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**Report on CAFII Board Confidential Dialogue and Information-Sharing Meeting
With Helen Troup, Executive General Manager, Comminsure, Australia
19 February, 2019**

Attendees

Helen Troup, Comminsure, Australia
Nicole Benson, valeyo and CAFII Board Chair
Martin Boyle, BMO Insurance and EOC Chair
Paul Cosgrove, Assurant
Zack Fuerstenberg, ScotiaLife Financial
Chris Lobbezoo, RBC Insurance
David Fear, Canada Life
Sandra Rondzik, CIBC Insurance
Peter Thorn, TD Insurance
Peter Thompson, National Bank Insurance
David Moorcroft, Media Consultant
Charles Blaquiere, valeyo
Scott Kirby, TD Insurance
John Lewsen, BMO Insurance
Rob Dobbins, Assurant

Sharon Apt, Canada Life
Monika Spudas, Manulife Financial
Michele Jenneau, National Bank Insurance
Vivek Sahni, RBC Insurance
Anita Mukherjee, RBC Insurance
Karyn Kasperski, RBC Insurance
Laura Bedford, RBC Insurance
Brad Kuiper, ScotiaLife Financial
Dallas Ewen, Canada Life (teleconference)
Diane Quigley, CUMIS (teleconference)
Shawna Sykes, CUMIS/Co-operators
(teleconference)
Brendan Wycks, CAFII
Keith Martin, CAFII

Summary

Helen Troup is the Executive General Manager of Comminsure, the insurance arm of Commonwealth Bank of Australia (CBA)¹. She provided several hours of testimony to *The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, which was conducted by the Honourable Justice Kenneth Madison Hayne and published its final report in February 2019. Because there are concerns that the findings of the Australian Royal Commission might influence the perceptions of Canadian regulators, and in order to learn from the Australian situation and consider what lessons it might hold for the Canadian bancassurance industry, Helen Troup was invited by CAFII to meet with its Board of Director and EOC members, and to hold private meetings with CAFII Member companies. Ms. Troup presented to the Board of Directors and EOC members on 19 February, 2019 from 2.30pm to 5.00pm in what was viewed as a riveting and insightful presentation; and she will be meeting with 11 CAFII Member companies over the course of her week in Canada.

¹ The Commonwealth Bank of Australia is an Australian multinational bank with businesses across New Zealand, Asia, the United States and the United Kingdom. It had 2017 revenues of \$26 billion Australian dollars (1 Australian dollar converts to .94 Canadian dollar) and 52,000 employees.

Ms. Troup began by providing some context for the Australian bancassurance industry, and after this section of her presentation it became apparent that while there are some subtle differences between the Canadian and Australian industries, there is great similarity and commonality overall in how the two industries operate. Comminsure is the insurance arm of the Commonwealth Bank of Australia (CBA), and was previously wholly owned by CBA (it was recently sold). Comminsure manufactures insurance products for CBA, which is Comminsure's distributor. Comminsure pays 20% of its revenue directly to CBA (called "commission" in Australia), which is the legal limit allowed for an insurance manufacturer to pay to its distributor. CBA is the largest bank in Australia; other large banks are NAB, ANZ, and Westpac.

Insurance falls exclusively under federal regulation in Australia, principally by the Australian Securities and Investment Commission (ASIC). Other regulators in Australia are the Australian Prudential Regulation Authority, APRA (similar to Canada's Office of the Superintendent of Financial Institutions, or OSFI), and the Australian Competition and Customer Commission, ACCC (a combined Competition Bureau and Financial Consumer Agency of Canada, or FCAC). Ms. Troup noted that there was an increasing regulatory focus on mandating and enforcing a customer-focused culture in financial services, with ASIC and APRA jostling to take the lead role on promoting this approach. Ms. Troup said she remained puzzled about how this approach will be implemented effectively, asking "How do you legislate culture?"

The industry association representing the life and health insurance industry in Australia is the Financial Services Council, FSC (similar to the Canadian Life and Health Insurance Association, or CLHIA), which Ms. Troup felt was ineffective on most issues, to a considerable degree because it was not able to overcome differences in perspective and approach among individual Members, as a result of which they could not achieve consensus, leading to industry paralysis. The Insurance Council of Australia, ICA, represents general (or p&c) insurance (similar to the Insurance Bureau of Canada, or IBC). There is no parallel to CAFII in Australia; and, as a result, there was no Association defending creditor insurance products specifically. Ms. Troup felt that the lack of a deeply committed and knowledgeable industry Association in Australia was a gap, and she suggested that the Canadian industry was better positioned by having a Association focused on creditor insurance products and alternate distribution.

Ms. Troup felt that there were two strategic errors made by the bancassurance industry in Australia, over the past five to seven years in particular.

First, there was complacency—an attitude that when problems occurred in other jurisdictions, such as the Payment Protection Insurance (PPI) scandal in Great Britain, it was regarded as being not overly worrisome because those things "cannot happen here—we are different." Australian industry executives were not initially overly concerned when new staff members with British accents started to appear at ASIC -- brought over from the UK regulator after the PPI scandal there -- but, in retrospect, they certainly should have been. An industry tends to be inwardly focused, and when a scandal erupts elsewhere in the world, the tendency is to emphasize the differences between the jurisdictions, as opposed to observing the overwhelming similarities that exist.

Second, the Australian bancassurance industry tended to talk just to itself, as opposed to really listening to criticisms. In retrospect, there needed to be a completely different approach where the signals of problems to come were truly absorbed, such that they could lead to changes, but that is difficult to do and never did happen in Australia. Such an approach, Ms. Troup said, requires truly courageous leadership.

Ms. Troup provided some background on Superannuation, which is mandatory government-overseen retirement savings program akin to the Canada Pension Plan (CPP). In essence, employers and employees are obliged to contribute to what is similar to a mandated RRSP, with the investments being made under the discretion and control of the employee. There are many players vying to manage these investments, including non-profits called Industry SuperFunds, and the banks². These SuperFunds have a mandatory life insurance component, which is why the Australian insurance industry is involved in this product line.

Call centres were strongly criticized by the Royal Commission; but the industry's response to attacks on call centres was ineffectual, and as a result such misconceptions and myths were perceived as truths. Creditor insurance is a simple, non-advice product, but there was criticism that the product was being pushed upon customers without their consent or knowledge. In many cases, the criticism was that customers clearly did not understand what they were buying, with evidence for this being claims made that were withdrawn for ineligibility—leading the regulator to ask why the customer made the claim in the first place, unless they were not really aware of what the insurance covered and did not cover.

As a result of the Royal Commission inquiry, and despite a prohibition against advice being offered in this product line, a new regulatory thrust has emerged which seeks to move the industry away from ensuring that the customer is eligible to make a claim, to ensuring that the product is suitable for the customer—with the implementation of this concept not being clear, given that this is a non-advice product.

Some of the Royal Commission's criticisms, Ms. Troup said, were legitimate—and the industry had pushed the product to customers for whom it was not meant. For example, her bank sold thousands of loss-of-employment policies to foreign students, who are not allowed by law to work more than 20 hours per week—and the insurance is not triggered unless the policy-holder works for more than 20 hours per week. As a result, these foreign students were paying for a policy they could never claim on. This sort of behaviour leads to severe reputational damage, and is also just wrong, Ms. Troup opined; when she realized this was happening in her company, she said she felt ashamed.

Some of these issues occurred because different parts of a large institution were not aware of what was taking place in other parts, and because legacy technology systems did not always effectively capture these situations, leading to gaps in monitoring. But these are viewed as excuses; the Royal Commission asked how a large bank could not know about its own customers' eligibility and suitability for its products, and questioned how it could sell products without taking the time and making the effort to ensure that the customer could actually make a claim for an insurance policy it had been sold.

² Ms. Troup made a reference to a negative attack ad against the banks launched by the Industry SuperFunds. It can be viewed at <https://www.youtube.com/watch?v=QHxwelimwJw>

Ms. Troup said that there had been a major shift in the attitude towards banks since the 2008 global financial crisis. The Australian banks (like Canadian banks) weathered the crisis better than those in most countries; and, as a result, they were at that time widely applauded as well-managed and well-regulated. But since then, things have changed dramatically. Bank bashing has now become “a national sport” in Australia. There is now a widely held view that the banks care about profits more than they care about their customers, and that was morphing into more radical sentiments that the industry was corrupt, with a view that the behaviours of some of its executives were even verging on the criminal. There was a toll being exacted by these views, and Ms. Troup related a case where a newspaper published headshot photos of a group of bank executives, all of them pictured as being behind prison bars—and Ms. Troup knew one of those executives well, and learned that his children arrived at school to be taunted that their father “was a criminal.”

Ms. Troup said that if an industry cannot achieve a consensus and speak with one authoritative voice, that would provide fodder for politicians and critics. For example, the advisor channel was highly critical of call centres, and provided arguments and statistics to buttress their point of view, all of which were then used by the Royal Commission in its case against the call centre channel.

Ms. Troup noted that Australian banks are obliged to have an external ombudsperson service, and she said that these organizations acted as spies for the regulators. The regulatory authorities stayed in close contact with these organizations, asking them what were problematic areas for them to investigate within the banks and within insurance companies.

Another issue that arose in Australia was around insurers paying fees to advisors but not ensuring that they were providing the advice to consumers which they were being paid to deliver. There were also cases of policy-holders dying, yet the advisor continued to charge their annual fees to the estate. This file alone resulted in \$1 billion in fee refunds to customers. In another file, there were accusations of a culture of denying claims, and one such case alone led to a total of \$30 million in costs (legal fees, employee remediation efforts, etc.) at CBA.

Ms. Troup noted that the origin of the recent regulatory scrutiny of Australian bancassurance was a 2011 ASIC report called “Customer Credit Insurance: A review of sales practices by authorised deposit-taking institutions.”³ The report issued 10 recommendations, but when the Royal Commission asked about their implementation, the banks generally indicated that they had not implemented them. The banks’ argument was that the 10 recommendations were just that – recommendations and not statutory obligations – and, as such, they were voluntary in nature, an argument which was met with strong opposition by the Royal Commission. As a result, remediation orders were issued, leading CBA alone—which although the largest Australian bank, represented only 20% of the Australian bancassurance industry’s volume—having to refund \$90 million to 200,000 customers.

³ The report is attached to the email that this report is also attached to, but for direct access, it can be found at <https://download.asic.gov.au/media/1343720/rep256-issued-19-October-2011.pdf> The report synopsis is as follows: “This report examines the sales practices of authorised deposit-taking institutions (ADIs) that sell customer credit insurance (CCI).” The report has remarkable similarities to some of the observations of the FCAC *Domestic Bank Retail Sales Practices Review*.

The banks, Ms. Troup said, thought that they were managing their regulatory issues, but instead they were failing on a number of issues, including on accessing the right data to understand customer concerns; on providing appropriate monitoring; and on understanding the shifting attitudes from regulators. As a result, concerns were escalated to the level of the politicians, who have a very different approach to resolving problems than do regulators, because for politicians, issues are viewed through the lens of re-election implications, a reality that results in their taking a markedly different approach.

By the time consumer and regulatory concerns related to bancassurance products and practices were escalated to the political level, it was game over. The banks even made the error of making some public relations efforts without first addressing the underlying regulatory, cultural, and sales issues, and this backfired, making them look flat-footed and tone-deaf, and providing even more ammunition to the industry's critics.

Now, Ms. Troup stressed, the new standard for financial institutions is about meeting "community expectations," which is not well-defined. ASIC is now also much more focused on enforcement and fines, including levying fines that are cumulative in some cases, with one file on money laundering leading to a theoretical \$2.5 trillion penalty upon CBA (this was fought by CBA in the courts, with the settlement outcome being a \$700 million fine).

Ms. Troup emphasized that a major problem within the industry that led to this state of affairs was an attitude that if a mistake had been made, it could be fixed. But the regulators now feel that there should be zero-tolerance for mistakes which harm consumers; and Ms. Troup said that having gone through a grilling at the Royal Commission and with the benefit of hindsight, she now agrees with that sentiment. Imagine, she said, if the airline industry had an attitude that if it made a mistake, it would fix it—who would then book any flights, knowing that such an attitude might lead to a plane full of passengers plummeting to earth? The industry should be ashamed to sell products to people who are ineligible for them and who would never be able to make a claim on the policy they bought, Ms. Troup said.

Ms. Troup also expressed some deep concerns about relying on a legal perspective alone. APRA had issued a "CBA Prudential Report" that said that the bank should act "efficiently, honestly, fairly"—but the problem was that the bank let its lawyers take the lead on defining these concepts, and a lawyer's definition of "fairness" will not mesh with that of a regulator or a customer. A better response to these issues would have been not to rely principally on the advice of lawyers; instead, the focus should have been on addressing the fundamental business and customer issues.

Ms. Troup noted that insurers and their distributors had problems with poor disclosure, mis-selling, limited training, poor monitoring, and weak tracking of complaints. Some products, she said, had weak value propositions, including single premium products that were disadvantageous to customers. This is what needed to be the focus of attention.

Ms. Troup elaborated upon why the Australian bancassurance industry's inward focus was a major strategic blunder, pointing to the industry's own terminology as a prime example. Consider, she said, that the industry speaks of the "loss ratio" as if claims are a "loss" and a bad thing, when in fact claims are at the core of the consumer value proposition and the industry's social contract. "Loss ratio," she said, should actually be called a "claims payout ratio."

The industry needs to have much better metrics on how it is performing from a customer perspective, Ms. Troup asserted. What are the “claims withdrawn” and “claims declined” rates? What is the “claims payout ratio” and how does it compare to those of other jurisdictions? How many complaints are made, and why did those complaints occur?

As a practical example of how to apply a customer-focused approach, Ms. Troup advised that CBA now does not just sell job-loss insurance, first it asks this “knock-out question”: “Do you work full time?” -- to ensure that the customer is eligible to claim on the product. The industry is also examining how to periodically confirm that the policy-holder is still employed, moving the onus for cancelling the product due to ineligibility from the customer to the issuer.

Product design and controls also need to be dramatically improved, Ms. Troup continued. There is now a hardship provision in Australia that allows someone to suspend their loan repayments for three months if they are enduring “hardship”; and that means that insurance covering such loans needs to be suspended during the period the payments are not being made, but in practice that is not something that companies’ systems typically are structured to do.

These are examples of the sort of environment that the Australian bancassurance industry must now operate in, given that it has lost the faith of regulators and of consumers. The perception has moved from resolving occasional concerns to a view that the industry is trying to trick the regulator, such that the industry now faces the formidable task of challenging the view that the industry sells “junk insurance” that customers “don’t want, don’t need, and which have no value.”

The end result of this is that whereas Ms. Troup’s Commisure previously generated \$50-60 million in annual revenue, that has now evaporated almost completely.

The Royal Commission has recommended a deferred sales model, based on the fact that ASIC was advised by behavioural economists that selling creditor insurance at the time of the loan puts pressure on the customer, who may feel that receiving approval of the loan is conditional upon purchasing the insurance. So now there must be a four-day delay between the loan approval and the possibility of an insurance sale, and the industry has to become creative on how to make this work since this all insurance is “a product that is typically sold, not bought.”

But Ms. Troup said she felt that it was a fair and reasonable outcome of the Royal Commission that the culture of the industry must change. The Royal Commission issued six underlying principles to guide the industry’s Norms of Conduct—and Ms. Troup, asked, “who could be against those principles?” They are:

- Obey the law
- Do not mislead or deceive
- Act fairly
- Provide services that are fit for purpose
- Deliver services with reasonable care and skill
- When acting for another, act in best interest of that other

In concluding, Ms. Troup advised her audience of CAFII Member representatives to “find a customer who hates you; -- and listen to them.” Doing that will change an executive’s perspective and will provide powerful learning, she stressed.

She also encouraged her audience to do this: a week after speaking to a customer who hates you, contact a customer to whom you have made a major claim payout—and listen to their gratitude to you for fulfilling your social mandate, and for the social good that insurance represents.

“A claim paid day is a good day,” Ms. Troup said, noting that the bancassurance industry was generally honourable and filled with integrity. It may have at times lost its way, but insurance was critical to Australia and there was much of which to be proud.

In reviewing the traumatic regulatory, media, political, and public scrutiny which the Australian bancassurance industry had gone through over the past seven years, Ms. Troup said that painful changes—including changes that could lead to reduced premiums, better coverage, a focus on suitability of products for customers, and higher claims payout ratios, all leading to potentially significantly lower profitability—could have allowed the industry to get ahead of the problems that were brewing, to reinvent itself, and to save and sustain itself.

To have made such changes in Australia might have allowed the industry there to have controlled its own destiny; but because it did not do so, regulatory and political authorities made the changes for the industry, at the much higher cost to the industry of severe reputational damage and loss of control of its own destiny.

Which of these two paths the Canadian bancassurance industry takes is for us to decide, Ms. Troup said, but the overwhelming lesson for her from the Australian bancassurance industry crisis and the Royal Commission experience was that choosing to control one’s own destiny was the absolutely preferred path, and one which she wished the industry in Australia had proactively taken.