March 6, 2024

Ms. Véronique Martel, Directrice de la surveillance des pratiques commerciales
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1

c.c.
Mr. Patrick Déry, Surintendant des institutions financières
Mr. Éric Jacob, Directeur général du contrôle des marches et Surintendant de l'assistance aux clientèles et de l'encadrement de la distribution (intérim)
Ms. Nathalie Sirois, Directrice principale de la surveillance prudentielle
Mr. Christian Beaulieu, Directeur principal des opérations d'encadrement de la distribution
Mr. Mario Beaudoin, Directeur des pratiques de distribution alternatives en assurance
Ms. Geneviève Komenda, coordonnatrice experte en surveillance et contrôle.

Dear Ms. Martel:

I have been advised by some of our members that the AMF has approached them for more information about their plans around the cancellation of spousal coverage. Some of the questions asked by the AMF to our members might be difficult for them to answer as they were questions posed at an industry level, and an individual member might not have the information or context to answer such a general question. As well, each CAFII member company has its own unique characteristics and policies.

CAFII as an industry Association is well placed on the other hand to respond to those sorts of more general industry-level questions, and to ensure you receive comprehensive answers to your questions CAFII is providing the AMF with the answers to some of the questions asked in your meetings on behalf of our members. We understand that the AMF has also requested that some of our members provide you with the numbers around attrition of spousal coverage for their company, and those companies that were asked to provide those numbers will share that information with you directly.

Background

As you know, CAFII members were provided an extension to the deadline for cancelling spousal coverage to 1 January, 2025 so that the number of such policies could be reduced through natural attrition. As that date approached, we requested of the AMF in 2023 an extension of the deadline to allow for natural attrition to continue.

We were asked by the AMF to produce a report on the reduction in policies in-force through natural attrition, as well as project the expected decline to the end of 2029. We contracted an actuarial firm (RSM Canada) to do this analysis, which found that from December 31, 2019 to December 31, 2024 there was a significant reduction through attrition in the number of in-force policies, and the number would continue to decline if the deadline was extended, such that 65% of the original in-force policies would be eliminated by the end of 2029.

It is our view that attrition is a better approach to eliminating these policies than cancellation, as cancelling existing policies is not a good customer experience and produces no benefit to the consumer whose policy is cancelled. We greatly appreciate the AMF's flexibility in providing the original deadline extension, and we believe the data show that with nearly 10% of policies naturally being eliminated every year, we are moving in the right direction.

Is this about distributors (banks) having a different expectation or requirement than insurers?

It could be helpful to provide some additional information on the structure of the industry, which includes a variety of different business models.

The most common model in the industry is for a distributor, like a bank or credit union, to offer credit protection insurance or balance protection insurance to a customer, and have an insurer partner actually underwrite the policy.

Another model in the marketplace is for the company that distributes a policy to also underwrite it through their insurance division internally, and that is the business model for the two Quebec-based CAFII members, Desjardins and National Bank Insurance.

It is our experience that distributors and insurers, regardless of the model used, share a commitment to the best customer experience while fully complying with all regulatory requirements.

What is the reason that some insurers need longer when other insurers have already reduced their spousal policy book of business to zero? And is it fair to extend beyond the current the requirement to cancel when other insurers have already cancelled all their spousal policies?

Each financial institution has its own risk appetite and has had to make its own decisions about how to respond to the uncertainty of whether the AMF would further extend the deadline. However, other members continue to hope for the AMF's granting of a further extension to mitigate the negative customer experience that would occur if spousal policies must be cancelled. It is also important to remember that cancelling these spousal policies is a significant work effort for our members so sufficient lead time is essential if this is ultimately decided by the AMF. However, our members continue to believe the opportunity to reduce spousal policies through attrition is the best approach for all stakeholders.

As well, there are different circumstances that can lead to the cancellation of policies. For example, the cancelation of a card could result in the spousal coverage being terminated, but that would not be due to the termination of the spousal coverage alone but rather an outcome associated with the cancelation of the card overall. That is a different circumstance from cancelling the spousal coverage alone, which is a negative customer experience.

Other Considerations

The original discussion around the AMF expectation to cancel spousal coverage where the AMF felt there was no pecuniary interest was based on a legal interpretation that we did not agree with, but which the AMF was insistent on. However, our members had been offering this spousal coverage (as it still does currently in every province other than Quebec) for over a decade, and to unwind a book of business that has been built up over such a considerable time, without our having any concerns raised, requires time.

The legal nature of the challenge of the offering of these spousal policies is important because we do not believe that these coverages are the subject of complaints to the AMF or industry, they are all capable of being cancelled by customers themselves if they do not want them, and we do not believe that they are creating any consumer harm. We have previously made these points to the AMF and we believe these considerations were factored into the original decision to allow for an extension to the deadline to cancel these in-force policies, and we believe these considerations continue to be relevant.

When we consider the pace of change and challenge of ongoing changes in the insurance environment for the AMF and industry, including technological changes, cyber-security risks, and changes to the competitive landscape, we believe that rapid or immediate cancellation of these policies, which would take considerable resources and effort for something that would produce a negative consumer experience, should not be something that has to be done so rapidly. We note the AMF's considerable achievements around and continued commitment to the fair treatment of customers and the priority of focusing on the protection of consumers, and that these important priorities should be what we emphasize in the partnership between the AMF and CAFII.

Should you require further information from CAFII or wish to meet with representatives from our Association on this letter or any other matter at any time, please contact Keith Martin, CAFII Executive Director, at keith.martin@cafii.com or 647-460-7725.

Sincerely,

Keith Martin, Executive Director, CAFII

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 credit protection, travel, life, health, and property and casualty 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 which helps ensure that Canadian consumers have access to insurance products that suit their needs. Our aim is to ensure that appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII's 14 members include the insurance arms of Canada's major financial institutions--BMO Insurance, CIBC Insurance, Desjardins Insurance, National Bank Insurance, RBC Insurance, Scotia Insurance, and TD Insurance, along with major industry players Assurant Canada, The Canada Life Assurance Company, Canadian Tire Bank, Chubb Life Insurance Company of Canada, CUMIS Services Incorporated, Manulife (The Manufacturers Life Insurance Company), and Securian Canada.