

Appendix A To

CAFII Feedback Submissions To FCAC On Draft Consumer Education Online Materials

**CAFII Outreach Questions & Answers on Creditor's Group Insurance
and Alternate Distribution**

1. What is Creditor's Group Insurance (CGI)?

- CGI, also known as credit insurance and creditor's insurance) is an optional, single purpose insurance product -- intended to be complementary to other types of insurance coverage -- that pays off an insured's outstanding credit balance or makes debt payments on the insured's behalf in the event of death, disability, job loss or critical illness.
- CGI gives individuals and families "peace of mind" that a debt will not become a burden if an unexpected event should occur. For example, CGI on a mortgage will pay off the debt in full if the income earner dies, thereby ensuring that the surviving family members do not lose their home.
- CGI is offered on mortgages, loans, lines of credit, credit cards, and business/farm loans, and can conveniently be applied for at the same time that a consumer is taking on a new debt.
- CGI is offered primarily by banks and credit unions across Canada, including CAFII members.
- A CGI policy is between an insurance company and a financial institution (group policyholder). A consumer is insured by being enrolled in the group.

2. What are the benefits/advantages of CGI?

- If a customer is unable to make debt repayments due to reasons such as death, disability or job loss, CGI ensures that the debt is paid off (in the case of death) or that the loan remains in good standing and the insured's credit rating is protected.
- As an optional benefit offered alongside a loan or mortgage product, CGI is inherently timely and convenient. Premiums can be included with the periodic debt repayments.
- Provides benefits not readily available elsewhere. For example, Job Loss CGI, a major component of the credit card CGI bundle, provides peace of mind in today's volatile economy and is broadly available to credit card customers but hard to acquire individually.
- Provides consumers with the opportunity to buy protection they might not otherwise be able to obtain, as approximately two-thirds of Canadian households, especially those in younger age brackets, do not have a life insurance agent or broker.
- Coverage is offered in exactly the amount of debt being taken on; and is competitively priced.

- CGI is offered through well-trained and supervised salaried staff at banks and credit unions, and provides Canadians with coast-to-coast access to simple, optional insurance coverage on a 24/7 basis through more than 8,000 branches, telephone contact centres, and online.
- CGI's group policy structure allows more Canadians to be insured standard rates, and almost all applicants are accepted.

3. Do Canadians really need CGI? Aren't they adequately covered through other types of insurance?

- A 2013 independent research study conducted by the Life Insurance Market Research Association (LIMRA) found that life insurance ownership in Canada is at a 30 year low and many households have insufficient coverage.
- Only 68% of households have life insurance, down from 79% seven years ago.
- 45% of households believe they need more life insurance, up from 38% in 2006.
- Canadian households have half the life insurance coverage they believe they should have. Among households that believe they need more coverage, they say they need enough coverage to replace 6.8 years of income while they actually have just 3.2 years of income coverage in place.
- Low and middle income households are at the greatest risk as the need for life insurance is highest among households with lower incomes and fewer assets to fall back on.
- One-third of Canadian households would have trouble meeting everyday living expenses in the event of the death, disability or critical illness of a primary wage earner.
- Lower and middle income Canadians have not been well-served by the "traditional" insurance industry because lower face value policies are not economical to distribute in a face-to-face model. Commission-based insurance agents and brokers are incented to pursue sales of fewer, larger policies to more affluent consumers.
- For many Canadians with smaller protection needs, CGI may be their only real insurance option.

4. Why is there such a large proportion of Canadians who are uninsured or under-insured in terms of life insurance?

- Life insurance offered by agents and brokers is commission-based; therefore, they focus on higher face value policies. An independent actuarial study (Avalon Actuarial, 2011) showed that the average new term life policy issued in Canada is now in excess of \$400,000 whereas the average new mortgage insured through CGI is for approximately \$200,000.
- Between 1995 and 2012, the average face value of a new individual life insurance policy (both term life and universal life) sold in Canada increased from \$106,000 to \$307,000, while the number of such policies sold annually decreased from 994,000 to 755,000. The focus of agents and brokers on a more affluent client base – to sell fewer but larger policies and optimize commission earnings – does not meet the needs of underinsured households.

- About two-thirds of households don't have a life insurance agent or broker, so financial institutions and CGI are key to meeting their insurance needs.

5. How can CAFII members claim that CGI products make insurance simple, accessible, and convenient for Canadians?

- CGI is offered when a consumer is taking on a new debt, making it inherently timely and convenient to secure this protection. It can be put in place for a short duration to match the term of the mortgage or loan.
- The application process is simple, with over 80% of applicants approved without detailed medical questionnaires and tests. Most application forms require answers to just a few questions related to medical conditions.
- Enrolment is done in consultation with an advisor at the consumer's trusted financial institution: a well-established relationship through which consumers are comfortable seeking financial advice. The discussion is holistic, dealing with all of the client's insurance coverage. Full disclosure about the CGI product is provided.
- CGI covers occupational groups and vocations that individual policies may not cover.
- CGI is available at over 8,000 financial institution branches across Canada, over the internet, or through a telephone contact centre.
- CGI distribution offers extensive geographic availability, making insurance protection accessible to all Canadians even those in small towns and remote areas.

6. How difficult is it to qualify and get approved for CGI?

- CGI's group policy structure allows more Canadians to be insured at standard rates and almost all applicants are accepted.
- An independent actuarial study (Avalon Actuarial, 2011) that compared Application Approval Rates for CGI versus Individual Life Insurance indicates that
 - CGI accepts 84% of applicants upon completion of a short form application; and an additional 10% are insured at the same standard rates following medical tests. Only 3% of applicants are denied coverage, while another 3% withdraw their application.
 - For Individual Life applicants, 73% are approved at standard rates following completion of a detailed application form and medical underwriting; and another 6% are approved for coverage at higher than standard rates. More than one-fifth (21%) of applicants are denied coverage.
- CGI's standard rate pricing provides coverage for all approved risk groups despite risk differences (egs. smoker vs. non-smoker; blue vs. white collar; male vs. female).

7. Does CGI exclude any applicant who has a pre-existing medical condition? How does CGI stack up against individual insurance for consumers who have a condition?

- The standard CGI pre-existing conditions clause is significantly more accommodating than the approach taken by individual insurance under the same circumstances.

- The pre-existing conditions clause found in most CGI policies is highly favourable for consumers who have certain pre-existing medical conditions, as it makes coverage possible for the vast majority of Canadians while managing the insurer's risk.
- Specifically, pre-existing conditions clauses in CGI allow people with pre-existing conditions to obtain coverage at standard premium rates and – other than for the pre-existing conditions – they can make a claim at any time. After the pre-existing condition exclusion period ends (typically x year(s)), they can make a claim for the pre-existing conditions as well.
- In contrast, with individual insurance coverage, people with pre-existing conditions would either not be able to obtain any insurance or would pay a higher premium.

8. Are consumers made aware of pre-existing condition clauses as part of the application process?

- Yes, pre-existing condition clauses are disclosed to consumers at the time of application and sale: on (i) the application form which must be signed by the consumer; and (ii) in the certificate of insurance.
- in the telephone and internet sales channels, all scripts include disclosure of pre-existing condition clauses and policy limitations.
- sales practices mandated by the Canadian Bankers' Association Code of Conduct for Authorized Insurance Activities require the sales person to explain product coverages, exclusion clauses, and limitations to the consumer.

9. How does the application process work?

- The application and underwriting process for CGI is simple and straightforward, and typically includes the following steps:

-consumers apply for CGI by completing an application form that includes several questions about their health.

-If the consumer answers "No" to all of the health questions, then the insurer takes them at their word and trusts that the information provided on the application is accurate. The consumer is approved for coverage effective on the date indicated on the application form.

-If the consumer answers "Yes" to any of the health questions, then he/she is required to complete a more detailed health questionnaire which is forwarded to the insurance company for further consideration.

-the insurer will carry out a detailed underwriting analysis. Once a decision is made by the insurer on whether the applicant meets the criteria associated with the particular CGI product, the insurer advises the applicant in writing.

10. What percentage of CGI claims are paid versus denied?

- 95% of mortgage life CGI claims are paid, which is similar to the claims approval rate for individual life insurance.
- That claims approval rate comes from an independent actuarial study (Avalon Actuarial, 2011).

11. What about that 5% of claims that are denied? Why are they denied?

- Due to the very small percentage of denied claims, we don't have industry-level statistics on the reasons for denial. However, the following standard reasons for not paying a claim are noted in the CGI certificate of insurance:

-suicide within the first two years of the policy;

-death as a result of driving while intoxicated or as a result of a criminal offence; or

-a false declaration on the insurance application.

12. How does the claims review and adjudication process in CGI work?

- Just as in the adjudication of claims in other types of insurance, the insurance companies that underwrite CGI perform a thorough and fair review of all claims to ensure that they comply with the terms and conditions stated in the Certificate of Insurance. An analysis is done to verify that the circumstances of the incident triggering the claim meet the terms of the contract signed by the insured.
- As with any insurance product, there are some coverage exclusions which could make a claim ineligible, including misrepresentation of information required on the insurance application. CGI uses Industry Standard Key Limitations and Exclusions. Details of any limitations and exclusions are disclosed to the consumer at the time of application and set out in the certificate of insurance.
- As part of the claims adjudication process, the medical history of a CGI claimant can be reviewed by the insurer to ensure that the claimant didn't commit fraud when completing the application.
- Very few CGI claims are denied due to misrepresentation of health status. There is no systemic problem with difficult-to-understand application forms ultimately leading to claims denials.
- When a situation of misrepresentation of health status is discovered, with most distributors of CGI (typically CAFII members), a claim will only be denied within the first two years after the Certificate of Insurance was issued (the "contestability period").
- It is in the best interests of banks and credit unions, as distributors of CGI, to have their third party insurers pay all claims. Financial institutions are interested in maintaining a long-term, full spectrum financial services relationship with their clients, and have no interest in seeing CGI claims denied.
- It is not in the best interests of the insurers that underwrite CGI to deny claims without good reason, and upset a group policyholder.
- CGI is underwritten and claims are adjudicated by the same Canadian life insurance companies that offer individual life and health insurance products.

13. What does “misrepresentation” mean?

- Misrepresentation in this context is the failure to disclose information, or providing false information, in response to questions, including medical questions, on an insurance application, whether the non-disclosure/falsification is intentional or not. The denial of a claim due to misrepresentation is a standard insurance industry practice, if material medical information was not accurately disclosed at the time of application and the underwriting and issuance of the policy. In offering CGI coverage, all CAFII members stress and impress upon clients the importance of full and accurate disclosure in answering health questions on the application.

14. What must a consumer disclose to avoid misrepresentation?

- By answering up to three health questions on the application, the consumer must disclose truthfully and accurately any existing health conditions he/she has at the time of application.
- If a consumer has any doubt about answering the health questions, he/she is always encouraged to answer “Yes” and thereby have their application undergo further underwriting; or to consult with their physician and return the application at a later time.

15. Aren’t the medical questions on the application form very complex, such that consumers have difficulty understanding them, answering them correctly, and avoiding misrepresentation?

- No. Compared to the application and underwriting process for individual insurance, CGI is straightforward and simple. With most CGI policies, the applicant is asked to answer up to three health-related questions in plain language that require the disclosure of any existing health conditions. “No” answers lead to immediate approval for coverage.
- In contrast, individual term insurance applications can be as long as 25 pages and it can often take up to three months for a policy to be underwritten and issued.
- Both CGI and individual term insurance require full disclosure and consumer signatures to ensure that clients are protected from miscommunication.

16. Isn’t one of the inherent flaws of CGI that it is not medically underwritten until the time a claim is made, which can lead to a denial of a claim when the consumer thought that he was fully insured and had purchased “peace of mind”?

- No, CGI products are not subject to post-claim underwriting. The typical application and underwriting process for CGI follows these steps:

-consumers apply for CGI by completing an application form that includes several questions about their health.

-If the consumer answers “No” to all of the health questions, then the insurer takes them at their word and trusts that the information provided on the application is accurate. The consumer is approved for coverage effective on the date indicated on the application form.

-If the consumer answers “Yes” to any of the health questions, then he/she is required to complete a more detailed health questionnaire which is forwarded to the insurance company for further consideration.

-the insurer will carry out a detailed underwriting analysis. Once a decision is made by the insurer on whether the applicant meets the criteria associated with the particular CGI product, the insurer advises the applicant in writing.

-for some coverages, eg. lower value loans, there may not be any health questions asked on the application form; and in such cases, coverage is automatically approved. For such coverages that are not underwritten at the time of application, there is no misrepresentation exclusion. However, benefits will be paid for the covered event (death or disability) subject to a pre-existing health exclusion. The exclusion applies if death or disability occurs within six to 12 months (depending on the policy) of the enrolment date, and the event was caused by or related to a health condition that pre-existed for six to 12 months (depending on the policy) prior to enrolment and for which the insured has received treatment. All other medical conditions will be covered from the enrolment date.

17. Can having a routine medical exam such as a blood pressure test or a mammogram have an impact on a subsequent CGI claim?

- No. Tests that are part of a routine health check that result in no indication of a health problem will have no bearing on a claim.
- Tests that are undertaken because of a known health issue and are being used to verify the extent of the health condition are not reported by the client could lead to a claim being denied based on the client misrepresenting his/her health status.
- The health-related questions on CGI applications are intended to identify customers who are in good health and provide them with immediate coverage. They are also intended to identify customers who have health conditions (eg. being treated for a disease) so that they can go through more thorough underwriting.
- Health questions must be answered honestly and completely. If a customer is unsure about how to answer a health question, he/she should simply answer “yes” to permit more thorough underwriting.

18. Do banks and credit unions knowingly sell CGI to people, aware that many misrepresent the facts concerning their health – and thereby collect premiums falsely because when they’re asked to pay a claim, the banks deny the claim by proving the falsity?

- No, that is completely false. For the vast majority of CGI products that are medically underwritten at the time of application, customers are eligible to claim benefits for all covered conditions with the exception only of conditions that pre-existed six to 12 months (depending upon the policy) prior to enrolment. After six to 12 months from the effective date of coverage (depending upon the policy), customers are eligible to claim benefits for all covered conditions regardless of their health status at the time of application.
- It is in the best interests of banks and credit unions, as distributors of CGI, to have their third party insurers pay all claims. Financial institutions are interested in maintaining a long-term, full spectrum financial services relationship with their clients, and have no interest in seeing CGI claims denied.

- It is not in the best interests of the insurers that underwrite CGI to deny claims without good reason, and upset a bank group policyholder.

19. Which insurance companies underwrite CGI?

- The insurers that underwrite CGI are the same large and reputable companies – Canada Life; Sun Life; Canadian Premier Life; Assurant Solutions; etc. – that underwrite individual life insurance policies.

20. Is there an appeals process for clients that disagree with a denial of their claim?

- Yes. Clients who are not satisfied with the decision rendered by the insurer can appeal the decision directly through the insurance company, in the first instance. If the consumer remains unsatisfied after the insurer has reviewed and made a decision on the appeal, the consumer has a further avenue of appeal through an independent, third party such as the OmbudService for Life and Health Insurance (OLHI).

21. Isn't CGI mortgage insurance inferior to individual term life insurance on a value-for-money basis?

- CGI mortgage life is affordable and competitive with term life insurance, while being more advantageous for some consumers. For example, CGI can be put in place for a short duration to match the term of a loan.
- An independent actuarial study (Avalon Actuarial, 2011) found that CGI premiums are very competitive with the premiums for comparable individual term life coverage.
- CGI mortgage life premiums are typically lower than term life for younger lives, males, smokers, and smaller amount coverages.
- CGI typically offers a level premium for duration of the original debt, be it five or 35 years.
- CGI's pricing model based on initial age and initial balance, with the benefit paid on the declining balance, equalizes the premium over the mortgage term, making coverage more affordable and accessible for younger, lower net worth, lower income borrowers.
- Over the life of a typical mortgage, the premium costs of CGI versus Term 10/20 life insurance are very competitive.
- That said, Canadians clearly see CGI as part of their complete insurance portfolio. An independent Life Insurance Marketing and Research Association (LIMRA) survey of life-insured households in Canada found that the majority that have CGI on their mortgage also own individual life insurance.

22. Why is it that with CGI mortgage life, the coverage declines as the mortgage is repaid but the premiums don't decline?

- Premiums on CGI mortgage life do not decline over time -- by design. Instead of charging a higher premium at the beginning and allowing it to decrease as the mortgage balance covered goes down, the CGI pricing structure is designed to have a lower, affordable premium at the outset and hold it constant. This assists clients to budget and manage expenses by providing a lower, level premium over the life of the mortgage which can be an attractive feature, particularly in the early years, when cash flow can be an issue.
- Also while the amount of coverage goes down as the mortgage balance declines, the CGI premium has the offsetting advantage of staying constant and not increasing as the customer ages, which would be the case with individual life insurance.

23. Isn't CGI really just a product that benefits the financial institution because the payout goes to the bank?

- No. The purpose of CGI is to protect consumers. That's why it's available in the marketplace and why tens of thousands of Canadians opt for it.
- CGI mortgage life protects consumers by making sure that the mortgage is paid off in the event of the insured's death; and by maintaining their credit worthiness. It helps families to stay in their homes if something unforeseen happens. That's the coverage that people are paying for.
- So it is indeed in the consumer's best interests to have CGI in place to eliminate a major debt in the event of an untimely death.

24. Where does CGI fit in terms of a family's overall financial plan?

- CGI is complementary to other insurance coverage, an immediate and reliable protection solution for increased borrowing, and a component of a sound financial plan.
- By directly covering a specific debt obligation, CGI frees up other individual and group life and disability coverage to protect a family's quality of life by covering such costs as medical, education, child care, and burial expenses; capital gains taxes, etc.
- Approximately 60% of Canadian households with CGI on their mortgage also have individual life insurance.
- Combined with individual and group disability coverage (typically capped at 70% of income), CGI provides complementary coverage and contributes to full protection in the event of death or a disability. All should be considered as components of a sound family financial plan.

25. What does "alternate distribution" mean in the insurance business?

- Alternate distribution providing consumer with access to insurance through channels other than the traditional face-to-face distribution channel of licensed agents and brokers. It means using alternative delivery channels such as the internet and telephone contact centres, to complement the opportunity to purchase CGI in-branch, thereby improving choice and access to coverage for all Canadians.

26. What benefits and advantages does alternate distribution provide for consumers?

- Choice. In today's technology-enabled world, consumers are demanding choice in accessing and buying insurance.
- Convenience. Offered alongside a loan, credit, or mortgage product, CGI is inherently timely and convenient. Premiums can be included with the periodic debt payments. The claims process is simple and straightforward. The consumer always has the option to purchase or decline CGI.
- Accessibility. Consumers have access to CGI through thousands of bank and credit union branches, over the internet, or by telephone. CGI offers broad geographic availability, making insurance accessible in small towns and remote areas and enabling all Canadians to be protected.
- Simple and affordable products available through well-trained and supervised client service representatives.

27. How is CGI sold? Where can consumers buy it?

- CGI is offered by banks and credit unions and provides Canadians with coast-to-coast access to simple, optional insurance solutions at their convenience, on a 24/7 basis, through branches, contact centres, and the internet.

28. Shouldn't CGI be sold only by licensed insurance agents?

- government regulation generally does not require individual licensing to enroll a customer in a group insurance plan, such as CGI.
- CGI offered by CAFII members features a simple product design and straightforward enrolment process.
- CGI's application forms (typically 1 page), Certificates of Insurance, and underwriting process are much simpler than are the same aspects of individual life insurance.
- CAFII member client service representatives are well-trained on the products they sell and highly supervised both in branch and in client contact centres.
- CAFII members comply with all legislation and regulations, and with industry guidelines and codes of conduct governing the offering of CGI.

29. Are there regulatory requirements and related consumer protections governing the sale of CGI?

- Yes. CGI is tightly regulated. The consumer has access to a robust complaints resolution system; and industry practices give the consumer time to consider the purchase.
- Banks and credit unions are highly regulated in all of their activities including the selling of CGI. CGI is offered in the context of a strong consumer protection regime that includes federal and provincial legislation and industry codes.

- The selling practices of CAFII members are monitored by the Financial Consumer Agency of Canada (FCAC) and by the provincial insurance regulators for compliance with industry guidelines and codes of conduct. The insurer underwriters of CGI are regulated by both provincial insurance regulators and the federal Office of the Superintendent of Financial Institutions (OSFI).
- The FCAC tracks enquiries and complaints from the public pertaining to the financial marketplace, including complaints about CGI.
- Consumers have a "free look" period, typically 20 to 30 days, during which they have insurance coverage and can read over their material and assess any other options. If they decide they do not want the Creditor Insurance coverage, they can discontinue and receive a full premium refund. Alternatively, after the free look period, they can cancel coverage at any time and pay no further premiums.
- The negligible number of complaints about CGI to any regulator shows that it meets a consumer need and that the current mix of government and industry regulation is working.

30. Do bank staff pressure clients by implying that taking CGI is mandatory to receive the mortgage, loan, or credit card?

- No. CGI products are optional and are part of a bank's larger financial relationship with a customer. Full disclosure about CGI is provided and the decision to purchase or decline the product is entirely the client's. CAFII member Financial Institutions would not jeopardize the overall customer relationship for the sake of selling an additional product.
- Coercive tied selling is a violation of the Bank Act; and the CBA Code of Conduct for Authorized Insurance Activities prohibits any form of pressure or coercion.
- CAFII member client service representatives are trained on the Bank Act, the CBA Code, Canadian Life and Health Insurance Association Guidelines, and federal privacy legislation. Engaging in this type of behavior can result in disciplinary action or outright dismissal.

31. How do the banks that distribute CGI help consumers to make a sound financial decision?

- CAFII member client service representatives use plain language and clear communication to help consumers understand exactly what they are buying. Their objective is to give customers the information they need to make an informed and sound decision.
- They are trained to point out features and limitations of the insurance and answer customer questions. In addition, information is available on our members' websites and consumers are given a toll-free phone number to call with any questions.
- CAFII members provide marketing materials and certificates, detailing coverages and exclusions in a manner that is easy to understand. CAFII members are always working to improve clarity.

- Customers can take their time to do a full review of all materials - they have a generous "free look" period, typically 30 days, during which time they have insurance coverage and can cancel with a full premium refund.

32. What sort of training do the people who sell CGI receive?

- All CAFII member client service representatives are required to undergo comprehensive and recurring training to ensure that they provide consumers with accurate and reliable information.
- That training ensures that representatives offering CGI have the knowledge and skills to do their jobs and serve clients well. It also ensures that they act in accordance with
 - the CBA Code of Conduct for Authorized Insurance Activities;
 - the Bank Act, regarding tied selling;
 - federal privacy legislation; and
 - CLHIA's Guidelines on Creditor's Group Insurance.
- CAFII member client service representatives are also highly supervised both in branch and in client contact centres.

33. Do the people who sell CGI earn a commission?

- No. All CAFII member client service representatives are salaried staff and do not earn sales commissions.

34. What is the level of consumer satisfaction with CGI products?

- The level of consumer satisfaction with CGI is high. An independent Pollara study found that 92% of Canadians who had purchased CGI said that the coverage gave them "peace of mind" that their family would be protected in the event of a death or disability. There have been so few complaints to regulators about CGI products that the number is statistically insignificant.