

**CAFII Working Group on Credit Protection Insurance Industry Best Practices
Summary Notes of In-Person Meeting, 5 September, 2019**

Members of the Working Group in Attendance

Greg Caers, BMO Insurance
Rob Dobbins, Assurant
Sharon Apt, Canada Life
Dana Easthope, Canadian Premier (by phone)
Parminder Rai, CIBC Insurance (by phone)
Monika Spudas, Manulife
Luce Doyon, National Bank Insurance (by phone)
Marie Nadeau, National Bank Insurance (by phone)
Brad Kuiper, ScotiaLife Financial
Denzyl Monteiro, ScotiaLife Financial
Scott Kirby, TD Insurance
Jeremy Flanagan, TD Insurance
Kathy Tetford, TD Insurance (by phone)

Staff

Brendan Wycks, CAFII
Keith Martin, CAFII

THESE NOTES ARE PRIVILEGED AND CONFIDENTIAL

As neither of the two Co-Chairs of the Working Group (Martin Boyle, BMO Insurance and Karyn Kasperski, RBC Insurance) were available for today's meeting, Brendan Wycks, CAFII Co-Executive Director, facilitated this meeting.

Brendan Wycks noted that a revised and updated thought starter document had been distributed. Changes to the document were made based on feedback at the 29 August, 2019 meeting, including numbering each entry to make it easier to reference particular regulatory expectations items; grouping thematically similar items together; adding in items from CCIR/CISRO's Fair Treatment of Customers Guidance document; and moving items that have been dealt with, that are being parked, or which are not relevant, to the back of the document.

Mr. Wycks noted that adding in the regulatory expectations from the CCIR/CISRO FTC Guidance document had reminded him of just how high-level and principles-based that document is as compared to the FCAC's Domestic Bank Retail Sales Practices Review, which is quite prescriptive and specific in its concerns and recommended responses.

Prior to delving into the specific items in the thought starter document, there was a high-level discussion of what the Working Group wants to achieve, and what its output should be.

Marie Nadeau stated that while there might be concerns about drilling down and coming up with relatively specific best practices proposals, and thereby moving away from strictly principles-based approaches, an output that simply restated the industry's commitment to adhere to existing high-level guidelines such as CLHIA's G7 and G9 would be a futile and counter-productive exercise. She suggested that Working Group members push themselves, even if doing so moves them into slightly uncomfortable territory; and later there can be a further review to see what member companies can live with.

Keith Martin stated that in the absence of some concrete, actionable commitments, this CAFII Working Group initiative could be a counter-productive exercise. He suggested that members try to look at the issues the Working Group is discussing from the lens of the regulator, and ask themselves what would impress a regulator in terms of actions from CAFII and its members. There was a consensus that the Working Group needed to avoid telling regulators "every is okay." Many comments were made that the Working Group needed to avoid watering everything down, and arriving at the lowest common denominator. There was also recognition that achieving a consensus on actionable items would not be easy, and that a balance might need to be struck.

Brendan Wycks then asked if a Code of Conduct that CAFII members would commit to might be a realistic output of the Working Group, and there was a consensus that this was worth aiming for. How strongly such a Code of Conduct was worded, and whether all members could commit to it and sign off on it, would have to be determined, but it was worth aiming high and seeing what came out of the exercise. To aim solely for reiteration of existing, high-level guidelines at the outset, would not a worthwhile effort, it was agreed. Several members suggested that the Working Group should push the boundaries, and not self-censor.

On the issue of process, the next opportunity for the Working Group to share its progress with the CAFII Board of Directors is at its meeting on 1 October, 2019 in Montreal. There are three Working Group meetings scheduled before then: 12 September, 19 September, and 26 September. It was felt that any content to be included in the progress report to the Board needed to be largely finalized at the 19 September, 2019 Working Group meeting, with the 26 September meeting an opportunity for review, adjustment, and approval of what would be shared with the Board. On that basis, it was recommended and supported that the 19 September, 2019 meeting should be a two-hour, in-person meeting.

The Working Group then reviewed items in the thought starter document.

Thought Starter Document Item #1

Governance and Business Culture, from the CCIR/CISRO FTC Guidance, Page 13: "CCIR and CISRO expect fair treatment of Customers to be a core component of the governance and business culture of insurers and intermediaries."

There was a wide-ranging discussion on the difficulty of measuring business culture, and the challenge of an industry comment on it as this was so specific to individual companies. Keith Martin noted that at the September 17/18 CAFII meeting with then FCAC Deputy-Commissioner Brigitte Goulard, she said that she felt there was a commitment at the "top of the house" to the fair treatment of customers, but this got diluted the further down the organization one went, partly due to incentive programs that rewarded sales behaviour that might not be in the interests of customers.

Monika Spudas noted that in addition to incentives, there are many other components and influencers affecting a business culture of fair treatment of customers, and if we reference one of these we will likely need to reference the others as well. It was felt that the statement on this item should be quite high level.

Action Item: Develop some options around possible high level wording related to business culture, for the Working Group's review re possible inclusion in a best practices document.

Thought Starter Document Item #2

Findings; Sales culture, from the FCAC Domestic Bank Retail Sales Practices Review, Page 6: "...The lack of transparency about sales targets and commissions makes it difficult for consumers to determine in whose interest bank employees are acting when one product is recommended over another."

There was a discussion of compensation structures and how they might be viewed to impact on the fair treatment of customers. It was noted that this is a challenging area as regulators sometimes do not appreciate that offering credit protection insurance in an unlicensed sales environment precludes offering advice. As such, determining the suitability of the product for the customer is difficult or impossible. It was suggested that there could be an explanation of the current practices that might help clarify for regulators how the sales process works.

Keith Martin suggested that there could be a special feature added to the CAFII website where potential customers could review credit protection insurance products, with algorithms that would allow them to calculate premiums, potential benefits payments, etc. However, some members of the Working Group were concerned that such a website should not be used by member FI sales personnel as an independent, third party sales support tool.

Action Item: Develop a summary of the sales practices used by CAFII members, for the Working Group's review re possible inclusion in a best practices document.

The concept of a CAFII website section allowing potential credit protection insurance customers to calculate premiums, potential benefits payments, etc. will continue to be discussed.

Thought Starter Document Item #3

Conflicts of Interest, from the CCIR/CISRO FTC Guidance, pp. 14-15: "CCIR and CISRO expect that any potential or actual conflicts of interest be avoided or properly managed and not affect the fair treatment of Customers."

This item was regarded as closely linked to the issue of incentives and as an item where it was felt that the output could be quite detailed. There was agreement to develop a "what to avoid, and how to avoid it" checklist, that identified how CAFII members would commit to dealing with conflicts of interest.

Action Item: Develop a checklist of what to avoid in the area of conflicts of interest, and how to avoid those issues, for the Working Group's review re possible inclusion in a best practices document.

Thought Starter Document Item #4 (incorrectly labeled #5 in the 5 September, 2019 Document)

Outsourcing, from CCIR / CISRO FTC Guidance, pp. 16-17: "CCIR and CISRO expect that functions related to conduct of insurance business outsourced to service providers do not hinder the quality of services or jeopardize the Insurer's or the Intermediary's ability to achieve fair treatment of Customers."

There was a discussion on how the industry manages outsourcing currently, including controls, testing, and monitoring. Reference was made to the applicable OSFI document on this, Guideline B-10. It was noted that much, but not all, outsourcing was around telemarketing, although Sharon Apt noted that outsourcing to third party call centres was prohibited in Quebec.

Rob Dobbins expressed concerns about identifying the method to manage outsourcing, noting that audits, for example, are but one tool in the toolkit to identify potential issues. Other controls and tests, even if they do not have a sufficient sample size to be statistically relevant, are also useful tools used by compliance officers to identify potential issues. A risk-based approach should be emphasized, where the tool used depends on the potential risk and consequence of that risk.

Action Item: Develop a best practices statement on outsourcing, which is precise but not overly prescriptive, for the Working Group's review re possible inclusion in a best practices document.

Thought Starter Document Item #5 (incorrectly labeled #7 in the 5 September, 2019 Document)

Product Design, from CCIR/CISRO FTC Guidance, pp. 18-19: "CCIR and CISRO expect that the design of a new insurance product or significant adaptations made to an existing product take into account the interests of the target Consumers' group."

While there was agreement that product design needed to take into account customer interests, it was felt that it was difficult to know exactly what was intended by the statement "interests of customers." There was concern that this could be an attempt to move the industry down the path of trying to determine the suitability of creditor insurance products.

Action Item: Develop high-level wording around what a creditor insurance product is intended to do, with an explanation of how products are designed, for the Working Group's review re possible inclusion in a best practices document.

Thought Starter Document Item #6 (incorrectly labeled #8 in the 5 September, 2019 Document)

Improved Product Design and Value (unbundling), from Australian Securities & Investments Commission's "Consumer credit insurance" report, Report 622, July 2019, pp. 4, 10-12: "CPI products should be unbundled so that consumers can select coverage they are eligible to use and that meets their needs."

There was discussion of bundling and the recommendation that customers be allowed to pick and choose which components of a bundle they wanted. It was noted that among the concerns was, for example, a credit card purchase by a student who is not working, which includes job loss coverage for which they are not eligible. It was also noted that customers have a life cycle, and while some elements of a bundle might not apply at one point in time, at a later stage of the customer's life, events could change and coverages might become applicable, and that might be a more appropriate way to view these products. It was agreed that regular, probably annual reminders to customers of coverages they had would be appropriate, and such communications could meet some of the regulatory concerns in this area.

It was also felt that the industry sometimes positioned itself for failure through the use of the wrong terms. This issue was raised in connection with the bundled credit card terminology around “job loss” where some customers may think that they were eligible for a payout if they were fired or quit their job. A better term might be “involuntary unemployment insurance.” Other examples were that “loss ratio” should be referred to as “claims payout,” and that “free look period” should be referred to as “review period.”

Action Item: Do not address the issue of bundling. Develop a glossary of terms that the industry uses that could be better positioned, with suggested alternatives, for the Working Group’s review re possible inclusion in a best practices document.

Thought Starter Document Item #7 (incorrectly labeled #9 in the 5 September, 2019 Document)

Improved Product Design and Value, from Australian Securities & Investments Commission’s “Consumer credit insurance” report, Report 622, July 2019, pp. 4, 10-12: “Claims ratios must be significantly increased from the current poor levels of 19 cents to the dollar, so CPI provides real consumer value.”

It was suggested that this not be addressed directly, to avoid drawing attention to this matter. It was noted that other reforms, such as reminding customers of the coverages they held which might lead to a higher level of claims, and thereby could indirectly improve the claims payout ratio.

Action Item: Do not address the issue of claims payout ratios.

Thought Starter Document Item #8 (incorrectly labeled #10 in the 5 September, 2019 Document)

Improved Product Design and Value, from Australian Securities & Investments Commission’s “Consumer credit insurance” report, Report 622, July 2019, pp. 4, 10-12: “Lenders should assess product value including claims ratios of new and existing products before deciding to sell CCI.”

This was not felt to be applicable to this exercise.

Action Item: Do not address the issue of a company having to do pre-qualification assessments before deciding to offer credit protection insurance.

Thought Starter Document Item #9 (incorrectly labeled #11 in the 5 September, 2019 Document)

Improved Product Design and Value, from Australian Securities & Investments Commission’s “Consumer credit insurance” report, Report 622, July 2019, pp. 4, 10-12: “Benefits should reflect the needs of consumers (e.g. payments for periods of unemployment rather than arbitrary limits).”

It was felt that this could be addressed by demonstrating the value of these products for consumers.

Action Item: Develop wording around the value of credit protection insurance products for consumers, for the Working Group’s review re possible inclusion in a best practices document.

Thought Starter Document Item #10 (incorrectly labeled #13 in the 5 September, 2019 Document)

Distribution Strategies, from CCIR / CISRO FTC Guidance, p. 21: “CCIR and CISRO expect that distribution strategies are tailored to the product, consider the interests of the targeted Consumer groups and result in consistent Consumer protections independently of the distribution model chosen.”

There was a concern that this was going down the path of telling the industry how to run its business. However, a member felt that there needed to be further discussion of this item.

Action Item: Continue with further discussion of this Item at the next meeting of the Working Group.

Appendix A—Members of the Working Group on Credit Protection Insurance Industry Best Practices

BMO Insurance

Martin Boyle, EOC Chair and Co-Chair of the Working Group
Greg Caers
Rebecca Saburi

RBC Insurance

Karyn Kasperski, Co-Chair of the Working Group

Assurant

Rob Dobbins

Canada Life

Sharon Apt

Canadian Premier Life/Valeyo

Dana Easthope
Asma Desai

CIBC Insurance

Joanna Onia
Parminder Rai

Desjardins Financial Secutiry

Isabelle Choquette
Nathalie Baron

Manulife

Monika Spudas

National Bank Insurance

Michele Jeanneau
Luce Doyon
Marie Nadeau
Caroline Cardinal

ScotiaLife Financial

Brad Kuiper
Denzyl Monteiro

TD Insurance

Jeremy Flanagan
Scott Kirby
Kathy Tetford

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