

***Agenda Item 5(e)
July 20/21 EOC Meeting***

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CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance--Terms of Reference

Mandate

This Working Group will seek to develop a shared understanding of the application of the FCAC Appropriate Standard to Authorized Insurance Products/Credit Protection Insurance as well as an industry level position on what would be an acceptable and implementable approach to compliance with the FCAC Appropriateness Guideline for Authorized Insurance Products/Credit Protection Insurance, from the perspective of the federal Financial Consumer Protection Framework (FCPF) and the provincial insurance regulatory framework, including Fair Treatment of Consumers principles.

Process

Based on the federal Financial Consumer Protection Framework (FCPF), the provincial insurance regulatory framework, including Fair Treatment of Consumers principles, and emerging regulatory developments the Working Group will look to:

Explore what would constitute an “appropriate” or “inappropriate” enrolment

Consider the information that would be required to determine whether an enrolment was appropriate
Consider the changes required to current enrolment processes to account for product appropriateness
Consider whether other processes (i.e., outside of the enrolment) that could be impacted by an appropriateness standard

As the Working Group will launch at a time when the FCAC Appropriateness Guideline is not available to CAFII, the work outlined above is expected to be completed without reference to it. When copy of the FCAC’s Appropriateness Guideline is available, the Working Group can then cross-reference its work against that document.

Participants

Martin Boyle (BMO Insurance) will serve as the Chair of the Working Group.

CAFII EOC and Board members will be invited to nominate up to two representatives per Member company to serve on the Working Group.

Meetings

Initially the Working Group will meet every second Wednesday from 2:30 to 3:30 p.m. via MS Teams.

CAFII Working Group On FCAC Appropriateness Guideline’s Provisions Related To Authorized Insurance Products/Credit Protection Insurance—Members

Martin Boyle	BMO Insurance and Chair
Karam Al Saeygh	BMO Insurance
David D’Amico	BMO Insurance
Fernando Heleno	RBC Insurance
Penny Cordogiannis	RBC Insurance
Brad Kuiper	ScotiaLife Financial
Anu Bains	CIBC Insurance
Marie Nadeau	National Bank Insurance
Pete Thorn	TD Insurance
Aleks Omaljev NO LONGER ON WORKING GROUP	TD Insurance (legal)
Sara Motamedi	TD Insurance (legal)
Derek Andrews	Scotiabank
Ivana Veljovic	Assurant
Emily Brown	Sun Life
Louise Nash	CIBC Insurance

Staff:

Keith Martin, CAFII

Brendan Wycks, CAFII

Lyn Wallington, CAFII

Approach of the Working Group

Working Group Chair Martin Boyle has recommended that the Working Group should structure its discussions around what a regulator might expect to see in an Appropriateness Guideline:

- KYC (securities, insurance)
- KYP (securities, insurance)
- Needs-based sales (insurance)
- Documentation related to dealings with clients (insurance)
- Remuneration/incentives/conflicts of interest (insurance)

A List of What Can and What Cannot be Included as a Credit Protection Insurance Appropriateness Standard

Cannot Include	Can be Included
Assessing financial/insurance needs	Eligibility requirements
Assessing adequacy of existing insurance	Need based on underlying credit
Insurance recommendation or advice	Effective compliance oversight
Description of how insurance meets any needs	Focus on optional nature of product
Collection of information beyond what is directly related to credit protection (e.g. financial goals/needs, time horizon, net worth, income, risk profile)	
Affordability assessment (credit test should be considered appropriate)	
Requirements that create noncompliance with other applicable rules	

CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance—Summary Notes 16 June, 2021 Meeting

The CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance had a wide-ranging discussion at its 16 June, 2021 meeting. Working Group Chair Martin Boyle shared that a revised draft of the FCAC Appropriateness Guideline was expected to be tabled with the Canadian Bankers Association (CBA) in June, 2021, but that had not yet happened. There would be a reduction of principles from 7 to 5, but it was not clear if two principles would be dropped, or if some principles would be combined.

There was a discussion of the different interpretations of what appropriateness was. There was also discussion about consent and whether that concept should be introduced into this exercise.

It was noted that this exercise may be about confirming with or demonstrating to the regulator that we are in fact doing what we are already doing. We cannot give advice, but perhaps there can be an attempt to determine what customers need—a “guided approach” or interaction, perhaps focused on eligibility.

It was noted that the FCAC’s expectations need to be delivered by April 2022, and that will come around very quickly. The timeline is challenging. It would be helpful if members of the Working Group could share the different approaches they were planning on taking. In that spirit, several members shared their high-level approach. BMO Insurance wants to ensure customers can benefit from a product they purchase; they must be eligible for the product, and able to make a claim if necessary. So there is a need to assess eligibility criteria like age, residency, the principal person taking out the loan etc.

CIBC Insurance said they also were planning on asking eligibility questions. There will be one-by-one questions, and if any of the questions is not answered correctly (such that the customer is eligible for the insurance), then they are not offered the product. Online system is based on the in-person script where information is gathered from the customer to ascertain eligibility for the insurance.

RBC Insurance was also taking the same approach around eligibility including asking questions around health and other relevant matters, for example “are you working?”

An issue several members raised is how to deal with eligibility for pre-approval (pre-x). How confirm eligibility especially in digital channels? This was viewed as a challenge. Several members asked how to deal with misrepresentations, especially around health questions? On job loss, it was felt that if a person for example was not working full-time where that is a requirement for making a claim, they should be “knocked out” of being offered the product.

There was discussion of giving customers a “Fact Sheet” letting them know they have a choice around obtaining the insurance. The question was raised of whether the customer should be asked to acknowledge that the product they were being offered was appropriate?

It was noted that the FCAC did not view credit card-embedded insurance coverages as in-scope for its appropriateness guideline.

Attendees at the 16 June, 2021 Working Group Meeting

Martin Boyle	BMO Insurance and Chair
David D’Amico	BMO Insurance
Louise Nash	CIBC Insurance
Marie Nadeau	National Bank Insurance
Derek Andrews	Scotiabank
Emily Brown	Sun Life
Anu Bains	CIBC Insurance
Karam Al Saeygh	BMO Insurance
Fernando Heleno	RBC Insurance

CAFII:

Keith Martin, CAFII

Brendan Wycks, CAFII

CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance— Summary Notes 2 June, 2021 Meeting

The CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance had a wide-ranging discussion at its 2 June, 2021 meeting. Working Group Chair Martin Boyle shared that a revised draft of the FCAC Appropriateness Guideline was expected to be tabled with the Canadian Bankers Association (CBA) in June, 2021. There would be a reduction of principles from 7 to 5, but it was not clear if two principles would be dropped, or if some principles would be combined.

There was more discussion on what appropriateness really meant. Was it just an eligibility requirement? There was a consensus that signing up a client for a product that they could not make a claim on was not appropriate. However, it can also be difficult to verify pre-existing conditions at the time of enrollment. It was emphasized that in the credit protection insurance space there is no ability to do a needs assessment or to offer advice.

Many members of the Working Group noted that it was important for the FCAC to understand that CAFII members had to adhere and abide by provincial licensing restrictions. But it would be possible to ask some questions of customers, to “get a picture” of the customer. Perhaps the approach to take is to focus on the sales process, which seems to be what the FCAC is most interested in—things like disclosure, consent. If there is an age limitation for BPI, then that must always be a trigger for the offering institution (do not offer a product someone is not eligible for). Free look period should be changed to “review period” and it might be part of an appropriateness expectation.

Financial goals, risk appetite are examples of the sort of information members should not be collecting. There is an interesting issue around affordability tests that was raised, where a member indicated that upon mortgage renewal there might be a requirement to determine if the customer can afford the insurance—although it was raised that if they can afford the loan instrument, how could they not afford the insurance? There might be a financial literacy test applied to customers—if they do not understand the product, should it be offered to them?

Members noted that there could be an emphasis on some of the sales approaches taken, including compliance, audits, controls, scripts etc. to ensure that sales are appropriate. Members could emphasize that they never practice tied selling, and always make it clear that the insurance is optional. There is no post claims underwriting and that should also be emphasized.

Attendees at the 2 June, 2021 Working Group Meeting

Martin Boyle	BMO Insurance and Chair
David D'Amico	BMO Insurance
Brad Kuiper	ScotiaLife Financial
Marie Nadeau	National Bank Insurance
Pete Thorn	TD Insurance
Derek Andrews	Scotiabank
Ivana Veljovic	Assurant
Emily Brown	Sun Life
Anu Bains	CIBC Insurance

CAFII:

Keith Martin, CAFII

Brendan Wycks, CAFII

CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance— Summary Notes 19 May 2021 Meeting

The CAFII Working Group On FCAC Appropriateness Guideline's Provisions Related To Authorized Insurance Products/Credit Protection Insurance held its first meeting on 19 May, 2021. The 30-minute meeting was mostly intended to be organizational, with the objectives and approach of the group being the key objective of this first meeting.

Working Group Chair Martin Boyle noted that it was recognized that not all participants would not all initially be on the same page in their work on or approach to the best response to the FCAC's Appropriateness Guideline, and that the intention was not to attempt to move everyone to the same position. However, there are common themes that the members may be able to agree upon. With an April 2022 implementation date for the FCAC's Appropriateness Guideline, it is advisable to try to get as much industry alignment as possible, and to agree on common views, such as the perspective that a needs analysis is not possible for credit protection insurance.

The FCAC has already indicated that it is working on a second preliminary draft of its Appropriateness Guideline, and the "word on the street" is that in it, the FCAC will scale back its original Seven (7) Appropriateness Principles to Five (5) Appropriateness Principles, although it is not clear whether that will mean that two principles will be cut entirely, or rather merged into other principles.

Working Group members noted the considerable ambiguity around the FCAC's approach, and the balance that needs to be struck between the FCAC's approach and provincial regulatory expectations and constraints which prohibit the offering advice in an unlicensed environment. The development of some common principles would be helpful, for example around industry's understanding of appropriateness, and around the constraints in credit protection insurance related to the Know Your Client and Know Your Product expectations which apply readily to other financial and insurance products. Incentives, remuneration, and other important issues could also be the subject of discussion. Topics could also include the principle of insurability/eligibility (the need to be able to claim on a product you are offered).

The Working Group also felt that approaches to compliance would be a useful subject of discussion. The issue of what the industry can do, and what the industry cannot do, could also be fruitful. Different members may have different risk appetites, but it would be good to get, at minimum, an industry baseline.

Attendees at the 19 May, 2021 Working Group Meeting

Martin Boyle	BMO Insurance and Chair
Karam Al Saeygh	BMO Insurance
David D'Amico	BMO Insurance
Fernando Heleno	RBC Insurance
Penny Cordogiannis	RBC Insurance
Brad Kuiper	ScotiaLife Financial
Marie Nadeau	National Bank Insurance
Pete Thorn	TD Insurance
Aleks Omaljev	TD Insurance (legal counsel)
Derek Andrews	Scotiabank
Ivana Veljovic	Assurant
Emily Brown	Sun Life

Staff

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