickly resolve the matter."

Go Public asked how much George Graves had paid in credit card insurance over the years — a recent Mastercard statement from Canadian Tire Bank showed that he was paying about \$105 a month for insurance.

A bank spokesperson declined to say how much Graves had paid in premiums "for privacy reasons," but in [a letter](#) to Jolante Graves, a senior representative wrote, "the amount of creditor insurance premiums paid was far less than the amount of debt that Canadian Tire Bank has forgiven."

He also wrote that Canadian Tire "has processes in place" to make customers "aware of how their credit protection insurance coverage could apply" and that these processes were followed.

Coverage 'extremely narrow'

Taylor has examined the fine print on insurance contracts for a number of credit cards, and says she'd never buy such a product.

"It generally doesn't help the consumer," says Taylor. "It's just an expensive product that they're adding to their debt load and the premiums are extremely high."

Canadian Tire charges \$1.10 per \$100 balance a month for its Credit Protector product (which decreases to 59 cents per \$100 when the cardholder turns 80). That means that the average customer with a monthly balance of \$2,500, who doesn't get the discount, pays \$27.50 a month for insurance, or \$330 a year, plus taxes.

Taylor says what policies actually cover is "extremely narrow."

Often people who buy credit card protection think they have unemployment coverage, but learn they don't qualify because many insurance companies require the cardholder to be working for one employer for a minimum of 25 hours a week.

"If you're someone like me in the gig economy, I'm not going to be covered, because I have multiple jobs and none of them add up to 25 hours a week," says Taylor.

George Graves didn't qualify for unemployment coverage.

He was still working as a farrier, shaping and fitting horses with shoes, when he was sold the insurance on his credit card, but he didn't have one employer for 25 hours a week.

His wife also couldn't collect on the life insurance included in the coverage, because that stops paying out at age 80.

"With a standard life insurance or disability policy, someone is going to ask you questions about your health, your age, your gender, what kind of work you do and so on," says Taylor.

"It's all on paper, so they can figure out what your risk is for making a claim, and charge the correct premium. That underwriting doesn't exist with credit card insurance."

Taylor says people get better protection if they pay for life and disability insurance.

"Get the underwriting," she says, "so you know if your illness will be covered or not."

She also recommends people create their own emergency fund.

"That way, if you get sick or injured, you can cover your minimum monthly payments yourself," says Taylor.

'People don't understand how it works'

"A credit card is a high interest product, initially meant for safety and convenience," says Scott Hannah, president of the Credit Counselling Society. "They're not designed to carry a long-term balance, that's the problem."

He says counsellors at his office often hear from people who get into credit card debt and are surprised to learn the insurance they've been paying for doesn't cover them.

"It's not until they hit financial trouble that they find out they never qualified to begin with," says Hannah, noting that many consumers don't read the fine print before they sign up for credit card protection plans.

'He would be devastated'

George Graves died unaware of the controversy that surrounded his outstanding credit card debt.

"I'm glad he never knew," says his wife. "He would be devastated. He bought that insurance for peace of mind."

She's glad Canadian Tire settled the dispute over her husband's Mastercard, but says the retailer has lost her as a customer.

"They will never see me set foot in their blasted store again," says Graves. "If I want to buy something, I'll go somewhere else."

Appendix C

Questions related to "Alignment/Fit Between CAFII and Canadian Tire Bank Around Policy Issues"

1. How do you see CTB's corporate aims and objectives and your future vision of the credit protection insurance (CPI) and/or travel insurance marketplace aligning with CAFII's goals and policy positions around consumer choice; fair treatment of customers (FTC); alternate distribution; effective and efficient regulation; and harmonization in regulation?

2. The federal Bank Act Regulations come up for review once every five years. And at some point in the future, it could well be that the members of the Canadian Bankers Association (CBA) decide to pursue changes to those Regulations to permit chartered banks to retail all types of insurance products from their branches, rather than just Authorized Insurance Products as at present.

If CBA did decide to take that initiative, CAFII – as an Association which represents the insurance arms of the banks and other financial institutions – would be in solid support of the CBA in its pursuit of such changes.

While we are aware that CTB is a federally chartered bank and a member of the Canadian Bankers Association, we're wondering if such a CBA-driven and CAFII-supported pursuit of change would cause any difficulty for CTB as a member of CAFII?

And how would CTB feel about CAFII supporting the pursuit of federal and provincial regulatory change on the issue of online promotion of more than just Authorized Insurance Products on the banks' corporate web sites?

3. If CTB joins CAFII as an Initiation Member, it will be the only member of the Association at the present time which offers CPI around a single type of debt obligation, i.e. optional credit card balance protection insurance (CCBPI). Is that difference/uniqueness *vis a vis* other members of the Association of any concern to CTB?
4. Does CTB have any particular questions for CAFII related to alignment and fit around policy positions?

Questions related to "Alignment/Fit Between CAFII and Canadian Tire Bank Around CAFII's Expectations of Members; and Roles/Duties of the Association"

1. Initiation Members are classified as Regular Members of the Association. Regular Members are expected, as are the six Foundation Members, to appoint one senior representative to serve as a Director on the Board of the Association. And there are four Board meetings per year – held in April, June, October and November/December – which all Directors are expected to attend.

And, as well, Regular Members are expected to designate at least one representative to serve on the Executive Operations Committee, which is a "roll up your sleeves" working body within the Association that looks after planning, implementation of strategic objectives, and operations oversight, working in close co-ordination with the Co-Executive Directors.

In normal, non-pandemic times, the EOC meets 10 times per year (five in-person meetings for two hours; and five 90 minute teleconference meetings), and EOC members also attend the four Board meetings as observers. During this COVID-19 period, the EOC's meetings are of the same frequency and duration, but all meetings are virtual.

Is CTB comfortable with making that level of human resources and volunteer leadership commitment as a CAFII Initiation Member?

2. Clause 4.12 in CAFII's Bylaw stipulates that the Association's Directors and EOC members have a duty of loyalty and confidentiality to the Association. It reads as follows:

Duty of Loyalty and Confidentiality

Every director owes a duty of loyalty and confidentiality to the Corporation, regardless of the member that nominated him or her. Every director, officer, committee member, employee and volunteer, shall respect the confidentiality of matters brought before the board or before any committee of the board. Employees and volunteers shall also keep confidential matters that come to their attention as part of their employment or volunteer activities.

Would a Director and one or more EOC members from CTB be comfortable with this duty?

3. CAFII has a Competition Law Policy (provided to CTB by Brendan Wycks).

Would CTB be fully comfortable in complying with our Association's Competition Law Policy?

4. CTB's corporate profile indicates that Bank of Nova Scotia owns a 20% stake in CTB.

If CTB does become a CAFII Initiation Member, does CTB foresee the possibility of any issues or concerns arising for it within the Association due to the fact that Bank of Nova Scotia is also the parent bank of another CAFII member: ScotiaLife Financial?

5. While CAFII does engage in limited and selective proactive media relations on behalf of the CPI/travel insurance industry (i.e. on behalf of all members collectively) – to raise the profile and enhance/polish the image of the industry generally -- the Association does not provide media relations services on behalf of individual member(s).

In November 2018, CTB was the unfortunate subject of negative media coverage by CBC's "Go Public" related to one of its optional CCBPI insureds in Ontario, a recently deceased man and his surviving widow.

If CTB had been a member of CAFII at that time, the Association would have provided CTB only with media relations advice/guidance, upon request, and would not have "taken this on" for CTB as an Association/industry-wide issue.

Would that limitation around CAFII's role/duties as an Association be a concern for CTB if such a situation were to arise again in future when CTB is a member of CAFII?

Are there any insights/learnings that CTB gained from the November 2018 negative media coverage experience with CBC Go Public?

Would CTB be willing to share those learnings with fellow CAFII members and bring them to bear for the benefit of the entire membership, perhaps by appointing an experienced CTB representative (e.g. the person who was the lead on this crisis issue) to the Association's Media Advocacy Committee?

6. Does CTB have any questions for CAFII related to the duties and expectations of members?

Terms and Conditions of CAFII “Initiation Membership”

Eligibility

Companies/organizations which are distributors and/or underwriters/manufacturers of creditor’s group insurance and/or other forms of life and health insurance sold through alternate distribution channels in Canada; and which support the mission, vision, and values of the Canadian Association of Financial Institutions in Insurance may apply for admission as a “CAFII Initiation Member.” Initiation Membership applicants may not have been a Member of CAFII for at least the past five years.

Term

CAFII Initiation Membership status is limited to two membership years, following which the related Initiation Membership Dues Incentive shall cease, and the Initiation Member must transition to CAFII Regular Member status or depart as a Member of the Association.

Initiation Membership Dues Incentive

An applicant approved by the CAFII Board for Initiation Membership status will receive, for each of the first two years only, a 40% discount and pay 60% of the CAFII Member Dues that would otherwise be payable. For example:

	2021 Dues	2022 Dues¹	Savings over 2 years
CAFII Regular Member (>\$75 billion assets)	\$77,110	\$77,110	
Initiation Member (>\$75 billion assets)	\$46,266	\$46,266	\$61,688
CAFII Regular Member (<\$75 billion assets)	\$38,555	\$38,555	
Initiation Member (<\$75 billion assets)	\$23,133	\$23,133	\$30,844

¹ assumes no change in Member Dues for 2022.

Privileges and Benefits

The privileges and benefits of CAFII Initiation Member status shall be identical to those of CAFII Regular Member status, including all of the following representation, voice, and influence dimensions:

- having a Director on the CAFII Board of Directors;
- participation/involvement in the Association’s Executive Operations Committee (EOC) and other committees;
- input to and involvement in CAFII submissions to insurance regulators and policy-makers;
- participation/involvement in CAFII regulator and policy-maker meetings and visits tours;
- preferred access to CAFII-commissioned research results, etc.; and
- receipt of “CAFII Alerts Weekly Digest” and monthly “Regulatory Update” industry insights/intelligence documents

The following limitations on the privileges and benefits of CAFII Initiation Membership shall apply:

- an Initiation Member’s Director on the CAFII Board of Directors may not serve as Chair of the Board or Vice-Chair of the Board; and
- an Initiation Member representative may not serve as Chair of the CAFII Executive Operations Committee/Secretary to the Board.

Application Process

CAFI Initiation Membership applicants must apply using the standard CAFI Membership Application Form and submit the completed Form to CAFI's Co-Executive Directors; and, in addition,

- submit any additional information which may be requested on behalf of the CAFI Board of Directors; and
- undergo a review/vetting process which will include an interview between members of the applicant's senior management team and a CAFI membership review committee.

The CAFI Board of Directors will review and make a determination on all Initiation Membership applicants, with the benefit of a recommendation from the Association's membership review committee. The decision of the CAFI Board of Directors shall be final.