

Agenda Item 5(c)
June 23/20 EOC Meeting

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June xx, 2020

Ms. Louise Gauthier, Co-Chair, CCIR/CISRO Fair Treatment of Customers (FTC) Working Group; and
Mr. Ron Fullan, Co-Chair, CCIR/CISRO Fair Treatment of Customers Working Group
c/o Messrs. Tony Toy and Munir Chagpar, CCIR Policy Managers/Secretariat; and
Ms. Adrienne Warner, CISRO Policy Manager/Secretariat

Dear Ms. Gauthier and Mr. Fullan:

***Re: CAFII Position and Recommended Solution Re CCIR/CISRO FTC Working Group's Request
For Information On Sales Incentives and Compensation Models Used In-Market By
CAFII Member Financial Institution Distributors of Credit Protection Insurance and Travel Insurance***

As you will recall, prior to CAFII's most recent March 5/20 meeting with the CCIR/CISRO FTC Working Group, our Association received legal advice from Stikeman Elliott with respect to an FTC Working Group request that CAFII gather information and provide a report on the sales incentives and compensation models utilized in-market by CAFII member financial institution distributors of credit protection insurance and travel insurance.

Stikeman Elliott's legal advice indicated that while the information requested by the FTC Working Group was indeed "competitively sensitive information" (especially given that CAFII member financial institutions which distribute credit protection insurance and travel insurance view their sales incentives and compensation models as a source of "competitive differentiation"), if the requested data was to be collected by an independent third party, such as a professional services firm, and then presented in an aggregated and anonymized form, that would alleviate any concerns about compliance with the CCIR/CISRO information request causing CAFII and its members to violate the Competition Act.

You will also recall that the primary outcome of CAFII's March 5/20 stakeholder meeting with the FTC Working Group was a request from the Working Group that CAFII proceed to commission a third party professional services firm to gather information on the sales incentives and compensation models used in-market by CAFII member financial institution distributors of credit protection insurance and travel insurance; and to produce an aggregated, anonymized results report which could be shared with the FTC Working Group.

However, in a subsequent CAFII Board of Directors meeting, our Board expressed significant doubts and misgivings about our Association's ability to provide the requested information to the CCIR/CISRO FTC Working Group through such a professional services firm survey, noting that

- in nearly all cases, CAFII member FIs (in particular, the insurance arms of the Big 6 banks) don't have and don't know the information necessary to provide the data that a professional services firm would be asking for, to enable CAFII to meet the FTC Working Group's request.

That's because incentives and compensation models used with respect to credit protection insurance and travel insurance vary at the branch level, and decision-making with respect to incentives and compensation is not centralized and not dictated by the insurance distributor entity (BMO Insurance, CIBC Insurance, TD Insurance, Scotiabank Financial, RBC Insurance, National Bank Insurance) but rather is decentralized/distributed and made at the Vice-President, Retail Distribution level in conjunction with the branches; and

- the requested information is most definitely competitively sensitive and a source of competitive differentiation. So even if it were to be gathered by an independent professional services firm and only reported in aggregated and anonymized form, the disclosure of that information to the CCIR/CISRO FTC Working Group could still lead to a violation of the Competition Act as an unintended consequence.

That's because CAFII members would definitely see a copy of the report, in addition to the FTC Working Group; and, as a result, they would gain competitive intelligence and learn what incentives and compensation models their competitor members of the Association are using, even if the report does not disclose which particular FI is using which particular incentive/compensation model.

Therefore, our Association's position is now that the only prudent and acceptable way for the CCIR/CISRO FTC Working Group to obtain the sales incentive/compensation model information it is looking for is to ask one or more CAFII member FIs to provide it directly and privately to the Working Group.

As a possible expeditious route to the same end, CAFII reached out to the Canadian Bankers Association to find out if it routinely gathers and assembles aggregated and anonymized data on sales incentives/compensation, such as what the FTC Working Group is seeking. The response we received was that "CBA does not collect information on the sales incentives and compensation models that banks use for financial product distribution."

Therefore, CAFII recommends that the FTC Working Group approach one or more CAFII member FIs directly and privately with a view to obtaining the requested/desired information. CAFII can assist by providing the FTC Working Group with a directory of contact persons at each of our FI distributor of insurance members; and they, in turn, can co-operate by obtaining and reporting back directly and privately with the requested sales incentives and compensation information, which in most cases will come from their corporate parent FI/bank.

Sincerely,

Martin Boyle
Board Secretary and Chair, Executive Operations Committee

About CAFII

CAFII is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. Our Association was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. Our members provide insurance through client contact centres, agents and brokers, travel agents, direct mail, branches of financial institutions, and the internet.

CAFII believes consumers are best served when they have meaningful choice in the purchase of insurance products and services. Our members offer travel, life, health, property and casualty, and credit protection insurance across Canada. In particular, credit protection insurance and travel insurance are the product lines of primary focus for CAFII as our members' common ground.

CAFII's diverse membership enables our Association to take a broad view of the regulatory regime governing the insurance marketplace. We work with government and regulators (primarily provincial/territorial) to develop a legislative and regulatory framework for the insurance sector that helps ensure Canadian consumers get the insurance products that suit their needs. Our aim is to ensure appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII is currently the only Canadian Association with members involved in all major lines of personal insurance. Our members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant, Canadian Premier Life Insurance Company, CUMIS Services Incorporated, Manulife (The Manufacturers Life Insurance Company), Sun Life Financial, and The Canada Life Assurance Company.