

***Agenda Item 2(b)***

***August 13/19 EOC Teleconference Meeting***

**CAFII Executive Operations Committee**  
**Summary Notes of Teleconference Meeting, 23 July 2019**

**In Attendance:**

Tony Pergola, ScotiaLife Financial (Treasurer)  
Sharon Apt, Canada Life Assurance  
Greg Caers, BMO Insurance  
Scott Kirby, TD Insurance  
Afzal Baig, TD Insurance  
Joanna Onia, CIBC Insurance  
Dallas Ewen, Canada Life  
Charles Blaquiére, valeyo  
Charles MacLean, RBC Insurance  
Pete Thorn, TD Insurance  
John Lewsen, BMO Insurance  
Michelle Costello, CUMIS Group Inc.  
Anita Mukherjee, RBC Insurance  
Dominique Julien, CIBC Insurance  
Brad Kuiper, ScotiaLife Financial  
Marie Nadeau, National Bank Insurance  
Brendan Wycks, CAFII  
Keith Martin, CAFII

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A set of consent items was received without discussion (draft minutes of 4 June, 2019 Board meeting; consultations/submissions timetable; CAFII submission to FCNB on "Licensing of Insurance Adjusters and Damage Appraisers"; CAFII submission to Insurance Council of BC on "Updated Guidance for New Life Agent Supervision"; THIA notices regarding 9 September, 2019 "Innovation Summit" and 10 September, 2019 Annual Meeting; AMF "Save the Date" notice regarding 2019 rendez-vous mini-conference in Montreal on Monday, 25 November, 2019.

CAFII Treasurer Tony Pergola updated participants on the financial statements as at 30 June, 2019; including the 2019 fiscal year forecast as at 30 June, 2019. Finances were trending as expected with no unexpected variances or surprises, with some excess of revenue over expenses this month due mostly to timing issues around recognition of expenses. CAFII's financial reserves ratio (as a percentage of annual operating expenses) is at 27% currently, which is on the low end of the desired 25-50% range.

K. Martin noted that CAFII Treasurer Tony Pergola had requested an update on expenses incurred to date from Stikeman Elliott for their work in relation to the Special Project on Credit Card Balance Protection Insurance ("the Special Project").

By way of background, it was noted that \$205K had been collected from members for the Special Project, and those funds were being segregated and accounted for separately from the regular CAFII operating budget, as recommended by our auditors in keeping with accounting best practices. While the Special Project was on hold currently, our legal counsel had done a significant amount of work, including some work not originally anticipated, such as in-person meetings with some members who expressed concerns around some legal aspects of the Special Project, as well as a request for Stikeman Elliott to review CAFII minutes, processes, and procedures to ensure they were aligned with best practices around adherence to competition law.

Stikeman Elliott, in response to the request for an update on expenses incurred to date, noted that on a straight time-line basis, their bill to date is \$89K (including HST). K. Martin has reviewed the bill and suggested that it was a realistic reflection of the work done to date. However, he also noted that Stuart Carruthers, our lead lawyer at Stikeman Elliott, has suggested that a reduced bill might be possible when it was time to invoice CAFII.

K. Martin noted that the original Engagement Letter with Stikeman Elliott, signed 5 March, 2019, anticipated costs of between \$100-125K for the Special Project. With the Special Project on hold, that full cost might not be incurred, but there may be other costs incurred with Stikeman Elliott, such as a review of the CBA Quarterly Benchmarking Reports, if CAFII does decide to take over that initiative. If additional costs are incurred that are closer to the original amount anticipated, Stikeman Elliott may offer CAFII a “volume discount” that lowers our costs. On that basis, CAFII management presented options to CAFII Board Chair Nicole Benson that included paying the existing bill immediately, or waiting and potentially incurring additional costs that would bring CAFII up to a threshold where a discounted price might be possible. CAFII Board Chair Nicole Benson had opted for that latter option, and so we will not be paying the Stikeman Elliott bill yet.

Based on the volume of initiatives that CAFII is engaged in right now, it was agreed that we need to hold a second EOC summer teleconference-only meeting on 13 August, 2019.

An update was provided by B. Wycks on the 1 October, 2019 Board meeting in Montreal at which there will be a lunch and dialogue meetings with AMF officials. It was noted that K. Martin and B. Wycks will be speaking to the AMF’s Frédéric Pérodeau (Superintendent, Client Services and Distribution Oversight) on 6 August, 2019, to review the approach and possible modifications to the meeting.

K. Martin provided an update on the file around Yukon’s order that credit protection insurance cannot be sold in the Yukon. K. Martin had a conversation with Acting Superintendent of Insurance Stephanie Connolly on 16 July, 2019, at which she shared a crucial development, which was that insurers with appropriate licenses in life, health, and accident insurance in Yukon were eligible to underwrite credit protection insurance. The remaining issue for the Yukon was how to allow distributors to sell or enrol customers in credit protection insurance.

After consultations with members, a CAFII letter, stating our view that a license for distributors was not necessary, was developed and sent to Yukon authorities on 22 July, 2019. We also learned from CLHIA that in their conversation with Stephanie Connolly, later on the same day that CAFII spoke to her, she added that she was also struggling with how to manage the job loss category. As a result, that element was also addressed in our CAFII letter to Stephanie Connolly. We are now waiting for the Yukon authorities to review and respond to the letter and the arguments it advances.

A proposal was shared with the Board on CAFII taking over the CBA Quarterly Benchmarking Report, and while there were some questions and concerns expressed, generally the Board was supportive of moving forward on this initiative.

As a result, an RFP has been circulated to the Board for review. If the Board approves of moving forward, the RFP will be circulated to two actuarial firms that specialize in this sort of initiative, RSM Canada and Towers Watson, both of whom are also CAFII Associates. The RFP will be due on 30 August, 2019, and the Board and surrogates will have the opportunity to hear presentations from the bidding firms, followed by a discussion and decision, on one of the 11<sup>th</sup>, 12<sup>th</sup>, or 13<sup>th</sup> of September.

J. Lewsen asked when CAFII could formally take over the file, and K. Martin responded that while it may take some time for the actual data collection and reporting to occur, the formal transfer of files and ownership could occur soon after a decision by the Board to proceed with this initiative and award the contract to conduct the data collection and reporting to one of the RFP bidding firms. K. Martin added that the CBA seemed anxious to move forward with the transference of the file to a successor manager of this project.

At the 4 June, 2019 Board meeting, the Board mandated that a special CCBPI-related initiative be undertaken to review CLHIA Guidelines G-7 and G-9, as well as other documents on industry best practices, to see what enhancements and improvements might be considered. This was referred to as a “gap analysis,” and the next step will be for CAFII management to develop and circulate a preliminary thought piece on these matters, and then to ask for EOC and CAFII Committee members to join a Working Group on the Gap Analysis that will review the prepared material, and offer direction on a document with options that could be presented to the Board at its next meeting on 1 October, 2019.

K. Martin and B. Wycks met with the CLHIA on 18 July, 2019 on a variety of matters. Present from the CLHIA were Joan Weir, Brent Mizzen (recently promoted to Assistant Vice President, Market Conduct Policy and Regulation, succeeding Erica Hiemstra who recently left the CLHIA), Luke O'Connor, Lyne Duhaime, and Michele Helie. In particular, a detailed debrief on a variety of issues with the AMF was provided by Michele Helie.

On the issue of spousal coverage offered through credit cards, Ms. Helie noted that the CLHIA/ACCAP holds periodic in-person meetings with the AMF, and at the most recent such meeting on July 3/19, the spousal coverage issue was one of the main topics of discussion. She said that the AMF stated that it had not shifted its view on the issue and felt that in the absence of the creditor being able to demonstrate a clear pecuniary interest in the life and/or health of the debtor's spouse, no credit protection insurance should be offered to the spouse.

In that regard, the AMF said it was pleased with the insurer action plans submitted which said that they would only offer spousal coverage when there was clear evidence that the spouse was connected to the credit, or would discontinue offering spousal coverage altogether. The AMF said that was the sort of Action Plan they were looking for.

The AMF continued by saying that they had concerns with the loss ratio for the credit protection insurance products offered by industry, which reinforced in their minds that these products were not consistent with the fair treatment of customers. They developed estimates of loss ratios based on some of the data received from industry players as part of the Action Plans, and found that in 2017 there was an overall 17% loss ratio, and in 2018 a 25% loss ratio. In 2018, they found as well the following loss ratios:

#### **AMF Loss Ratio Findings**

<b>Product</b>	<b>Loss Ratio</b>
Credit Card	0.62% - 56%
Traditional Loans	19.1% - 40.4%

Michele Helie said that when these numbers were shared at the meeting, the industry representatives' "jaws dropped"; and the AMF said that these numbers raised serious questions about the suitability of the product for consumers. However, the AMF also acknowledged that the data was imperfect, and as such they recognized more work needed to be done to refine and confirm the loss ratios, and as such they would not be publishing them on their website.

Ms. Helie added that the AMF plans on moving forward with a supervisory Initiative on critical illness insurance in the Fall of 2019, now that it is wrapping up its work on spousal coverage.

K. Martin noted that there was discussion at EOC meetings of CAFII working with the CLHIA on developing a template of the new summary that is to replace the Distribution Guide in Quebec, in accordance with the final version of the Regulation on Alternative Distribution Methods (RADM). M. Helie noted that the CLHIA has a Working Group with the AMF on the implementation of the RADM, and the idea of a template being developed had been contemplated. However, in the end the CLHIA felt that this was not an initiative they should support, as they wished to avoid having the AMF develop prescriptive proposals around how the summary should look or be structured. It was better, Ms. Helie said, for industry participants to make those decisions on their own.

Some EOC members have asked CAFII management whether the RADM requirement for a summary extends to embedded credit card insurance, such as (but not limited to) embedded travel medical insurance, or other insurance products that are not add-ons but which come with and as a part of the credit card.

M. Helie said that this was the subject of discussion among CLHIA members, and no consensus exists on the issue. Furthermore, there was a concern about asking the AMF for clarity on this, with some members concerned that the AMF may say there is such a requirement where some members firmly believe that there is not, and they prefer to simply not produce such a summary and push back if told that they should produce one. Based on that lack of consensus, the CLHIA / ACCAP does not feel it can move forward on this file and is leaving the decision of how to proceed to individual members.

B. Wycks updated EOC members on the current, well-advanced draft of CAFII's submission to BC ICOM on "Insurance Fees" related to industry funding of the new BC Financial Services Authority, the most important element of which is a request for the new fee structure, which has the potential of doubling fees for some members, to be phased in over a two-year period.

B. Wycks noted that the FCNB's plans to develop an RIA licensing regime in New Brunswick include a proposal to use the term "incidental sellers of insurance licensing regime," as opposed to "restricted insurance agent." Mr. Wycks reminded EOC members that he and K. Martin, following the 11 June, 2019 FCNB Consumer Protection Conference, had an in-person meeting with David Weir and Jennifer Sutherland Green, newly appointed Deputy Director of Pensions and Insurance and Senior Legal Counsel at FCNB, at which they advocated against changing the nomenclature in this way, noting that "incidental" has a pejorative connotation and that this also would not cover certain products such as travel insurance. B. Wycks also reported that at the 18 July, 2019 session with CLHIA they reported their own opposition along similar lines to this change, and that the CLHIA had also communicated this view to the FCNB. B. Wycks however also added that the tone of Mr. Weir suggested that he was fairly set in his ways on this issue; and, as such, changing his mind might not be a simple matter.

B. Wycks noted that the 27 June, 2019 CCIR/CISRO Fair Treatment of Consumers (FTC) Working Group meeting had been delayed to the Fall of 2019. In a conversation that B. Wycks had with FSRA President and CEO Mark White at the 24 June, 2019 celebration of the launch of FSRA, Mr. White noted that he had indicated that CCIR's initiative around compensation practices in relation to FTC was viewed by FSRA as too prescriptive as opposed to principles-based, and they both realized that this concern was the probable reason for the delay in the meeting.

Judith Robertson, who sits on the FSRA Board, has been appointed as the new Commissioner of the FCAC. CAFII management proposes to send her a letter congratulating her, and proposing that CAFII's Co-Executive Directors meet her in Ottawa in the Fall of 2019 to present on credit protection insurance, including sharing the results of recent consumer research on some of the products that CAFII members offer.

B. Wycks provided an overview of the itinerary for the 21-25 October, 2019 Western tour, noting that the plan was to start in Manitoba, and work westward, concluding the tour in British Columbia. B. Wycks was encouraged by the generally positive responses and acceptances to invitations that have already been received, and the tour is shaping up nicely at this time.

K. Martin noted that a series of presentations had been made on the CAFII Pollara consumer research results on mortgage and HELOC credit protection insurance. On 12 July, 2019, K. Martin presented the research results in French, via webinar to Mario Beaudoin and members of his team at the AMF. Stéphanie Gamache of Canada Life and Marie Nadeau of National Bank Insurance were both on the webinar call as well. Mario Beaudoin seemed very appreciative of the presentation, and very engaged.

One of the research results found that 90% of Canadians with credit protection insurance said they felt they understood the terms of the insurance, but only 64% felt that the document was easy to understand. K. Martin explained that the representatives received high marks for explaining the product well from those with credit protection insurance; documents on the other hand did have to have some legal language to protect consumers and the insurance providers, which might make them difficult to understand, but having said that K. Martin said that this was one of the results industry was disappointed by and would work on improving. Mario Beaudoin said that he thought that the Quebec Distribution Guide might have been part of the problem, given how long and cumbersome it was, and the new Summary that will replace it might improve these numbers. K. Martin agreed that the new approach might make consumers' understanding of documentation better, and this new approach could become a model for the rest of Canada<sup>1</sup>.

Mario Beaudoin said that consumers self-reporting views was a perception, not necessarily a reality, and that the AMF would continue to review loss ratios to ensure that products were meeting the needs of consumers. K. Martin emphasized the high level of satisfaction of consumers with these products, the high claims payout, and the result that 71% of Canadians said that they did not know what they would do without these products, were something to happen to them or their family. Generally, Mr. Beaudoin was engaged, and seemed appreciative of the presentation and the fact that the few results which could be better were not avoided or hidden in the presentation.

Lesli Martin, Vice President of Pollara, presented the research results to the CLHIA at a well-received presentation on 18 July, 2019. As well, on 29 July, 2019 CAFII will be making an in-person presentation of the results to FSRA, led by Lesli Martin and with CAFII's Co-Executive Directors, and about six CAFII members, in attendance. FSRA will be represented by the following executives: Judy Pfeifer, Chief Public Affairs Officer; Glen Padassery, Executive Vice President, Policy; Huston Loke, Executive Vice President, Market Conduct; Stuart Wilkinson, Director, Policy (formerly with the Department of Finance); and Joel Gorlick, Director, Policy – Market Conduct.

Finally, K. Martin noted that the research results would be published in the form of "leave-behinds" that can be inserted into a small brochure, and left with regulators and policy-makers after meetings with them.

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<sup>1</sup> On an aside, Mario Beaudoin said that some Summary documents had already been tabled with the AMF, all on the P&C side, and he was disappointed by them, as they were still too long at 7-8 pages, and still too difficult to understand. He hoped that industry would continue to try to simplify and clarify these documents.

K. Martin noted that he had recently had a phone conversation with Tom Keepers, the Executive Director and EVP of the Consumer Credit Industry Association (CCIA), an Association with a focus on credit protection insurance in the United States. Mr. Keeper had seen the results of the Pollara research and wanted to compare notes with CAFII. The dialogue was insightful, with Mr. Keeper saying that in the U.S. one of the biggest challenges to the industry was from well-funded, media-savvy consumer interest groups. Mr. Keeper said he would reach out to K. Martin about possibly presenting to the CCIA Board and members at a future event of theirs.

K. Martin noted that there are many enhancements to the website that are about to be published, including a new video on mortgage life insurance; two new videos on the Pollara consumer research results; new consumer vignettes which are a short story with visuals about a person or family purchasing one of our members' products; and visually-pleasing summaries of the Pollara consumer research results.

B. Wycks noted that he had recently been invited to serve as a judge in the 2019 Insurance Business Canada Awards.

Mr. Wycks advised that Emily Brown, a former BMO Insurance employee who is now at Sunlife Financial, had recently inquired about the possibility of Sunlife Financial joining CAFII.