

September 16, 2013

«Title» «FirstName» «LastName»

**c/o CAFII**

«Address1»

«City», «Province»

«PostalCode»

**Subject: Proposal for Consulting Services**

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Dear «FirstName»,

CAFII requires the preparation of a new 2013 Survey and Report that will analyze Creditor's Group Mortgage Insurance offered through deposit-taking institutions (DTI) and compare it with equivalent Individual Insurance. The purpose of this study is to examine whether Creditor's Group Mortgage Insurance provided by DTIs serves the public interest and if it provides value to consumers in general.

The study will specifically focus on Mortgage Life and Disability Insurance as well as similar products on the Individual side, more specifically Term Life insurance products and Individual Disability Insurance products. In addition, Critical Illness Insurance products may also be included in the Study, depending on the interest from CAFII to include such products.

This proposal outlines the steps involved in the Survey and production of the final report, along with the timelines associated with each of the steps and anticipated budget. The steps include discussions around and production of the final Survey collection tool, answering questions from participants related to the data required, analyzing data and performing verification tests for consistency and accuracy, contacting participants for any questions that may arise related to the data submitted, compiling the data and producing key metrics, validating and analyzing of aggregate metrics, researching and collecting other data and information pertaining to the Creditor's Group Mortgage Insurance and Individual Insurance markets including pricing, product benefits, trends and other, and lastly, preparing the final report.

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Avalon Actuarial proposes the following report structure and content:

Avalon will conduct a quantitative survey of the major DTIs in Canada and perform premium comparisons of their products with equivalent individual insurance products.

The report will specifically include comparisons between Individual Insurance and Creditor's Group Mortgage Insurance issued with the clear objective of demonstrating the value of Creditor's Group Mortgage Insurance as a significant source of financial security for Canadians and its positive social impact.

We recommend that the report include an executive summary with key data and conclusions, and that the following sections be included to provide more in-depth information and detailed references validating key findings and conclusions.

## **1. Methodology**

This section will outline the sources of information used to assess the value of Creditor's Group Mortgage Insurance, including a brief overview of the quantitative Survey tool sent to the DTIs, as well as additional sources of data used to supplement our research.

## **2. An Overview of the Creditor's Group Mortgage Insurance Market**

This section will consist of a brief description of the Creditor's Group Mortgage Insurance industry, with a focus on Life and Disability Insurance. This will include a summary of the product benefits, sales process, market size and growth in recent years. This section will also include the same information with respect to Critical Illness Insurance should CAFII decide to include this product in the Study.

## **3. An Overview of the Individual Insurance Market**

This section will consist of a brief description of the Individual Insurance industry, with a focus on Life and Disability Insurance. This will include a summary of the product benefits, market size and growth in recent years. This section will also include the same information with respect to Critical Illness Insurance should CAFII decide to include this product in the Study.



## 4. Analysis

The information included in the two previous sections of the report will serve as a basis for the comparison of key performance indicators of Creditor's Group Mortgage Insurance and Individual Insurance, notably:

- General Market Results
  - Premiums Collected
  - Number of Mortgages
- Access to Coverage
  - Application Process
  - Approval Rates for Coverage
  - Timeliness of the Insurance Offer
  - Availability of Coverage
  - Channels
- Social Benefits
  - Lessening the burden on individuals
  - Taxes
- Premium Comparisons
- Claims Practices
- Other items may also be covered in this section of the report

The data will compare Creditor's Group Mortgage Life Insurance and Disability Insurance with Term Life Insurance and Individual Disability Insurance products. In addition, it will compare Creditor's Group Mortgage Critical Illness Insurance and Individual Critical Illness Insurance products should CAFII wish to include CI in the study.

From the list of key performance indicators, a specific discussion on the comparative financial value to Canadian consumers between Creditor's Group Mortgage Insurance and Individual Insurance will be developed, emphasizing key positive features of Creditor's Group Mortgage Insurance.

On the Individual Insurance side, in the past report to CAFII the statistics related to the life insurance application approval rates (at standard rates and substandard rates) and denied/withdrew rates came from a Survey done by Munich Re. This was the only information used from the Survey in our report. We will endeavour to obtain a more recent version of this Survey or similar information from another source, however, should this not be possible, we will refer to the past Munich Re study.



## Timetable

We anticipate sending the newly revised Survey collection tool to CAFII members for their feedback by September 30, 2013. Assuming a two to three week timeframe for review and approval, the final Survey should be distributed to the DTIs the week of October 21, 2013 and request that the completed questionnaires be returned to our attention by January 15, 2014.

A detailed target timeline is outlined below:

### Phase 1

Action Items	Target Date
<ul style="list-style-type: none"><li>Complete initial modifications to Survey and send to CAFII members for feedback</li></ul>	September 30, 2013
<ul style="list-style-type: none"><li>Finalize the new 2013 Survey collection tool, including revisions and modifications</li></ul>	Mid October, 2013
<ul style="list-style-type: none"><li>Send the 2013 Survey to all participating DTIs</li></ul>	Week of October 21, 2013
<ul style="list-style-type: none"><li>Research and analyze additional data/information from other sources (e.g. LIMRA, CHLIA, etc.)</li></ul>	November and December, 2013
<ul style="list-style-type: none"><li>Individual insurance market research and competitive pricing analysis</li></ul>	November and December, 2013
<p>Phase 1 includes discussions with CAFII and project leaders, production of the final Survey collection tool and answering questions from participants related to the data required. While the DTIs are working on completing the Survey, Avalon will research, collect, and analyze other data and information pertaining to the Creditor's Group Mortgage Insurance and Individual Insurance markets.</p> <p><b><i>The estimated cost for Phase 1: \$12,000 to \$14,000 without including Critical Illness. Should CI be included in the study, the range would be between \$15,000 and \$17,000.</i></b></p>	

**Phase 2**

Action Items	Target Date
<ul style="list-style-type: none"><li>Due date for DTIs to submit completed Survey collection tool</li></ul>	January 15, 2014
<ul style="list-style-type: none"><li>Analyze data and perform verification tests for consistency and accuracy; contact participants for any questions that may arise related to the data submitted</li></ul>	Mid January through early February, 2014
<ul style="list-style-type: none"><li>Compile the data and produce key metrics</li></ul>	February 2014
<ul style="list-style-type: none"><li>Validate and analyze aggregate metrics and trends; compare to previous survey results</li></ul>	February 2014
<p>Phase 2 will consist mainly of analyzing the individual data received from each participating DTI for consistency and completeness. Follow-ups may be required with the participants. Aggregate industry metrics will be generated once all of the data is received.</p> <p><b><i>The estimated cost for Phase 2: \$11,000 to \$13,000 without including Critical Illness. Should CI be included in the study, the range would be between \$12,500 and \$14,500.</i></b></p> <p>This estimate assumes that the new revised Survey collection tool will gather information from 2005 to 2013. Should it not be possible for CAFII members to collect data prior to 2008, the new Survey tool will request 2008-2013 data. Avalon will then <b>need to reconcile between the previously submitted and newly submitted 2008 data.</b> Depending on the consistency and accuracy of the results and the number of changes made to the information requested in the survey, this may add a significant layer of work to the project. It is difficult to anticipate exact costs related to this; however for budgeting purposes, we can assume <b><i>additional estimated fees ranging from \$3,000 to \$6,000.</i></b></p> <p>The actual target dates may change over the course of Phase 2 depending on the date of receipt and accuracy of the data.</p>	



### Phase 3

Action Items	Target Date
<ul style="list-style-type: none"><li>• Provide CAFII with an initial draft of the report</li></ul>	Mid March 2014
<ul style="list-style-type: none"><li>• Field questions from CAFII; potential revisions to the initial report</li></ul>	Mid to End of March 2014
<ul style="list-style-type: none"><li>• Provide CAFII with the final draft of the report</li></ul>	End of March 2014
<p>Phase 3 will consist mainly of bringing all of the information gathered and analyzed together and drafting the report to CAFII.</p> <p><b><i>The estimated cost for Phase 3: \$9,000 to \$11,000 without including Critical Illness. Should CI be included in the study, the range would be between \$10,500 and \$12,500.</i></b></p> <p>The actual target dates for Phase 3 will depend on Phase 2, specifically if one or more of the DTIs do not meet the submission due date of January 15, 2014.</p>	

### Professional Fees

We are typically compensated on an hourly basis with hourly rates varying depending on the level of expertise of the consultant involved. We assign the work in the most cost-efficient manner based on the level of expertise required for the project.

For a project with the scope outlined above, we anticipate the total professional fees to range between \$32,000 and \$38,000 without including Critical Illness in the Study. Should CAFII choose to include Critical Illness in this year's Survey, we estimate fees ranging between \$38,000 and \$44,000. Avalon would be prepared to complete the project on a fixed fee basis should CAFII prefer. As such, the project estimated fees would be \$34,000 for the study excluding CI, and \$39,000 including CI. This budget assumes the Survey would be compiled using newly submitted 2004-2013 data.

CAFII had also expressed its interest in obtaining estimated fees for the preparation of and presentation of a PowerPoint presentation of the results of the study. The estimated cost



to prepare the PowerPoint presentation would be \$5,000 and the cost for actual presentation to CAFII would be \$2,500.

We do not anticipate any cost overruns; however, if at any point it appears that the project budget could be exceeded because of a change in scope of the project, we will obtain your formal approval prior to proceeding. Should the time charges allocated to this project be below the fixed fee quoted above, CAFII would only be billed for the time charges incurred.



If you are in agreement with the above, kindly indicate the options you are interested in and sign and return a copy of this letter to my attention.

We look forward to working with you on this project.

Best regards,

A handwritten signature in blue ink that reads "Raymond".

Christine Panet-Raymond  
Executive Vice President

**ACCEPTANCE:**

**SIGNATURE** \_\_\_\_\_

**NAME** \_\_\_\_\_

**DATE** \_\_\_\_\_