CAFII Responses/Rebuttals to Hot Button Criticisms of Creditor's Group Insurance

Issue 1: <u>Declining Balance</u>

With CGI mortgage life insurance, why does coverage decline as mortgage is repaid yet the premiums don't go down?

- Premiums are level by design so that they are predictable and easy to budget for and, because they are priced in a manner that perfectly matches the mortgage amount and the amortization period, they are very affordable.
- Also while the amount of coverage goes down as the mortgage balance declines, the CGI premium has the offsetting advantage of staying constant and not increasing as the customer ages
- In contrast, with individual term life insurance, the coverage remains level but premiums increase at each renewal as the customer ages and those increases can be substantial especially if the insured is not in perfect health.

Issue 2: <u>Proceeds are paid to the financial institution.</u>

Isn't CGI really just a product that benefits the financial institution because the payout goes to the bank or credit union?

- No, one way or another outstanding debt will need to be repaid and CGI helps make that happen.
- CGI does much more than make a payout to a bank or credit union. The insurance pays off the mortgage balance for the client, enabling the client to stay in their home (in the case of mortgage life insurance) which might not otherwise be possible if the family loses their primary income earner
- In addition, by directly covering a specific debt obligation, CGI 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.

Issue 3: <u>Post Claim Underwriting</u>

Isn't one of the inherent flaws of CGI that it is not medically underwritten until the time a claim is made potentially leading to a denial when the consumer needs the coverage most?

- No, for products where the client is asked to attest to their medical condition such as Mortgage Life Insurance, coverage is underwritten when it is issued.
- For products where there is no medical underwriting up-front, such as credit cards and small amounts of insurance on loans and lines of credit, pre-existing condition clauses are utilized and fully disclosed in the certificate.
    - Pre-existing Condition clauses are actually beneficial as they allow people with pre-existing conditions to obtain coverage at <u>*standard premium rates*</u> and, other than for the pre-existing conditions, they can make a claim <u>*at any time*</u>. After the pre-existing condition exclusion period ends, they can make a claim for pre-existing conditions as well. With individual insurance coverage, people with pre-existing conditions would either <u>not be able to obtain *any insurance*</u> or would pay a higher premium.

- All claims are adjudicated in the same way and by the same companies that issue individual insurance policies.
- Financial institutions are interested in fostering long-term relationships with their clients and have no interest in seeing claims denied.

Issue 4: <u>Value Proposition/Cost</u>

Isn't CGI mortgage insurance inferior to individual term life insurance?

- No. A 2013 independent research study[1] conducted by the Life Insurance Market Research Association (LIMRA) found that life insurance ownership in Canada is at a 30-year low with only 68% of households owning life insurance, down from 79% seven years earlier. Further, a recent actuarial report prepared by Towers Watson shows that nationally in 2013, creditor insurance on mortgages provided Canadians with $85B of new life insurance coverage. For the same year, Canadian Life and Health Insurance Association data indicates that the amount of new term life insurance purchased by Canadians was approximately $170B. As such, new creditor life insurance coverage on mortgages ($85B) is equivalent to one half of new term life insurance coverage ($170B) and both are important components of risk protection for Canadians.

Approximately two-thirds of Canadian households, especially those in younger age brackets, do not have a life insurance agent or broker[2] and lower/middle income Canadians have not been well-served by the "traditional" insurance industry because their commission-based compensation incents the sale of larger policies.

- For many Canadians with smaller protection needs, CGI may be their only real insurance option. The average size new term life insurance policy in Canada is $400k[3] while the average new mortgage is half of that at $230k.[4] (Note: 4 in 10 Canadian parents say they buy life insurance just to pay off the mortgage[5]).
- As an optional benefit offered alongside a credit product, CGI is inherently timely and convenient and mitigates procrastination in securing insurance coverage.
- CGI is available coast-to-coast through more than 8,000 branches, contact centres, and via distributor websites.
- CGI features a simple product design and straightforward enrolment process with application forms typically limited to 1 page.
- CGI's group policy structure allows more Canadians to be insured at standard rates, and almost all applicants are accepted. It also covers occupational groups and vocations that individual policies may not cover.
- CGI provides benefits not readily available elsewhere. For example, job loss coverage is available on many CGI products but isn't available as an individual product.

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[1] LIMRA Canadian Insurance Ownership Study 2013
[2] LIMRA Canadian Insurance Ownership Study 2013
[3] LIMRA 2013 Canadian Individual Life Sales Technical Supplement
[4] Towers Watson 2015 Report, A Comparison of the Customer Value Proposition of Creditor Insurance on Mortgages Compared to Individual Insurance Products (based on 2013 data)
[5] LIMRA Fact Sheet, Canadian Families at Risk 2007

- The level of consumer satisfaction with CGI is high. An independent Pollara study found that 92% of Canadians who had purchased CGI said that the coverage gave them "peace of mind" that their family would be protected in the event of a death or disability.[6]

Issue 5: Sales Practices.

How is CGI sold? Shouldn't it be sold only by licensed insurance agents?

- CGI is sold by well-trained and supervised salaried staff at banks and credit unions who are required to undergo comprehensive and recurring training and act in accordance with:
  - The Canadian Bankers Association Code of Conduct for Authorized Insurance Activities;
  - The Bank Acts prohibition of "coercive tied selling"
  - Canadian Life and Health Insurance Association Guidelines
    - *G7 Creditor's Group Insurance*
    - *G9 Direct Marketing*
    - *G13 Compensation Structures: Managing Conflicts of Interest (??)*
  - Federal privacy legislation "PIPEDA"
  - Financial Consumer Agency of Canada (FCAC)
    - The selling practices of CAFII members are monitored by the FCAC and by the provincial insurance regulators for compliance with industry guidelines and codes of conduct. The insurer underwriters of CGI are regulated by both provincial insurance regulators and the federal Office of the Superintendent of Financial Institutions (OSFI).
    - The FCAC tracks enquiries and complaints from the public pertaining to the financial marketplace, including complaints about CGI. The negligible number of complaints about CGI to any regulator shows that it meets a consumer need and that the current mix of government regulation and industry self-regulation is working.
- CGI comes with a "free look" period, typically 20 to 30 days, during which the consumer can cancel and obtain a full refund. After the free look period, consumers can cancel coverage at any time with no penalty.

[6] Pollara Strategic Insights in association with CAFII, Consumer Satisfaction with Secured Line of Credit and Mortgage Insurance Purchase Experience, April 2010

***Additional Customer Value Proposition Of CGI Highlights From Towers Watson Study*[7]**

- An independent actuarial study by *Towers Watson (2015)* compared the average cost of creditor insurance to the average cost of corresponding individual insurance. It compared creditor life and critical illness insurance over 20 years to Term 20 and Term 10 (with one renewal) individual life and critical illness insurance; and also compared creditor disability insurance to individual disability insurance. For all comparisons, three ages (25, 35 and 50) and three mortgage amounts ($100k, $250k and $500k) were used for both male and female insureds.
- Towers Watson found that:
  - creditor disability insurance is less expensive than individual disability insurance for all ages, amounts and genders;
  - creditor critical illness insurance is less expensive than individual critical illness insurance for all ages, amounts and genders; and
  - creditor life insurance is less expensive than individual Term 10 insurance (renewed once over 20 years) for almost all (94%) customer profiles; and is less expensive than Term 20 for more than half (55%) the customer profiles.
  - Towers Watson pricing comparisons used average premium rates for a standard risk class for all individual insurance customer profiles, even though a portion of the population would be charged higher premiums due to health or lifestyle concerns and others would benefit from preferred insurance rates. All creditor insurance clients are accepted at standards rates regardless of their health or avocation.
  - The insurance companies that underwrite creditor insurance accept somewhat higher mortality and morbidity risks for creditor group coverage as compared to individual insurance coverage.[8]
  - The Towers Watson study shows that applications for CGI are significantly more likely to be auto-approved than are individual insurance (life, CI and disability) applications; and more consumers don't have to go through the more complex and time-consuming underwriting process

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[7] Towers Watson 2015 Report, A Comparison of the Customer Value Proposition of Creditor Insurance on Mortgages Compared to Individual Insurance Products (based on 2013 data)

[8] Source: Avalon Actuarial, Assessing the Value Proposition of Creditor's Group Mortgage Life and Disability Insurance Presentation April 2011