



# CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE (CAFII)

## ATTRITION OF SPOUSAL CREDITOR COVERAGE IN QUEBEC

DECEMBER 18, 2023

# TABLE OF CONTENTS

1.	RELIANCE AND LIMITATIONS.....	1
2.	EXECUTIVE SUMMARY.....	2
3.	BACKGROUND .....	4
4.	DATA, ASSUMPTIONS AND METHODOLOGY.....	5
	4.1 HISTORICAL DATA .....	5
	4.2 KEY ASSUMPTIONS.....	6
	4.3 METHODOLOGY .....	7
5.	ANALYSIS .....	8
	5.1 PROJECTION .....	9
6.	CONCLUSIONS AND RECOMMENDATIONS .....	10
7.	APPENDICES .....	11
	7.1 APPENDIX A – DEBT INSTRUMENTS OF SPOUSAL POLICIES .....	11
	7.2 APPENDIX B – NATURAL ATTRITION FOR OTHER LOANS.....	12
	7.3 APPENDIX C – PROJECTION OF SPOUSAL POLICIES FOR OTHER LOANS.....	13

## **CAFII Attrition Rate Study Report**

### **1. RELIANCE AND LIMITATIONS**

We have relied on data provided by Canadian Association of Financial Institutions in Insurance (CAFII) Members to perform the analysis included herein.

Our analysis relies on the quality, completeness and accuracy of the data provided. Any errors, omissions or inconsistencies in the data may affect the accuracy of our analysis and conclusions. We performed a limited review of the data for reasonableness and consistency; however we did not perform an audit or independent verification of the data. We assumed that the information provided is complete and accurate, and that we have been provided with all information relevant for the performance of this analysis. The accuracy of our results is dependent upon the accuracy and completeness of this underlying data.

There are limitations on the accuracy of actuarial forecasts as there is inherent uncertainty in such forecasts. Actual experience may differ substantially from the results presented herein. In our judgement, we have employed standard actuarial techniques and assumptions which are appropriate under generally accepted actuarial practice in Canada.

This report and the findings contained herein are provided to CAFII, its Members and the Autorité des marchés financiers du Québec for the sole purpose of estimating the attrition rate of spousal creditor insurance in Quebec.

Any use which a party makes of this report, or any reliance on or decisions to be made based on it, are the responsibility of such parties. RSM accepts no responsibility for damages, if any, suffered by any party as a result of decisions or actions made based on this report.

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## 2. EXECUTIVE SUMMARY

### BACKGROUND

The Autorité des marchés financiers du Québec (AMF) instructed members of the Canadian Association of Financial Institutions in Insurance (CAFII) to discontinue the offering of certain creditor spousal coverages in Quebec; specifically, creditor insurance certificates where the spouse is not a debtor on the associated loan instrument themselves (“Spousal Policies”). These products are currently no longer being offered since 2020, and the AMF provided for a five year period through to the end of 2024 for the existing in-force Spousal Policies to be reduced in number due to natural attrition.

CAFII has engaged RSM Canada Consulting LP (RSM) to conduct a study on the attrition rate of Spousal Policies, to gain statistical insights into the natural attrition of these products and to prepare projections of the count of impacted creditor insurance customers from 2023 to 2030.

### DATA

All the relevant CAFII’s Members provided information to RSM with respect to the Spousal Policies still in force in their creditor insurance portfolios. The information provided by the Members consisted of the count of Spousal Policies at the beginning and end of calendar years 2019 to 2022. In addition, the Members provided year-to-date numbers for 2023, as well as the number of coverages cancelled or expired during each year since 2019.

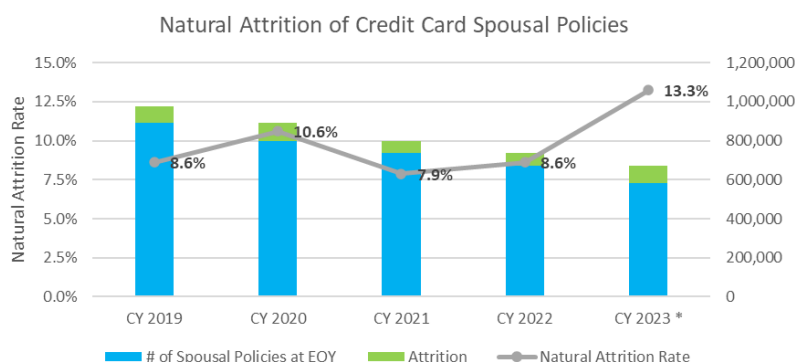
The data was broken down between loan products (inclusive of mortgages, lines of credit, and personal loans) and credit card products. The Spousal Policies are overwhelmingly originated through credit cards products (98.1%). Due to this weight toward credit cards, the attrition in the count of Spousal Policies overall most heavily depend on the attrition in credit card Spousal Policies. As such, the focus of this report will be on the credit card policies.

### METHODOLOGY

The natural attrition rate is calculated by dividing the aggregated natural attrition by the number of policies at the beginning of the year. The assumed natural attrition rate was used as a trend to project the number of policies to 2030. This rate was applied to the end of year figures to determine the number of policies in the following year.

### ANALYSIS

The following chart, provide the historical attrition rate across all CAFII Members since 2019 for credit card Spousal Policies.

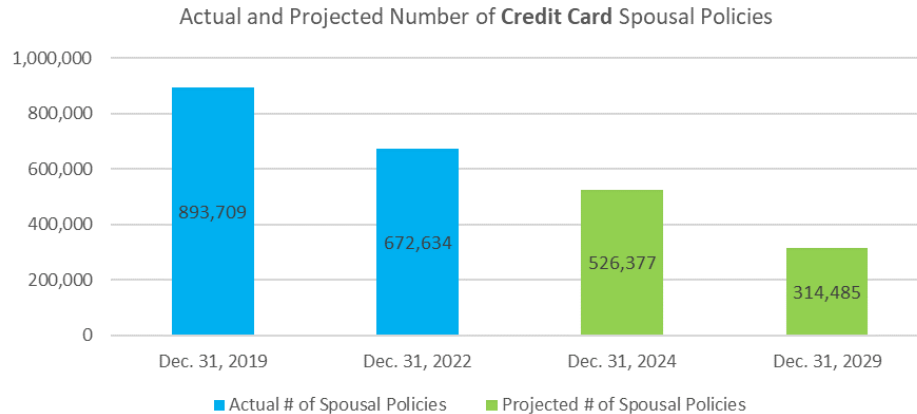


\* Attrition experience in partial year 2023 was annualized to December 2023.

## CAFII Attrition Rate Study Report

Throughout the five-year historical period, the natural attrition rate for credit card Spousal Policies ranged from 7.9% to 13.3% with an average of 9.8% across the period. We observed a slight increase in the natural attrition rate in more recent years.

Utilizing a 9.8% natural attrition rate assumption, we have projected forward the number of Spousal Policies each year to the end of 2029.



As outlined above, the moratorium on new sales of Spousal Policies in 2019 along with natural attrition (for reasons like people cancelling their card, changing cards, dying etc.) has resulted in a significant reduction in the total number of Spousal Policies in force since 2019, which is projected to continue until December 31, 2029.

### CONCLUSIONS

Based on the historical data provided for the natural attrition of Spousal Policies from 2019 to 2022 and year-to-date 2023, the average natural attrition rate for credit card Spousal Policies is determined to be 9.8%. Using this attrition rate, the count of Spousal Policies by January 1, 2030 is projected to be 314,485, representing 35% of the count of Spousal Policies at the end of 2019.

These figures show that the number of Spousal Policies will decline significantly from January 1, 2025 to January 1, 2030 if more time is provided to allow for the continue impact of the natural attrition of this coverage.

CAFII has shared with RSM Canada that it is concerned about the customer experience of cancelling existing coverage, as cancellation of this coverage would not result in any return or decline of premium.

## CAFII Attrition Rate Study Report

### 3. BACKGROUND

The Canadian Association of Financial Institutions in Insurance (CAFII) is a not-for-profit industry association that works with industry regulators as they develop a legislative and regulatory framework for the insurance sector. CAFII's members ("Members") include Canada's major financial institutions and other insurance industry participants, all of which write and/or distribute creditor insurance policies.

In 2019, the Autorité des marchés financiers (AMF), Quebec's financial services regulatory body, instructed members of CAFII to discontinue the offering of certain creditor spousal coverages in Quebec; specifically, creditor insurance certificates where the spouse is not a debtor on the associated loan instrument themselves ("Spousal Policies"). These Spousal Policies are currently no longer being offered, though policies sold historically remain in force. The AMF has provided a five-year period to December 31, 2024 for the in-force policies to be reduced through attrition.

As no new policies are being written, the total in-force number of Spousal Policies has continuously decreased since the end of 2019 due to various means, such as customers cancelling their policy, associated loans expiring, and customers no longer being eligible for spousal coverage. The total count of Spousal Policies will have decreased significantly by the January 1, 2025 cancellation deadline. If an extension is granted, further decreases are expected, limiting the overall impact of the cancellations at a future point in time.

CAFII has engaged RSM Canada Consulting LP (RSM) to conduct a study on the attrition rate of Spousal Policies, to provide statistical insights into the natural attrition of these products and prepare projections of the count of impacted creditor insurance customers both as of the January 1, 2025 cancellation deadline and further into the future should this deadline be extended. This analysis is outlined throughout this report inclusive of:

1. An analysis of the aggregate attrition rate of Spousal Policies in the Members' creditor insurance portfolio since 2019; and
2. A projection of the number of Spousal Policies until January 1, 2030 should an extension be applied.

## CAFII Attrition Rate Study Report

## 4. DATA, ASSUMPTIONS AND METHODOLOGY

This section outlines the historical data provided by the Members to prepare the analysis.

### 4.1 HISTORICAL DATA

CAFII's Members, as outlined in the following table, provided information to RSM with respect to the Spousal Policies in their creditor insurance portfolios. Members include Canada's major financial institutions and creditor insurance industry players, all of which write and/or distribute creditor insurance policies. For simplicity, we have classified entities which write creditor insurance policies as Insurers and the group policyholders who offer coverage to their loan customers as Distributors.

Financial Institution	Classification
Assurant	Insurer
BMO Insurance	Distributor
Canada Life	Insurer
Canadian Tire Financial Services	Distributor
Chubb	Insurer
CIBC	Distributor
CUMIS	Distributor
Desjardins	Insurer & Distributor
Manulife	Insurer
National Bank Insurance	Distributor
RBC Insurance	Distributor
Scotia Life Insurance	Distributor
Securian Canada	Insurer
TD Insurance	Distributor

Data provided by the Members consisted of the count of Spousal Policies at the beginning and end of each calendar year from 2019 to 2022, plus year-to-date counts for 2023, as well as the counts of coverages cancelled or expired each year. The data was broken down between loan products (inclusive of mortgages, lines of credit, and personal loans) and credit card products. The Spousal Policies are overwhelmingly attached to credit cards (98.1%) as shown in Appendix A. This is likely a result of the following factors:

- 1) Other loans are more likely to have the spouse listed as a joint debtor on the debt instrument attached to the creditor insurance policy (i.e. a joint mortgage) and would therefore not be defined as a Spousal Policy; and

## CAFII Attrition Rate Study Report

- 2) Creditor insurance policies attached to single account credit cards more commonly provide spousal coverage. This was previously a practice which did not result in any additional premium being charged for the spousal coverage.

Due to this heavy weighting toward credit cards, the count of Spousal Policies will heavily depend on the attrition in credit card Spousal Policies. As such, the focus of this report will be on these credit card policies.

The data provided did not include individual customer records, loan duration, or age of customers.

We have not performed an audit of the data provided but have conducted various reasonability checks to ensure consistency throughout the dataset, and that there was no overlap or double-counting of Spousal Policies across Insurers and Distributors.

### 4.2 KEY ASSUMPTIONS

We have relied on the quality, completeness and accuracy of the data provided by the Members. The following assumptions have been made with respect to the data:

- The information provided is accurate and complete, except where specifically noted otherwise. In those instances where data was not available, and therefore not complete, the impact was determined and assumed to be immaterial to this analysis. This assumption has been validated through discussions with the Members to approximate the number of Spousal Policies that were thus excluded;
- Our analysis was performed on an aggregate basis based on total Spousal Policies counts and was not performed on a seriatim policy or certificate basis reflecting expiration dates (i.e. loan exhaustion, maximum insured ages, etc.);
- We have made no adjustments to our attrition rate projections, or the data provided to adjust for the impact of COVID-19. While the disruption caused by the COVID-19 pandemic may have impacted consumer behavior, such as spending habits and credit card usage, we have assumed its impact on the attrition of Spousal Policies not to be material.
- We have assumed that similar levels of attrition can be reasonably expected to continue going forward from 2023 to 2030.



## **CAFII Attrition Rate Study Report**

### **4.3 METHODOLOGY**

The Spousal Policy data provided by each Member includes the number of certificates at the beginning of the year and the natural attrition occurring within the year. Natural attrition consists of individuals who left voluntarily (i.e. through the cancellation of the policy), as a result of the policy expiration (i.e. closure/payout of the loan), or through ineligibility of coverage (i.e. change of marital status). The attrition rate is calculated by dividing the aggregated natural attrition by the number of Spousal Policies at the beginning of the year. To remove the potential impact of AMF's upcoming cancellation deadline of January 1, 2025, we have excluded cancellations (if any) of the Spousal Policies by proactive Members.

The assumed natural attrition rate was used as a trend to project the number of Spousal Policies to 2030. This rate was applied to the end of year figures to determine the number of Spousal Policies in the following year.

## CAFII Attrition Rate Study Report

## 5. ANALYSIS

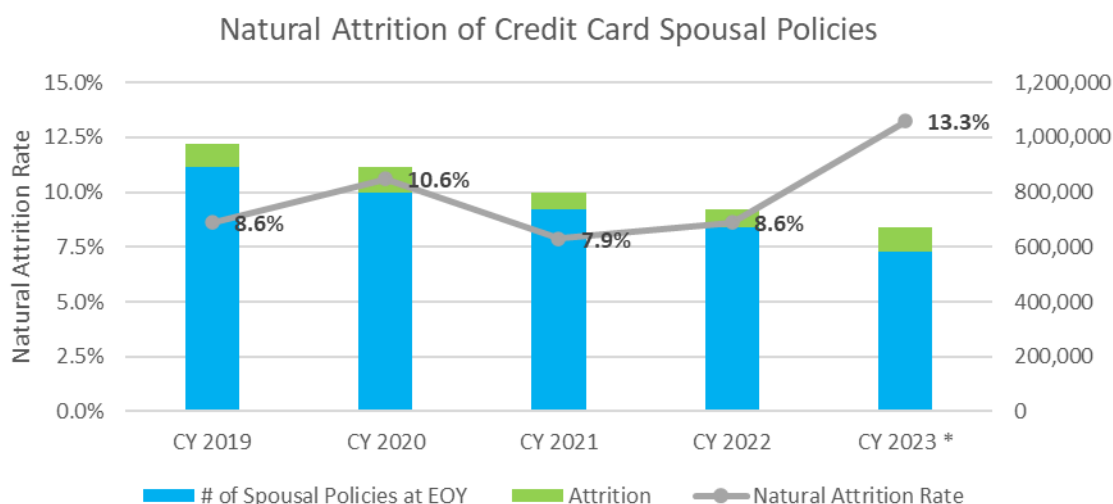
From the end of 2019 to the end of 2022, the number of credit card Spousal Policies has decreased by 24.7%. As of December 31, 2022, there were approximately 672,634 credit card Spousal Policies identified by CAFII Members remaining in force.

The following chart, provide the historical attrition rate across all CAFII Members since 2019 for credit card Spousal Policies.

In analyzing the attrition rate, two adjustments were required to be made to the data:

- 1) For calendar year 2019, Spousal Policies were still being offered during the year, and the data was adjusted to reflect the actual attrition during the year netting off these new Spousal Policies;
- 2) For calendar year 2023, YTD data was projected to the end of the year at a consistent rate;

**Chart 1 – Natural Attrition of Credit Card Spousal Policies**



\* Attrition experience in partial year 2023 was annualized to December 2023.

Across the five-year period, the natural attrition rate for credit card Spousal Policies is in the range of 7.9% to 13.3% with an average of 9.8% across the period. That is, on average, approximately 9.8% of spousal coverage is cancelled or terminated through normal course of action (i.e. without regulatory enforcement) over the five-year period.

There is an uptick in the attrition rate in partial year 2030. There is some variance in the attrition rate year-over-year, though there is not enough information to suggest whether or not the upward trend will continue to persist.

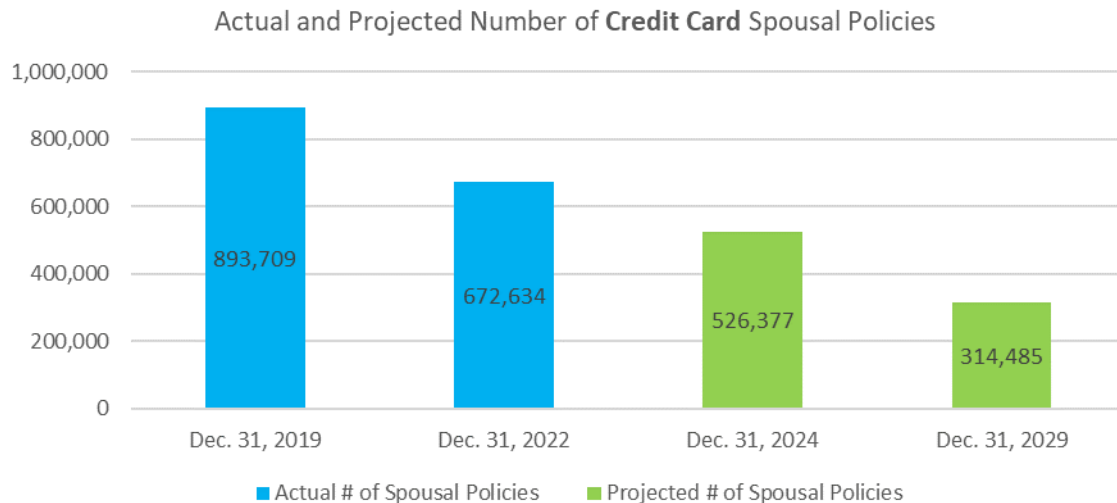
As the credit card policies inevitably expire either within in the next few years or further in the future, it is expected that the proportion of credit card Spousal Policies being cancelled or expired will tend to increase. However, given credit cards are revolving products, policyholders can continue to renew their existing coverage at a monthly premium which allows for longer policy durations and less likelihood of early attrition than other products, such as loans.

## CAFII Attrition Rate Study Report

### 5.1 PROJECTION

Utilizing the average historical attrition rates over the previous 5 years, we have projected forward the number of Spousal Policies each year to the end of 2029.

**Chart 2 – Projection of Spousal Policies for Credit Card Customers**



Based on the constant attrition rate projection, the total number of Spousal Policies on credit cards projected to the current cancellation deadline of January 1, 2025 would be approximately 526,377, which is 59% of the number of Spousal Policies in force at the beginning of 2019. At the end of 2029, the number of Spousal Policies in-force would diminish to approximately 314,485, representing 35% of the 2019 figures, reducing the number of impacted customers should the cancellation deadline be extended.

As outlined above, the cancellation of new sales in 2019 has significantly reduced the total number of Spousal Policies in force since then. This projection assumes a constant attrition rate into the future; however, as the insured population and their associated loans age it is expected that the attrition rate will gradually increase. This is due to a higher proportion of Spousal Policies being cancelled each year as a result of both loan expiry and insureds reaching the maximum insured ages for the insurance coverage.

## **CAFII Attrition Rate Study Report**

### **6. CONCLUSIONS AND RECOMMENDATIONS**

Based on the historical data provided for the natural attrition of Spousal Policies from 2019 to 2022 and year-to-date 2023, the average natural attrition rate for credit card Spousal Policies is determined 9.8%. Using this attrition rate, the projected number of Spousal Policies by January 1, 2030 is 314,485.

These figures show that the number of Spousal Policies will decline significantly from January 1, 2025 to January 1, 2030 if more time is provided for natural attrition to continue its impact on the count of Spousal Policies.

CAFII and its Members are concerned about the poor customer experience of cancelling existing coverage, as cancellation of this coverage would not result in any return or decline of premium.

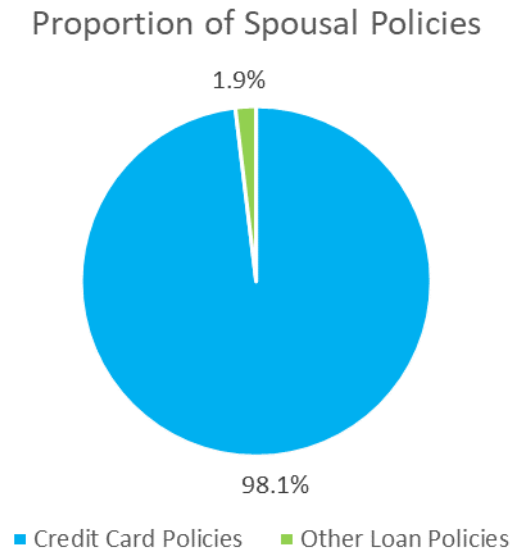
The analysis was performed by projecting attrition until 2030 based on five years of historical experience. We recommend monitoring the emerging experience closely and revisiting the attrition rate assumption in five years to update the projection of the number of Spousal Policies.

## CAFII Attrition Rate Study Report

### 7. APPENDICES

#### 7.1 APPENDIX A – DEBT INSTRUMENTS OF SPOUSAL POLICIES

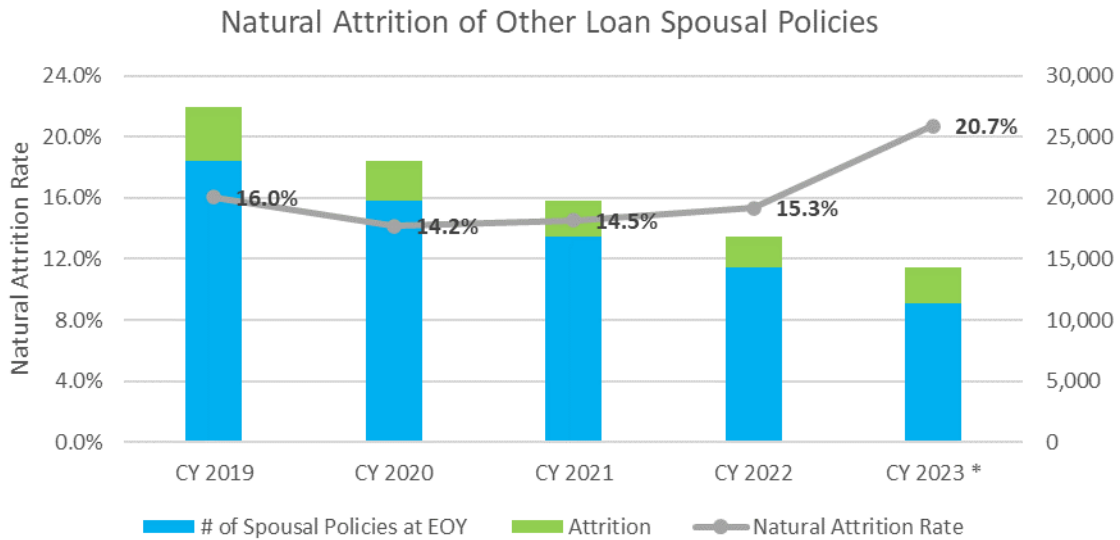
Proportion of Credit Card Spousal Policies vs Other Loan Spousal Policies



## CAFII Attrition Rate Study Report

### 7.2 APPENDIX B – NATURAL ATTRITION FOR OTHER LOANS

#### Natural Attrition of Spousal Policies for Other Loan Customers

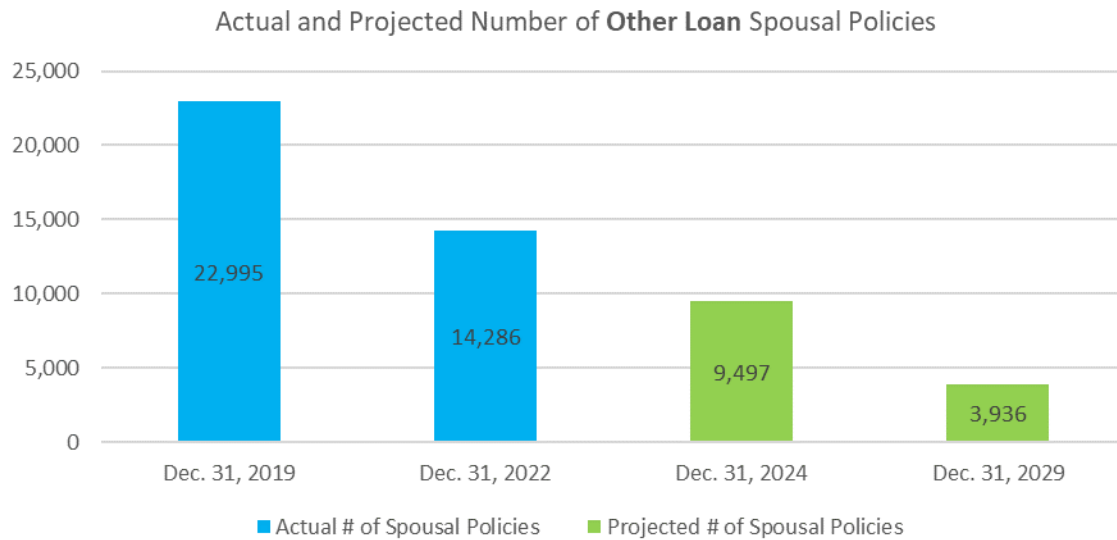


The natural attrition rate for other loan Spousal Policies is in the range of 14.2% to 20.7% with an average of 16.2%. The attrition rate for other loans Spousal Policies during this period is higher than credit card Spousal Policies. This should be expected as many of these other loans include natural expiry as a result of the loan amortization period (i.e. a 5-year auto loan will naturally expire after 5 years), whereas creditor insurance policies on credit cards can remain in place until the insured reaches their maximum age outlined in the policy.

## CAFII Attrition Rate Study Report

### 7.3 APPENDIX C – PROJECTION OF SPOUSAL POLICIES FOR OTHER LOANS

#### Projection of Spousal Policies for Other Loan Customers



For Spousal Policies on other loans there would be approximately 9,497 in force as of January 1, 2025, which is 41% of the number of Spousal Policies in force at the end of 2019. Looking further into the projection, at the end of 2029, this would decrease to approximately 3,936 Spousal Policies remaining in force, representing 17% of the 2019 figures.

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