<u>Potential Media Questions re: Pollara CPI research – Draft 2, June 14, 2019</u>

1) Your survey says that Canadians believe CPI is an effective, convenient and affordable type of insurance for mortgages and loans. Isn't mortgage life insurance just a junk product that provides consumers with little value versus other insurance options such as term life?

A1: We believe that CPI sold by our member financial institutions is an effective, convenient, affordable and necessary insurance product. In fact, a 2013 independent research study conducted by the Life Insurance Market Research Association (LIMRA) found that life insurance ownership in Canada was at a 30 year low and many households had insufficient coverage. Only 68% of households had life insurance, down from 79% seven years prior.

One of the key reasons for that decline in households having life insurance coverage in place is that lower and middle income Canadians have not been well-served by the "traditional" insurance market 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.

In addition, about two-thirds of households don't have a life insurance agent or broker, so financial institutions that sell Credit Protection Insurance are key to meeting their insurance needs. In fact, for many Canadians with smaller protection needs, Credit Protection Insurance may be their best option, and perhaps their only option.

In terms of a family's financial planning, Credit Protection Insurance 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, CPI 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.

2) Your research showed that only 70% of Canadians thought mortgage life insurance was "affordable", and only 66% said it offered good value. How can you claim it is affordable?

A2: With 70% of Canadians being of the view that mortgage life insurance is affordable and nearly two-thirds feeling that it offers good value, we're pleased that a solid majority of the populace has a positive view of the product; but we recognize that there is certainly work to be done to raise those favourable perception levels even higher.

We'd like as many Canadians as possible to feel that the premiums charged for Credit Protection Insurance are affordable and that the coverage provides good value. That's why our industry is constantly looking for ways to keep costs down, prices affordable, and the value as high as possible.

In that connection it's noteworthy that Credit Protection Insurance products have some important advantages over other types of insurance. For example, people become covered under CPI through a group master policy, which allows nearly all applicants to be approved for coverage. Some of those CPI holders would be denied individual insurance coverage due to pre-existing health conditions. And some *of the coverages CPI makes available, such as job loss insurance, are not available through individually - underwritten insurance options. (See Question #8 answer for further detail.)*

Furthermore, CPI life insurance on a mortgage is generally very cost competitive with a comparable amount of term life insurance, while being more advantageous for some consumers. For example, CPI mortgage life premiums are typically lower than term life for younger lives, males, smokers, and smaller amount coverages.

In addition, CPI's pricing model based on initial age and initial balance, with the benefit paid on the declining balance, is designed to equalize the premium over the entire duration of the mortgage, which makes the coverage more affordable and accessible for younger, lower net worth, and lower income borrowers. Many CPI holders like the fact that their premium stays constant over the entire life of the mortgage, because it helps with budgeting and managing expenses, both now and in the future. They also like that their mortgage life insurance cost won't go up as they get older or if they were to develop health issues.

(Further detail, if necessary: Instead of charging a higher premium at the beginning and allowing it to decrease as the mortgage balance covered goes down, the CPI 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 CPI premium has the offsetting advantage of staying constant and not increasing as the customer ages or if they were to develop health issues, which would be the case with individual term life insurance which has to be renewed and re-underwritten every 10 or 20 years.)

3) Do you inform consumers when they buy the product of the affordability relative to other products? Did you share the profitability / loss ratio with them?

A3: With respect to profitability or loss ratio data being shared, no insurer or distributor in the marketplace -- in any line of insurance business including term life, universal life, and whole life -- provides profitability or loss ratio information to consumers; and neither do the financial institutions that offer optional CPI coverage provide such disclosures. The survey respondents who said they felt that CPI provided value for money were self-reporting based on their experiences and comparison shopping.

4) Do your representatives selling credit protection insurance products do a needs-analysis / provide advice on alternatives when they are selling the product?

A4: The objective of client service representatives selling CPI is to give consumers 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. The discussion is holistic, dealing with all of the client's insurance needs and coverage options. Full disclosure about the CPI product being offered is provided.

In addition, information is available on company websites and consumers are given a toll-free phone number to call with any questions. Consumers can take their time to do a full review of their current and future insurance needs, and to review all insurance certificates and other materials provided. They also have a generous "free look" period, typically 30 days, during which time they have insurance coverage in place but can cancel for a full premium refund.

5) Only 64% of Canadians said the CPI documents are easy to understand. Shouldn't your members be doing a better job of providing their clients with clear language, easy-to understand documents?

A5: The 64% ease-of-understanding rating refers only to the accompanying documents that outline terms and conditions, and other legal details of the CPI products – which, given their purpose, must be comprehensive. However, our customer service representatives are trained to undertake a holistic discussion with consumers about the CPI product they are considering, to provide a thorough explanation of the product, and to answer questions, all of which contribute to a high level of understanding and enable the consumer to make an informed decision on whether the optional CPI coverage is right for them.

This is reflected in the research findings, where 90% of Canadians said they had a good understanding of the product when they purchased credit protection insurance for their mortgage; 77% said their financial institution representative did a good job of explaining the product; and 76% said they were satisfied with the quality of responses they got to their questions.

Despite those relatively favourable results, CAFII members regularly review the language used in their product documentation to make it as simple, straightforward, and easy to understand as possible.

6) Your survey says that clients feel well informed about the CPI product they are buying. Do they understand that financial institutions offering mortgage life insurance don't usually check applications until after a claim (post-claim underwriting), and that this could leave heirs disqualified from a claim payout if they didn't fill in the application properly, even by accident?

A6: CPI products are not subject to post-claims underwriting. The typical application and underwriting process for CPI follows these steps:

- *Consumers apply for CPI 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 CPI product, the insurer advises the applicant in writing.*

*For some coverages (e.g. lower value loans), there may not be any health questions asked on the application form; and in such cases, coverage is automatically approved. A critically important point of distinction is that for such coverages that are not underwritten at the time of application, **<u>there is no misrepresentation exclusion</u>**. In such cases, benefits will be paid for the covered event (death or disability) **<u>subject only</u>** to a pre-existing health exclusion. The exclusion applies if death or disability occurs within six to 12 months (depending on the particular CPI 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 particular CPI policy) prior to enrolment and for which the insured has received treatment. All other medical conditions will be covered from the enrolment date.*

7) Only 89% of claimants said that CPI life claims were paid, and your members reported that 94% were paid. Why the difference? What are the top two or three reasons for denying a claim?

A7: The 5% difference between the 89% and 94% represents the modest gap between the results generated by survey participants' responses and the aggregated self-reported data provided to Pollara Strategic Insights by CAFII members. That relatively small difference can be attributed to a few factors such as surviving next-of-kin who participated in the survey not fully remembering or understanding the terms or amounts of the insurance pay-out of their mortgage or HELOC balance when their insured loved one passed away.

Due to the very small percentage of denied claims, we don't have industry-level statistics that can be drawn from the survey on the reasons for denial. However, the following standard reasons for not paying a claim are prominently set out in the CPI 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.

8) No mention was made in your survey of those who were denied this coverage. What percentage of applicants are denied coverage, and why?

A8: The group policy structure of CPI allows more Canadians to be insured at standard economical rates and almost all applicants are accepted. For example, recent industry statistics have shown that 84% of applicants are accepted 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. These facts are supported by an independent by Avalon Actuarial (in 2011) that showed Application Approval Rates for CPI were superior to those for Individual Life Insurance.

In contrast, the same Avalon Actuarial study showed that 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.

9) 25% of claimants in your survey said they made a complaint about the claims process. Doesn't this high rate of complaints bother your members, and what are you going to do to improve?

A9: The overall level of consumer satisfaction with CPI is high according to the independent Pollara study. And while even one complaint is one too many, industry data reported over many years show that there have been so few complaints to regulators about CPI products that the number is statistically insignificant.

As for the 25% of claimants who made a complaint about the claims process, it's also important to note that 85% of them were satisfied with how the claim was handled.

As one might expect, the most common complaint was about the length of time it took to process a claim. While our members try to process claims as quickly as possible, the process can be delayed when claimants don't provide all of the information necessary for claims adjudication in a timely fashion.

10) Your survey excluded the views of people who do not have CPI products, some of whom may have found another insurance option they liked better. If you included these people in your survey, wouldn't your positive scores have been much lower? And can you really say that your biased survey reflects the views of "Canadians"?

A10: The survey methodology was designed by an independent research firm, and its purpose was to understand the opinions of people who have taken out CPI coverage on a mortgage and/or home equity line of credit. If you'd like to know more about the methodology employed to ensure that the survey results accurately reflect the views of the entire Canadian population, I can have a representative of Pollara contact you.

11) Why did you decide to conduct a survey about CPI and release the results at this time? Are you getting push back from regulators and the government about these products?

A11: We conducted the survey to generate insights for CAFII members into the experience of Canadians who have taken out the Credit Protection Insurance coverage they offer on mortgages and home equity lines of credit; and to be able to share the survey results insights with important stakeholders for our Association: namely, insurance regulators and policy-makers; the media; and the public. The survey is part of an ongoing series of CAFII research that our members are using to better understand the needs of their insurance clients, to ensure existing products are meeting client needs, and to learn where improvements may be necessary. This survey is the second CAFII research initiative in the past 12 months, and follows one that we conducted on Travel Medical Insurance.

12) The survey took place in October of 2018. Why did you wait 7 months to release the results? Are you keeping any of the results secret and only releasing those that make you look better?

A12: Between the time our survey was in the field and we released the results, a number of things had to happen, including consolidation and tabulation of results by Pollara; presentation of results to CAFII members; presentation of results to affiliated Associations; presentation of results to insurance regulators and policy-makers; and preparation of public communications including a news release and materials for our website.

13) Are you releasing all of the results, or are you holding some back?

A13: We are releasing virtually all of the findings, with the exception of a few items where there was an insufficient base of responses for the results to be statistically valid.

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