



The Canadian Association of
Financial Institutions in Insurance

L'association canadienne des
institutions financières en assurance

How Can We Work Together To Remove Or Reduce Barriers To Doing DWR Insurance Business In Quebec?

CAFII Presentation to AMF Staff Executives

11 October, 2022

Making insurance simple and accessible for Canadians

Rendre l'assurance simple et accessible pour les Canadiens

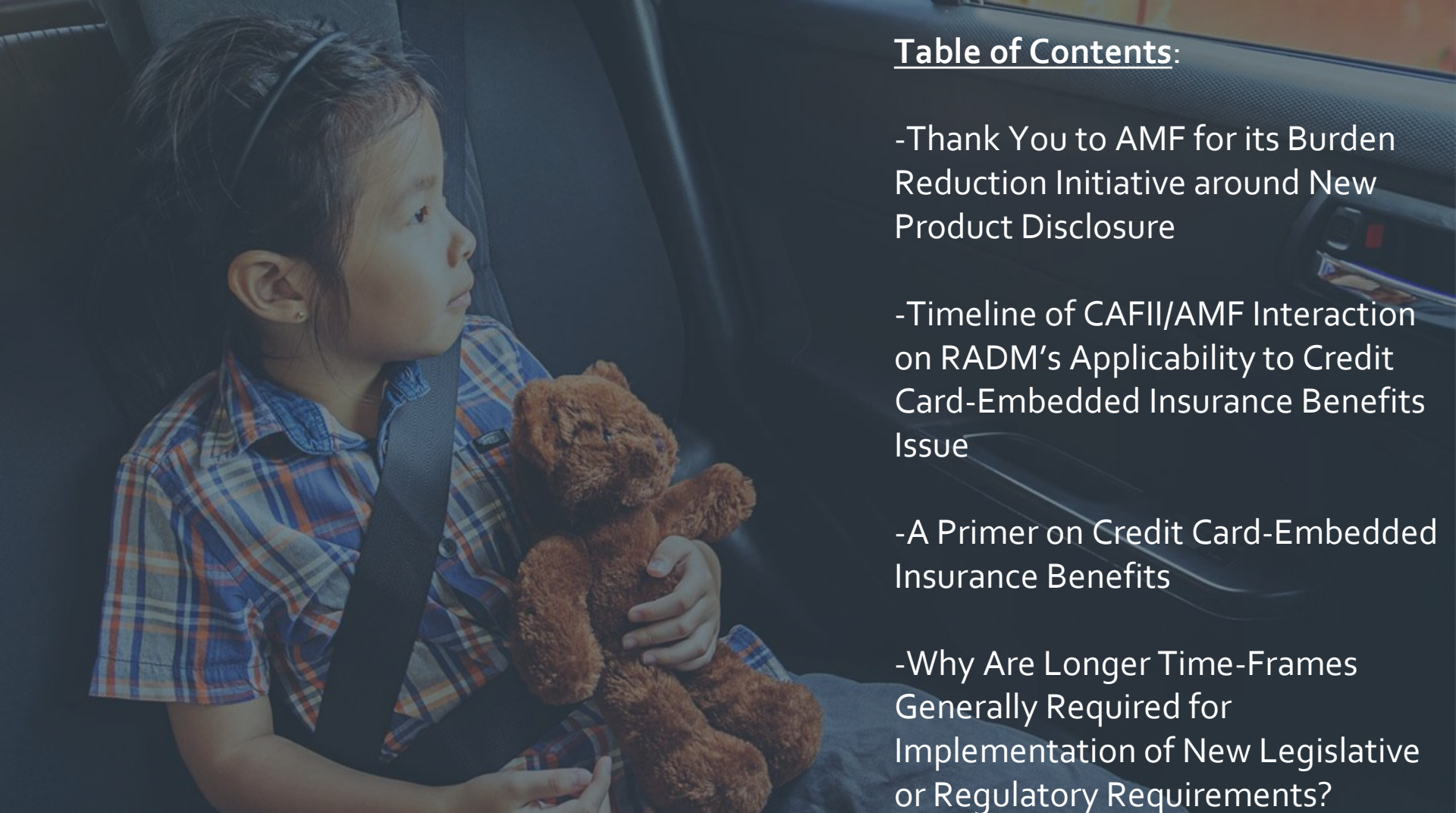


Table of Contents:

- Thank You to AMF for its Burden Reduction Initiative around New Product Disclosure
- Timeline of CAFII/AMF Interaction on RADM's Applicability to Credit Card-Embedded Insurance Benefits Issue
- A Primer on Credit Card-Embedded Insurance Benefits
- Why Are Longer Time-Frames Generally Required for Implementation of New Legislative or Regulatory Requirements?



Thank You to AMF on Burden Reduction
Initiative around New Product Disclosure

Thank You to the AMF for its Burden Reduction Initiative around New Product Disclosure

- CAFII has made several representations to the AMF on the onerous nature of having to share all distribution locations, including all branches, that distribute products under Distribution Without a Representative (DWR).
- On 15 September, 2022, at a meeting with Christian Beaulieu, Mario Beaudoin, and Charlène Boucher, the AMF informed CAFII that soon, only the head office location would need to be provided to the AMF, and that this would apply to all products, not just embedded insurance products.
- This is a significant burden reduction initiative and CAFII, on behalf of its members, sincerely thanks the AMF for making this important modification.





Timeline of CAFII/AMF Interactions on RADM's Applicability to Credit Card- Embedded Insurance Benefits Issue

Timeline of CAFII/AMF Interaction on RADM's Applicability to Credit Card-Embedded Insurance Benefits Issue

- CAFII received a commitment from AMF Superintendent Eric Jacob on 10 September, 2021 that Members/industry would not need to distribute the Fact Sheet and Notice of Rescission in the case of credit-card embedded insurance benefits at this time, to give the AMF and CAFII time to come up with a mutually agreeable solution.
- CAFII had a meeting with Mario Beaudoin and Charlène Boucher on 10 November, 2021 at which we all agreed it would be productive for CAFII to submit proposed wording modifications to the Fact Sheet and Notice of Rescission.
- CAFII made a submission to the AMF on 17 January, 2022 which included the proposed modifications to the Fact Sheet and Notice of Rescission (see Appendix A). The modifications were based on using an asterisks approach to clarify the incorrect assertion that “you can cancel the insurance,” for example with the following wording:
- ***** This does not apply to insurance included with your credit card. You can decide not to use the insurance or contact the card issuer to obtain a different credit card with other insurance or no insurance—it's your choice***

* (All the modifications proposed can be reviewed in Appendix A to this presentation)

Timeline of CAFII/AMF Interaction on RADM's Applicability to Credit Card-Embedded Insurance Benefits Issue

- CAFII did not hear back from the AMF on this issue until a 15 September, 2022 meeting – a meeting that was a result of an outreach by CAFII to the AMF.
- At that meeting we were informed that the Fact Sheet itself could not be modified; however, there is a section reserved for insurers where text could be added; and that a possible solution would be for credit card customers to be given the option of cancelling the insurance on their credit cards, with the following language added to the Fact Sheet and Notice of Rescission:

Although your credit card provides an insurance, you have the option to cancel this insurance. Be aware, however, that there is a possibility that you will not be reimbursed and that this would deprive you of the coverage offered by the insurer.

- The AMF has expressed the view that the language in the Fact Sheet cannot be modified; however, the industry is not clear as to why the addition of language proposed by the AMF is an acceptable alternative.

Timeline of CAFII/AMF Interaction on RADM's Applicability to Credit Card-Embedded Insurance Benefits Issue

- CAFII was also told that the AMF wanted to find a solution to this issue before the end of 2022, so it could fit into the timeframe when most CAFII members are attempting to finish their projects to conform to the RADM for these products, including sharing Product Summaries.
- The industry needs assurances that implementation of the Action Plans for December 31, 2022 – including, for nearly all our members, **not** distributing the Fact Sheet and Notice of Rescission at this time – is acceptable to the AMF.
 - *If modified versions of the Fact Sheet and Notice of Rescission are to be distributed to customers, that is a new project that requires new, extended timelines.*

Timeline of CAFII/AMF Interaction on RADM's Applicability to Credit Card-Embedded Insurance Benefits Issue

- CAFII welcomes the AMF's invitation for further discussion on CAFII's proposed wording modifications to the Fact Sheet and Notice of Rescission, with the goal of finding solutions that will serve consumers' interests.
- The industry would request assurances from the AMF that enforcement and penalties will not be applied to any distributor who is not providing the Fact Sheet and Notice of Rescission after December 31, 2022.
- **To date, a mutually acceptable solution has not been reached between CAFII and the AMF.**



A Primer On Credit Card-Embedded Insurance Benefits

Canada's Credit Card Marketplace is Extremely Crowded and Competitive

- On average, each Canadian has at least two credit cards.
- Over 76.2 million credit cards were in circulation in 2021.
- 78% of Canadians have credit cards linked to some form of rewards/points program.
- 78% of Canadians have credit cards with annual fees.
- In 2016, total Point of Sale credit card transactions totaled more than \$462 billion.
- Source: <https://reviewlution.ca/resources/credit-card-statistics-canada/>



Reasons for Choosing a Credit Card are Varied

- Annual fees are the top reason for choosing or avoiding a credit card—22% of Canadians have chosen a no-frills card with no annual fees in 2021.
- Rewards/points programs are major attraction/incentive to choose a particular credit card.
- Credit limits, the interest rate on unpaid balances, and other features are also sources of competitive differentiation.



Reasons for Choosing a Credit Card are Varied

- To attract customers, credit card companies constantly strive to offer additional benefits — hence the embedding of such insurance benefits as product warranty extension, travel (health, trip interruption, baggage loss) insurance, and rental vehicle insurance.
- Credit protection (life, critical illness, disability, loss of employment insurance) may be offered to customers by some credit card distributors, but these would be optional coverages, are not embedded in the card, and as such require express consent separate from the credit card.



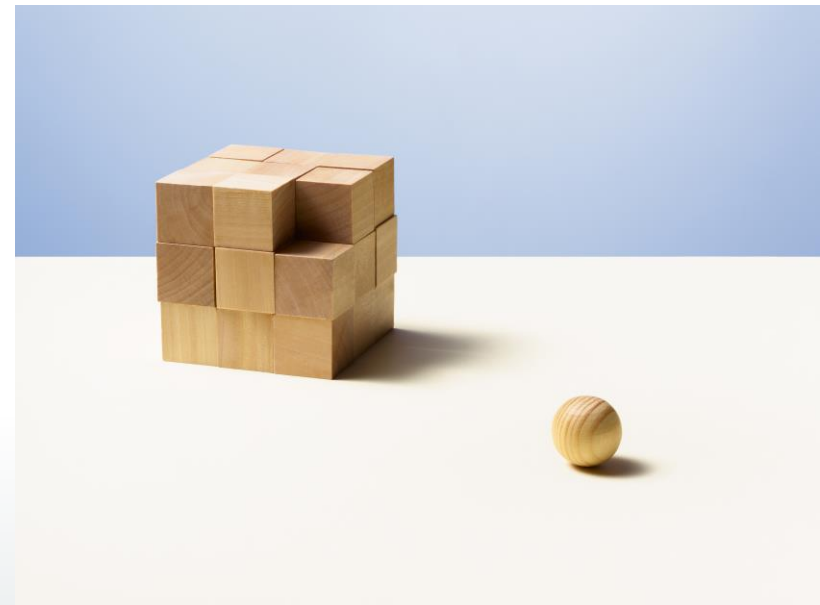
Embedded Insurance Benefits Are Just One of a Hierarchy of Reasons for Choosing a Credit Card

- To put embedded insurance up-front as part of the application conversation, with immediate provision of documentation on the insurance, would cause confusion for consumers and undermine a productive conversation about the credit card's comparative features and overall value proposition.



There is No Mechanism for “Opting Out” of a Benefit Embedded in a Credit Card

- There is no mechanism for legally opting out of an insurance benefit or any other benefit embedded in a credit card, and there is no way to track individual preferences.
- Credit cards, along with an embedded suite of benefits in some cases, are mass products designed for broad market segments of millions of customers; and the value proposition does not allow for individual customization at current price points.



Even if it were possible, there is No Benefit to the Consumer for “Opting Out” of a Benefit Embedded in a Credit Card

- Cancelling the insurance would diminish the benefits to the customer—they would have a card with fewer or potentially no benefits.
- Clients would be left unprotected, with no corresponding reduction in fees.



Credit Cards are Governed by a Legal Contract

Customers can choose to accept the legal contract with the financial institution distributor of the credit card or decline it (and thereby the credit card); but they cannot modify the contract.

- Customers cannot modify the legal contract or opt out of the benefits that are part of the embedded suite that comes with a particular credit card.
- They can always choose a different card, with different or no benefits, if they so desire.



Some Credit Cards Mandate Insurance

- Contracts with Visa/Mastercard require the card issuer (for example – a Bank) to adhere to Card Product rules.
- Visa/Mastercard lay out product rules whereby benefit levels (service, lounge, rewards, insurance) must be included with cards. The more upscale the card, the more benefits, including insurance, it must have.
- To suggest that a customer could opt out/cancel insurance would be a violation of the contract held with the Visa/Mastercard networks.

If a client does not want insurance on their card they need to pick a basic card with no insurance.



Credit Card-Embedded Insurance Benefits Arise From A Contract Between A Distributor And An Insurer

The contract of insurance is between a distributor and an insurer. Holders of the credit card are enrolled in a group insurance policy for travel medical and health insurance. For these products, they have no premium to pay and do not receive an individual insurance policy, but rather they are issued a certificate of insurance.

- As such, customers cannot “opt out” of the embedded insurance, but they can choose not to take that particular credit card or to cancel the card after it has been issued.
- Also, the insurer/underwriter does not receive or collect any information about the enrolled credit card holder, until such time as a claim is made.



CAFII Members Are Not Comfortable Distributing Misleading Documents to Consumers

- The information set out in the Fact Sheet and Notice of Rescission is misleading in the case of credit card-embedded insurance benefits.
- Financial institutions and other regulated entities should not be providing misleading information to customers.



Why Are Longer Time-Frames Generally Required for Implementation of New Legislative or Regulatory Requirements?

Financial Institutions Have a Large Pipeline of Competing Systems and Process Changes

- Because of the sizeable number of competing priorities in large financial institutions, change management requires any new spend to fit into a development pipeline.
- This pipeline can be filled for up to two years out.
- Any new changes that are to be placed into the pipeline need to push out existing and approved changes.
- These existing and approved changes are often associated with managers' goals and could be part of what they are evaluated on.



Mortgages



Lines of credit
(secured/unsecured)



Credit cards



Loans

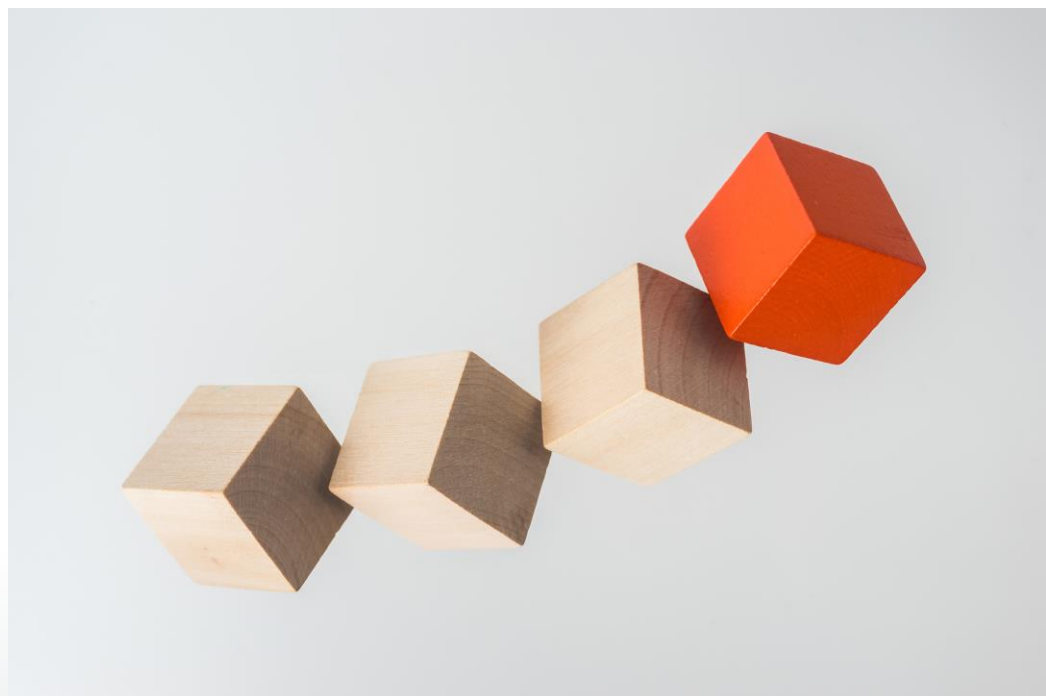
IT Resources are Stretched in FIs

- FIs struggle to find adequate IT resources, especially during challenging “War for Talent” times.
- Development resources are scarce and need to be prioritized.
- This results in challenges in implementing new IT projects quickly.
- If a regulatory change needs to be implemented within a short timeframe, it can mean that workarounds are required—such as manual processes.
- This can be inefficient and can result in a less than optimal consumer-facing outcome and customer experience.



Lack of Regulatory Harmonization Adds to Complexity of Change

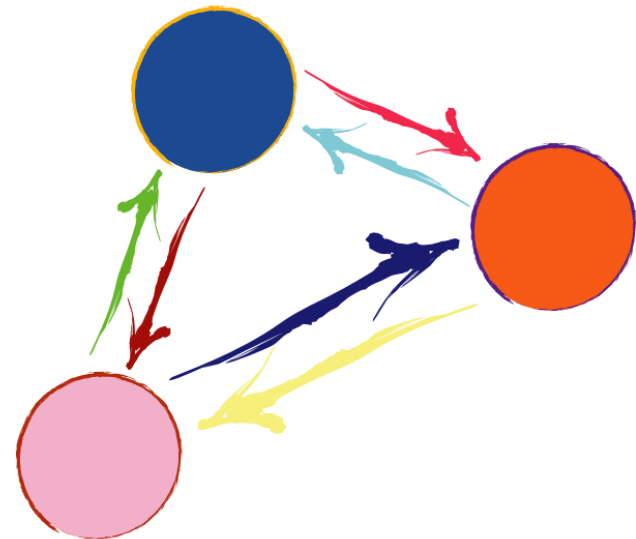
- As regulations are not harmonized across the country, building process flows to meet each province's requirements across multiple channels are complex and time consuming.
- The result is higher operational risk levels, risk to client and employee experience, higher technology risk.



Testing, Testing, Testing

FIs have millions of customers and accounts, and the privacy of personal information associated with those relationships must be protected.

- Any change needs to be rigorously tested.
- Changes are not siloed or stand-alone—they likely touch other systems, and as such increase operational risk, so the tests typically must be comprehensive and complex.
- Nothing is isolated and data and privacy must never be compromised; hence any change requires extensive resourcing.



Changes Cascade Through Processes

- Any change is not isolated to the technology element.
- Processes may need to be changed.
- Extensive staff training or retraining may be required.
- Customer-facing scripts may need to be adjusted.
- Policies and Procedures (P&P) may need to be updated.



At FRFIs, All Changes Occur in Both Official Languages, and Across Multiple Channels

- Any change that touches customers needs to be implemented in both French and English.
- Customers expect to be able to access multiple channels, which update each other; so a change may need to happen in branches, at call centres, and in digital channels.
- In these multiple channels, FI's need to ensure regulatory obligations are met, along with ensuring the client and employee experience are not compromised.





- Appendix A
Proposed Changes (in Asterisks *) by CAFII to Fact
Sheet and Notice of Rescission for Credit Card-
Embedded Insurance Benefits

Making insurance simple and accessible for Canadians
Rendre l'assurance simple et accessible pour les Canadiens

The purpose of this fact sheet is to inform you of your rights.
It does not relieve the insurer or the distributor of their obligations to you.

LET'S TALK INSURANCE!

Name of distributor: _____

Name of insurer: _____

Name of insurance product: _____

I
Reserved for use by the insurer:

This fact sheet cannot be modified



IT'S YOUR CHOICE

You are **never** required to purchase insurance:

- that is offered by your distributor;
- from a person who is assigned to you; or
- to obtain a better interest rate or any other benefit.

Even if you are required to be insured, **you do not have to** purchase the insurance that is being offered. **You can choose** your insurance product and your insurer ^{**}.

**** This does not apply to insurance included with your credit card**



HOW TO CHOOSE

To choose the insurance product that's right for you, we recommend that you read the summary that describes the insurance product and that must be provided to you.



DISTRIBUTOR REMUNERATION

A portion of the amount you pay for the insurance will be paid to the distributor as remuneration ^{**}.

The distributor **must** tell you when the remuneration exceeds 30% of that amount.



RIGHT TO CANCEL

The Act allows you to rescind an insurance contract, **at no cost**, within 10 days after the purchase of your insurance. However, the insurer may grant you a longer period of time. After that time, fees may apply if you cancel the insurance. **Ask** your distributor about the period of time granted to cancel it **at no cost**. ^{**}

If the cost of the insurance is added to the financing amount and you cancel the insurance, your monthly financing payments might not change. Instead, the refund could be used **to shorten the financing period**. **Ask your distributor for details**.

**** This does not apply to insurance included with your credit card. You can decide not to use the insurance or contact the card issuer to obtain a different credit card with other insurance or no insurance—it's your choice**

The Autorité des marchés financiers can provide you with unbiased, objective information.
Visit www.lautorite.gc.ca or call the AMF at 1-877-525-0337.

SCHEDULE 5

(s. 31)

NOTICE OF RESCISSION OF AN INSURANCE CONTRACT **

NOTICE GIVEN BY A DISTRIBUTOR

**** Note: This notice does not apply to insurance included with your credit card. You can decide not to use the insurance or to contact the card issuer to obtain a different credit card with other insurance or no insurance**

I

Section 440 of the Act respecting the distribution of financial products and services (chapter D-9.2)

THE ACT RESPECTING THE DISTRIBUTION OF FINANCIAL PRODUCTS AND SERVICES GIVES YOU IMPORTANT RIGHTS.

The Act allows you to rescind an insurance contract, without penalty, within 10 days of the date on which it is signed. However, the insurer may grant you a longer period.

To rescind the contract, you must give the insurer notice, within that time, by registered mail or any other means that allows you to obtain an acknowledgement of receipt.

Despite the rescission of the insurance contract, the first contract entered into will remain in force. Caution, it is possible that you may lose advantageous conditions as a result of this insurance contract; contact your distributor or consult your contract.

After the expiry of the applicable time, you may rescind the insurance contract at any time; however, penalties may apply.

For further information, contact the Autorité des marchés financiers at 1-877-525-0337 or visit www.lautorite.qc.ca.

NOTICE OF RESCISSION OF AN INSURANCE CONTRACT -Note: Not applicable for insurance coverage(s) included with a credit card

To: _____

(name of insurer)

(address of insurer)

Date: _____ (date of sending of notice)

Pursuant to section 441 of the Act respecting the distribution of financial products and services, I hereby rescind insurance contract no.: _____ (number of contract, if indicated)

Entered into on: _____ (date of signature of contract)

In: _____ (place of signature of contract)

(name of client)

(signature of client)

L'objectif de cette fiche de renseignements est de vous informer sur vos droits.
Elle ne dégage ni l'assureur ni le distributeur de leurs obligations envers vous.

PARLONS ASSURANCE !

Nom du distributeur : _____

Nom _____ de _____ l'assureur _____ :

Nom du produit d'assurance : _____

Espace réservé à l'assureur :

Cette fiche ne peut être modifiée.



LIBERTÉ DE CHOISIR

Vous n'êtes jamais obligé d'acheter une assurance :

- qui vous est offerte chez votre distributeur;
- auprès d'une personne que l'on vous désigne;
- ou pour obtenir un meilleur taux d'intérêt ou tout autre avantage.

Même si vous êtes tenus d'être assuré, **vous n'êtes pas obligé d'acheter l'assurance** que l'on vous offre présentement. C'est à vous de choisir votre produit d'assurance et votre assureur. **

**** Ne s'applique pas à l'assurance incluse avec votre carte de crédit.**



COMMENT CHOISIR

Pour bien choisir le produit d'assurance qui vous convient, nous vous recommandons de lire le sommaire qui décrit le produit d'assurance et que l'on doit vous remettre.



RÉMUNÉRATION DU DISTRIBUTEUR

Une partie de ce que vous payez pour l'assurance sera versée en rémunération au distributeur.

Lorsque cette rémunération est supérieure à 30 %, il a l'obligation de vous le dire.



DROIT D'ANNULER

La Loi vous permet de mettre fin à votre assurance, **sans frais**, dans les 10 jours suivant l'achat de votre assurance. L'assureur peut toutefois vous accorder un délai plus long. Après ce délai, si vous mettez fin à votre assurance, des frais pourraient s'appliquer. **Informez-vous** auprès de votre distributeur du délai d'annulation **sans frais** qui vous est accordé. **

Lorsque le coût de l'assurance est ajouté au montant du financement et que vous annulez l'assurance, il est possible que les versements mensuels de votre financement ne changent pas. Le montant du remboursement pourrait plutôt servir à **diminuer la durée du financement**. **Informez-vous** auprès de votre distributeur.

**** Ne s'applique pas à l'assurance incluse avec votre carte de crédit. Vous pouvez décider de ne pas utiliser l'assurance ou contacter l'émetteur de la carte pour obtenir une carte de crédit différente avec une autre assurance ou sans assurance - c'est votre choix.**

L'Autorité des marchés financiers peut vous fournir de l'information neutre et objective.
Visitez le www.lautorite.qc.ca ou appelez-nous au 1 877 525-0337.

ANNEXE 5 (a.32)

AVIS DE RÉSOLUTION D'UN CONTRAT D'ASSURANCE ** AVIS DONNÉ PAR LE DISTRIBUTEUR

**** Nota :** Cet avis ne s'applique pas à l'assurance incluse avec votre carte de crédit. Vous pouvez décider de ne pas utiliser l'assurance ou de contacter l'émetteur de la carte pour obtenir une carte de crédit différente avec une autre assurance ou sans assurance.

Article 440 de la Loi sur la distribution de produits et services financiers (chapitre D-9.2)

LA LOI SUR LA DISTRIBUTION DE PRODUITS ET SERVICES FINANCIERS VOUS DONNE DES DROITS IMPORTANTS.

La Loi vous permet de mettre fin au contrat d'assurance, **sans pénalité**, dans les 10 jours suivant la date de la signature du contrat d'assurance. L'assureur peut toutefois vous accorder un délai plus long. Pour mettre fin au contrat, vous devez donner à l'assureur, à l'intérieur de ce délai, un avis par poste recommandée ou par tout autre moyen vous permettant de recevoir un accusé de réception.

Malgré l'annulation du contrat d'assurance, le premier contrat conclu demeurera en vigueur. Attention, il est possible que vous perdiez des conditions avantageuses qui vous ont été consenties en raison de cette assurance; informez-vous auprès du distributeur ou consultez votre contrat.

Après l'expiration du délai applicable, vous avez la faculté d'annuler le contrat d'assurance en tout temps, mais des pénalités pourraient s'appliquer.

Pour de plus amples informations, communiquez avec l'Autorité des marchés financiers au 1-877-525-0337 ou visitez le www.lautorite.qc.ca.

AVIS DE RÉSOLUTION D'UN CONTRAT D'ASSURANCE **** Nota :** Non applicable pour les couvertures d'assurance incluses avec une carte de crédit.

À:

_____ (nom de l'assureur)

_____ (adresse de l'assureur)

Date: _____ (date d'envoi de cet avis)

En vertu de l'article 441 de la Loi sur la distribution de produits et services financiers, j'annule le contrat d'assurance no: _____ (numéro du contrat s'il est indiqué)

conclu le: _____ (date de la signature du contrat) à: _____

_____ (lieu de la signature du contrat)

_____ (nom du client)

_____ (signature du client)

Le distributeur doit remplir au préalable cette section.