

Agenda Item 2.7 (iii)

February 10/20 Board Special Purpose Teleconference Meeting

Draft CAFII Opening Statement To The AMF

At 11 February, 2020 Meeting On RADM's Applicability To Credit Card-Embedded Insurance Benefits

Comments to be made by Keith Martin in French, approximately 5 minutes duration

On behalf of my Co-Executive Director Brendan Wycks, and the members of CAFII, I would like to thank you for the opportunity to speak to you about our concerns that credit card-embedded insurance benefits could be subject to the provisions of the Regulation respecting Alternative Distribution Methods (RADM).

CAFII and its members have been strongly supportive of the direction and general provisions of the new Regulation, and we believe that it achieves a good balance among the goals of upholding consumer protection, providing consumer choice, and fostering industry efficiency and effectiveness. Some provisions, such as the replacement of the Distribution Guide by a Product Summary produced by businesses in the industry, will lead to much better consumer experiences and outcomes in our view.

But we never envisioned that the insurance coverages which are often included with credit cards – coverages which are not sold, but rather included as an add-on benefit -- would be subject to the RADM's point-of-sale disclosure requirements.

While we have multiple arguments of a legal, regulatory, and technical nature as to why we do not believe that the RADM applies to credit card-embedded insurance benefits, in these opening comments, I would like to emphasize two key reasons for why we believe the stance which the AMF would appear to be taking is not an advisable approach, and why it would be highly confusing to consumers and impractical for the industry.

Our first point is that this approach would produce a negative, confusing, and misleading customer experience.

The RADM requires that at point of sale, a Product Summary document and an AMF-prescribed Fact Sheet be provided to consumers. The Fact Sheet includes highlights of consumer rights, including a "Know Your Rights" statement which lets the consumer know that they can choose not to purchase the insurance.

But that is not how credit card-embedded insurance benefits work.

A consumer has a multitude of choices around choosing a credit card. They can choose a no-fee card with limited features, or a fee-card with a variety of different embedded benefits. The fee and the rewards tend to be the most important factors affecting a consumer's decision as to which credit card to apply for, but in this highly competitive market, additional features and benefits are included in many credit cards to improve the value proposition for the consumer.

If the embedded benefits in any particular credit card are not attractive to the consumer, he or she has a multitude of other credit cards to choose from with other benefits and features, and he or she can simply apply to secure a different card.

But the consumer cannot pick and choose from among the embedded benefits in a particular credit card—those embedded benefits are part-and-parcel of the offer, and the consumer can either accept them or choose not to accept that particular credit card. The benefits and features of any particular credit card cannot be modified in a piecemeal, cafeteria-style fashion.

As such, imposing the provisions of the RADM upon credit card-embedded insurance benefits, including point-of-sale documentation such as the Fact Sheet, would be confusing and frankly misleading for consumers, and would lead to a terrible customer experience.

(This does not even touch upon the reporting and other requirements of the RADM that would be exceedingly difficult for the industry to meet with respect to credit card-embedded insurance benefits.)

Our second key point is that when embedded benefits are being provided to the consumer via a credit card, the insurance is not being offered or sold to the consumer in any direct way, and the scenario around applying for and securing a credit card is completely different from the direct sales situations to which the RADM applies. The credit card is being offered to the consumer, with or without insurance and other embedded benefits.

The insurance contract is between the credit card distributor, for example a bank, and the underwriter, an insurance company. The cardholder pays no premium for the embedded insurance benefits which he or she receives as part of the credit card's value proposition. The insurance premium is paid by the bank to the insurance company, and the bank absorbs that cost as an expense associated with what it wants to offer the cardholder in exchange for whatever revenue it expects to generate from the credit card.

So from a technical point of view as well, we are strongly of the view that the Regulation respecting Alternative Distribution Methods does not apply to the situation of a consumer's securing a credit card with embedded insurance benefits.

If the interpretation and position of the AMF remains that the RADM does apply in the case of insurance benefits embedded in credit cards, which are national products sold in all provinces with similar features and fees—although I do want to point out that there may be small differences from province to province around allowable interest rates, cancellation fees etc.,—it is quite possible and even probable that some industry players will simply choose to remove the embedded insurance coverages from their credit card offerings in Quebec, so as to avoid consumer confusion and a negative customer experience, and to avoid having to adhere to the various requirements of the RADM.

Under that scenario, Quebec credit card holders would essentially be receiving fewer benefits than consumers in other provinces, with no commensurate cost savings to them, which is surely not an outcome any of us want.

Thank you for listening to this high level, opening statement from CAFII which summarizes our Association's concerns about the AMF's apparent position that the RADM does have applicability to credit card-embedded insurance benefits. We would now like to have some dialogue with you about this issue.