

CREDITOR'S GROUP INSURANCE OFFERED BY CAFII MEMBERS

**Making Insurance Simple and Accessible for Canadians
Rendre l'assurance simple et accessible pour les Canadiens**

Background: What is Creditor's Group Insurance?

- Creditor's Group Insurance (CGI), also known as Credit Protection Insurance or Creditor's Insurance, is insurance in which the insurer undertakes to pay off, in whole or in part, credit balances or debts of a person for a covered event
- Covered events are typically death, disability, involuntary job loss and critical illness
- The insurance proceeds are paid to the creditor
- CGI can be obtained for a variety of debt obligations, including mortgages; consumer, business and agriculture loans and lines of credit; and credit cards
- Offered by banks and credit unions across Canada, including by CAFII member financial institutions



Background: How does CGI work?

- In the event of a covered event (death, diagnosis of a critical illness, disability or involuntarily job loss), CGI acts on the insured's behalf within the limits of the policy to:
 - Pay out the debt (in the case of death or critical illness), or
 - Make or postpone debt payments (in the case of disability or job loss)
- The amount of insurance typically paid:
 - For life and critical illness coverages, is the balance outstanding or the maximum amount covered
 - For disability and involuntary job loss, is the amount of the payments that fall due during the period of disability or involuntary job loss; a % of the outstanding balance; or the maximum payment covered

Background: How do consumers access CGI?

- CGI is easy to access. With well-trained and supervised salaried staff at banks and credit unions, Canadians have access to simple, optional insurance coverage on a 24/7 basis through more than 8,000 branches, telephone contact centres, and online
- CGI is customized to the amount of debt being taken on, within the limits of the policy; and, as an optional benefit offered alongside a loan or mortgage product, it is inherently timely and convenient
- Group policy structure of CGI allows more Canadians to be insured at economical standard rates, and almost all applicants are accepted



Background: How is CGI helpful to insureds and families?

- In the event of death or a covered illness, CGI frees up money previously tied up in debt payments:
 - If a client dies or is diagnosed with a covered critical illness, the money freed-up can be used to help family members get back on their feet after the death of a key income earner; or help survivors of serious life-threatening illnesses regain their emotional, physical and financial health
 - If a client experiences disability or job loss, freed-up funds can help the insured focus on recovery
 - In both cases, freed-up money can be used to pay regular expenses or unplanned bills often associated with these life events without having to dip into savings or resort to further borrowing
- In the case of mortgage CGI, the client does not have to worry about being able to make mortgage payments or being able to stay in their home
- The benefits also help protect the consumer's credit rating

Background: CGI Part of a Sound Financial Plan

- Creditor's group insurance tailored to the amount of protection needed
 - Average industry new mortgage amount nationally \$230,000¹
 - Average industry new creditor's group mortgage life insurance: \$222,000¹
 - Average industry new individual term life insurance: \$417,900¹
- Creditor's group insurance complementary to and often augments individual and other group insurance
 - Creditor's group insurance protects a specific debt obligation
 - Client free to use individual and other group insurance to cover other risks
 - Majority of households with creditor's group insurance on their mortgage also own some individual life insurance

¹Source: Towers Watson September 2015 Report: Comparison of the Customer Value Proposition of Creditor's Group Insurance on Mortgages with Individual Insurance (using 2013 data)

Background: CGI Summary

- Part of a sound financial plan and an immediate solution to a change in financial circumstances arising from taking on new debt
- Meets consumer's need for ease of access
- Delivered through a trusted financial institution



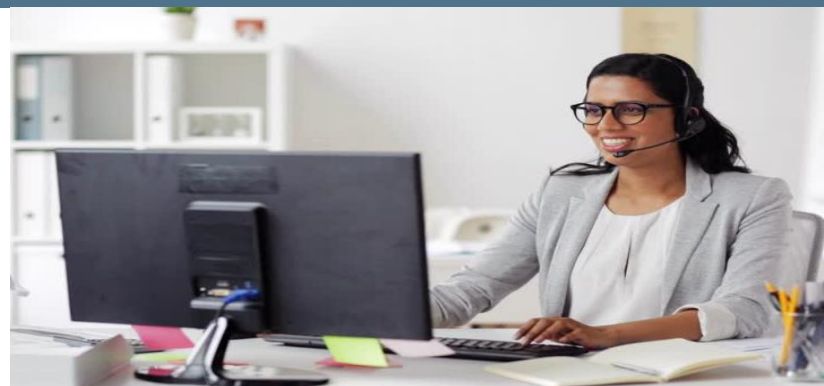
- Helps clients and their families deal with the emotional, physical and financial impact of a significant life event
- Protects consumer's credit rating
- Covers all occupations and lifestyles
- Life, Critical Illness, Disability and Job Loss coverage available

CAFII Member ISI: The Informed Consumer – Policy Details

- CAFII member FIs distribute CGI products in a responsible and appropriate manner
- Certificates of insurance provide all relevant insurance details including eligibility conditions, features and benefits, limitations, and exclusions
- Disclosure also includes information on how to submit a claim; the insurer's name and contact information; the premium charges; a statement that the coverage is optional and voluntary; and the free-look period within which coverage may be cancelled for a full premium refund

CAFII Member CGI: Optional Nature of Coverage

- Scripts and protocols are carefully developed to contain proper disclosure. When CGI is offered by phone, calls are routinely recorded and monitored for quality control purposes.
- Optional nature of coverage reinforced through multiple accountabilities and product features:
 - CBA Code of Conduct for Authorized Insurance Products requires that bank client service representatives be trained to communicate that CGI is optional
 - Coverage can be cancelled at any time
 - Customers have an initial 'free-look' period of 10 to 30 days, within which they may cancel coverage and receive a full premium refund
 - Tied selling is strictly prohibited in legislation for banks



CAFII Member CGI: Knowledgeable Staff

- To provide excellent customer service and help Customer Service Representatives excel in their roles, CAFII member FIs provide education to those offering CGI in a variety of ways from individual coaching, formal CGI training programs, and team huddles
- CBA Code of Conduct for Authorized Insurance Activities requires that bank employees be trained, qualified, and knowledgeable; the person offering CGI be given continuing education; and training and education be reviewed on an ongoing basis to ensure it is up-to-date
- CAFII member FIs are also self-motivated to provide excellent staff training because it provides a competitive advantage and enhances the overall banking relationship with the customer

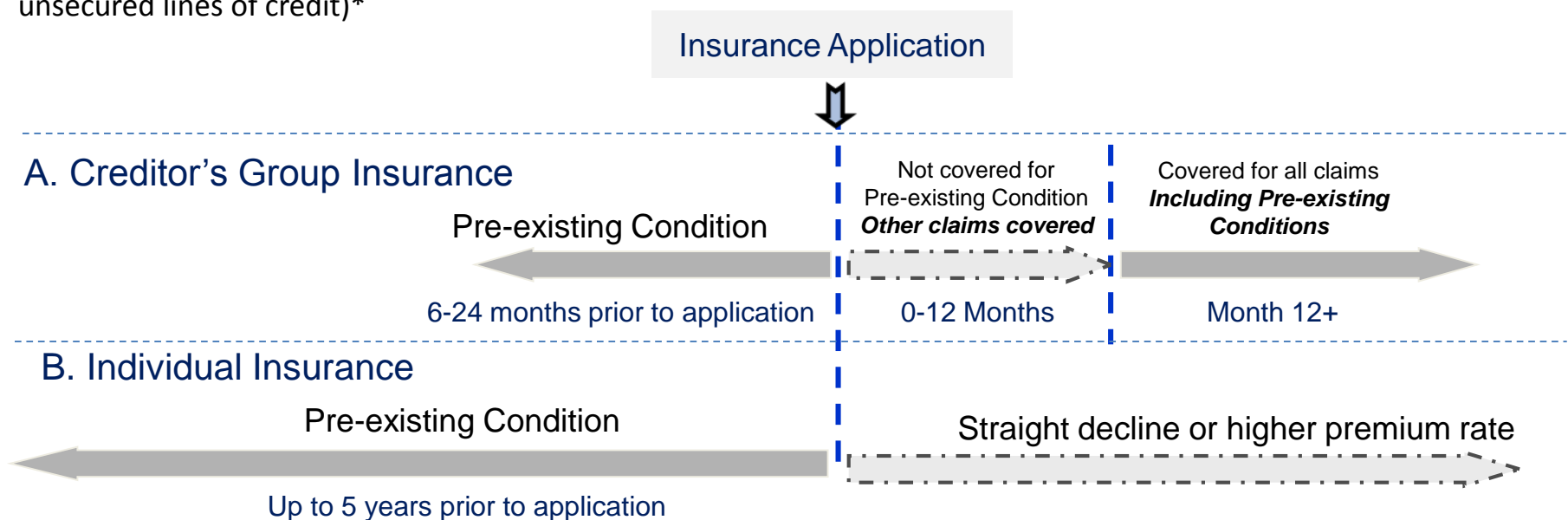
CAFII Member CGI: Well-Aligned with the Client's Best Interest

- CAFII member FIs offer CGI within a larger business relationship with the client. It's in the FI's interest that clients have a positive experience. FIs are concerned about the larger business relationship and don't want to risk customer dissatisfaction by offering an inappropriate or unsuitable product



CAFII Member CGI: Pre-Existing Condition Provision Helps More Clients Be Insured

A pre-existing condition provision in CAFII Member CGI allows individuals to be covered who may not otherwise qualify for insurance. It is often used in lieu of health questions and where the coverage amount is low (e.g. personal loans and unsecured lines of credit)*

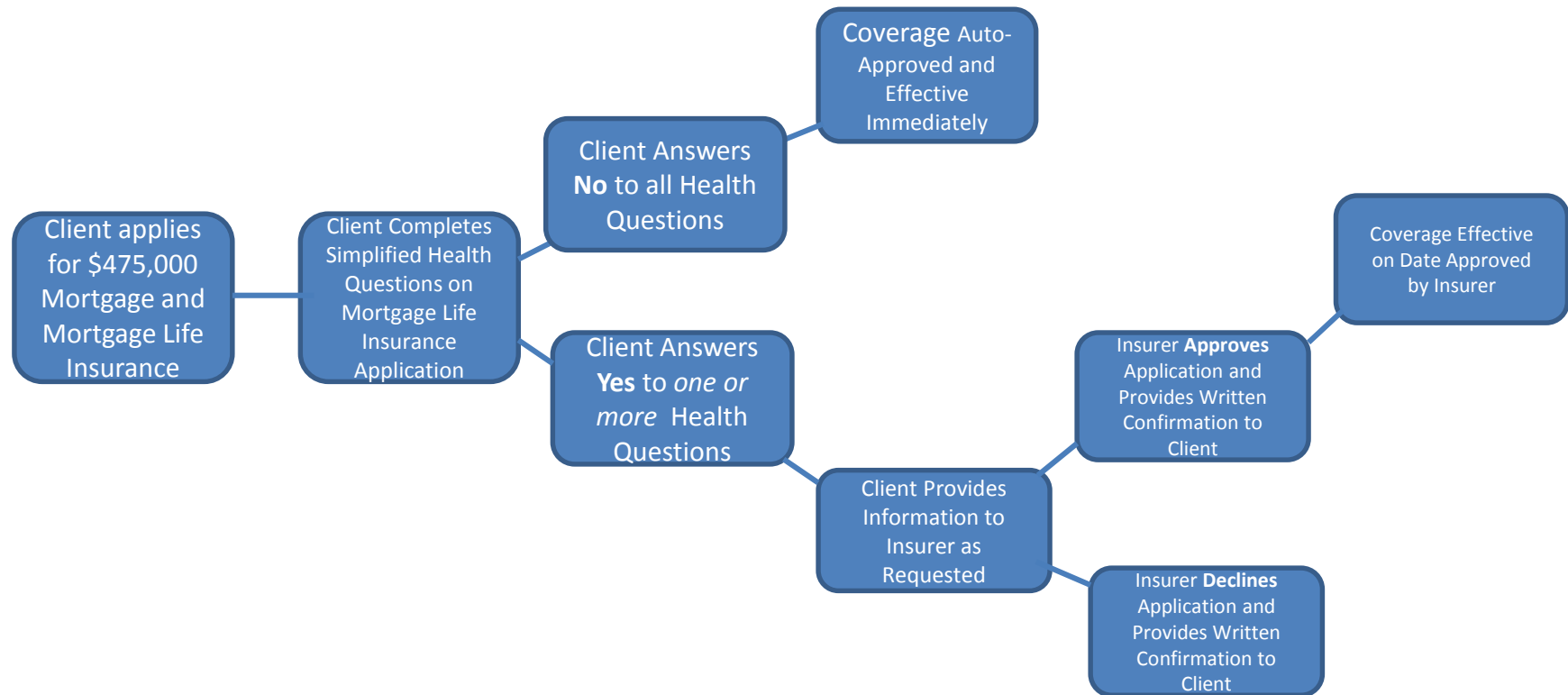


*This provision is not used where coverage is approved through a detailed underwriting process, e.g. mortgage life insurance.) CGI is designed to allow the insurer to accept the majority of applicants, whereas standard insurance may deem an applicant to be uninsurable.

CAFII Member CGI: Extent of underwriting required is generally based on amount of coverage sought

- Small amounts
 - Guaranteed issue with a pre-existing condition provision
- Higher amounts
 - Simplified health questions
- Specific medical conditions
 - Tele-underwriting or longer questionnaire
 - Medical testing
 - Coverage approved or declined
- Broad ranges of risk accepted at standard rates

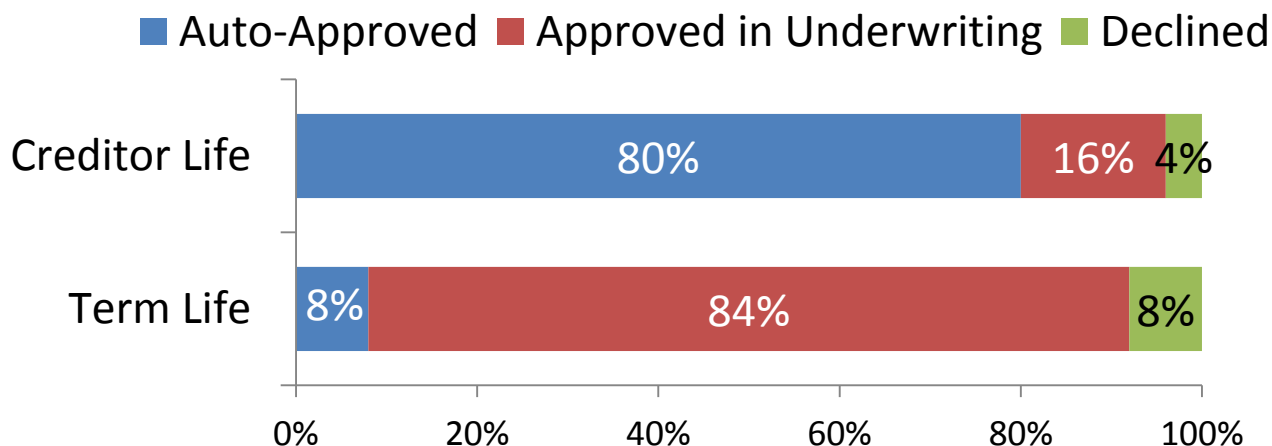
CAFII Member CGI: Application Example, Mortgage of \$475,000



CAFII Member CGI: Provides convenience and ease of access for Canadian households

- A Towers Watson independent actuarial industry study¹ showed that applications for creditor's group insurance on mortgages are likely to be automatically approved and underwritten via simplified health questions; and don't have to go through a more complex and time-consuming underwriting process
- For CGI, all applications are approved at standards rates; for individual insurance, applications are approved at standard rates or with extra premium

Industry Application Approval Rates for Mortgage Life and Term Life Insurance



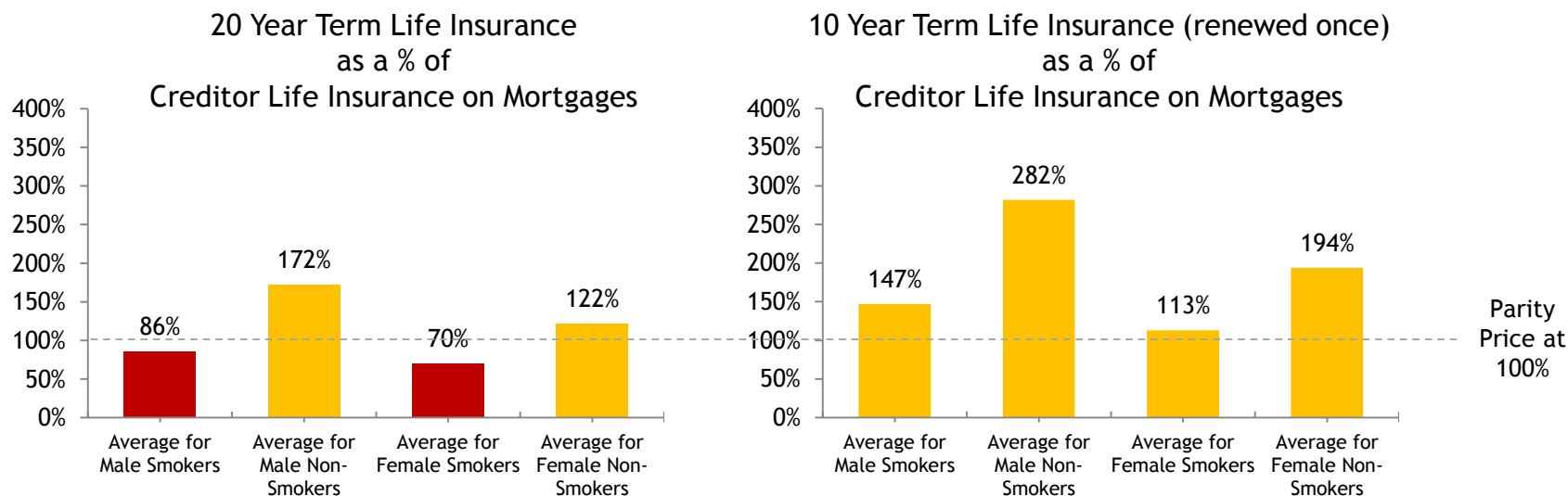
¹Source: Towers Watson September 2015 Report:

Comparison of the Customer Value Proposition of Creditor's Group Insurance on Mortgages with Individual Insurance (using 2013 data)

CAFII Member CGI: Provides affordable coverage for all occupations and lifestyles

A Towers Watson independent actuarial industry¹ study showed that premium rates for creditor's group insurance on mortgages are on average lower about half the time vs individual 20 Year Term Life Insurance; and are on average lower all the time than 10 Year Term Life Insurance renewed once

**Life Insurance Premium Rates per \$1,000 of Coverage
Creditor Mortgage Life Insurance vs. Individual Term Life Insurance¹**



¹Source: Towers Watson September 2015 Report:

Comparison of the Customer Value Proposition of Creditor's Group Insurance on Mortgages with Individual Insurance (using 2013 data)

CAFII Member CGI: Simplified health questions typical for CGI on mortgages and secured lines of credit where coverage amounts can exceed \$500,000

Standard Questions Asked on CAFII Member CGI Application Forms

For Life, Critical Illness and Disability Insurance:

In the past 3 years, have you received any treatment for (including taking pills, injections or other medications), consulted a physician or health practitioner for or been diagnosed as having:

- Chest pains related to the heart or for which a cause has not yet been determined, circulatory illness or heart disorder (including irregular heart beat and coronary artery disease (CAD)), high blood pressure or stroke (including transient ischemic attack (TIA));
- Cancer, leukemia, tumour, disorder of the brain or of the nervous system (including paralysis, multiple sclerosis and muscular dystrophy), digestive or intestinal disorder, kidney or liver trouble (including hepatitis), diabetes, arthritis (excluding osteoarthritis) or prostate trouble (excluding benign prostatic hyperplasia (BPH));
- AIDS (Acquired Immune Deficiency Syndrome), ARC (AIDS Related Complex), or HIV (Human Immunodeficiency Virus) or any disorder of the immune system, lupus, bleeding or blood disorder, lung or respiratory disorder;
- Mental or psychiatric condition (including depression and anxiety);
- Alcohol, drug or substance abuse?

☐ Yes or ☐ No or ☐ N/A

Source: BMO Insurance

CAFII Member CGI: Post-Claims Underwriting (PCU) Not Practised

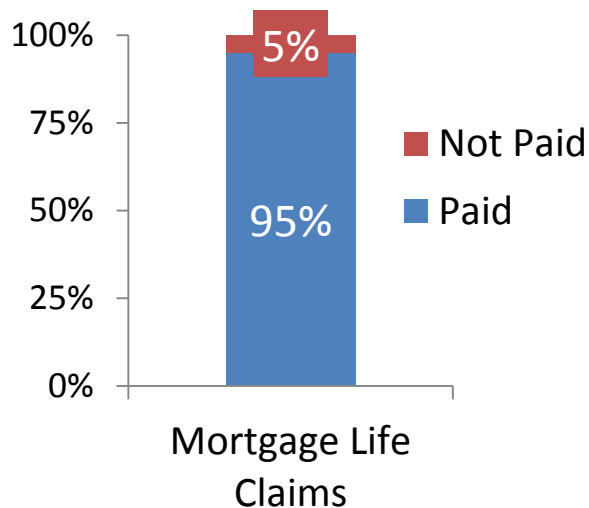
- Allegation of Post-Claims Underwriting (PCU) has been leveled in situations where consumer seriously misrepresented health at the time of application, e.g. responded “no” to a health question knowing he/she was being treated for a serious health condition
- But the fact is that insurers of CAFII member FI-distributed CGI do not practise PCU
- Insurers have statutory right to deny a claim due to material misrepresentation within a two-year contestability period, which is not unique to CGI products
- As do their counterpart underwriters of other types of insurance, insurers of CAFII member-distributed CGI adjudicate all claims in accordance with the contract provisions set out in the certificate of insurance given to the consumer, e.g. benefits will not be paid for death due to suicide within the first two years of coverage



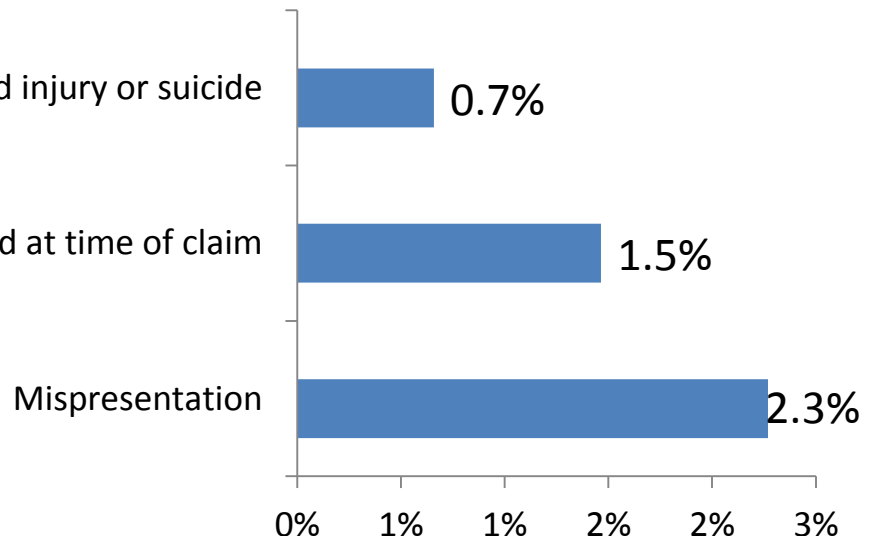
CAFII Member CGI: Nearly all claims are paid as submitted

The Towers Watson independent actuarial study also found that a high rate (95%) of creditor's group mortgage life insurance claims are paid and that no claims were denied due to pre-existing conditions

Industry Mortgage Life Insurance Claims



Industry Incidence of Claims Reasons Why Not Paid



CAFII Member CGI: Thoroughly and Well-Regulated Through a Balanced Approach

- CGI is thoroughly and well-regulated through a balanced combination of legislation and industry codes and guidelines:
 - A robust framework of provincial regulation governs CGI underwriting and distribution
 - Prescribed federal legislation and regulations – such as the Bank Act and the related Insurance Business (Banks and Bank Holding Companies) Regulations – control key market conduct issues such as tied selling and privacy
 - The CBA Code of Conduct for Authorized Insurance Activities requires accountability by each bank for its implementation; product knowledge of its representatives; and FTC
 - Financial Consumer Agency of Canada (FCAC) monitors and enforces compliance with federal consumer protection measures; and monitors federal deposit-taking institutions' adherence to the CBA Code of Conduct for Authorized Insurance Activities

CAFII Member CGI: Thoroughly and Well-Regulated Through a Balanced Approach

- Insurance companies are required to adhere to CLHIA Industry Guidelines for CGI product design and distribution, in particular *G7 Creditor's Group Insurance* and *G9, Direct Marketing*
- Insurers and DTIs are required by law to have extensive complaint tracking systems in place to identify and resolve emerging issues. Details on how to file a complaint are included in disclosure documents
- Escalated consumer complaints are tracked and resolved through the independent Ombudsman for Banking Services and Investment (OBSI); ADR Chambers Banking Ombuds Office, or the Ombuds Service for Life and Health Insurance (OLHI); and the AMF, as appropriate. In addition, CGI insurers track and report complaints to the new national database rooted in the CCIR Annual Statement on Market Conduct

Conclusion

Thank you for this presentation, dialogue, and relationship-building opportunity.