

Agenda Item 5(a)(3)**October 25/22 EOC Meeting****Background**

CAFII met with Mario Beaudoin and Charlene Boucher on January 19, 2022 (***see Appendix A***) to discuss a variety of issues, one of which related to an October 2021 submission by CAFII on *AMF Opportunities To Reduce Industry Regulatory Burden* in which, among many points, CAFII said that the requirement in Quebec's Distribution without a Representative (DWR) regime – upon the introduction of a new product -- to list all branches and agencies where the product was being offered was burdensome and time-consuming. At that January 19, 2022 meeting, Mr. Beaudoin made the following comment:

He understood from CAFII's October 2021 written submission on AMF Opportunities To Reduce Industry Regulatory Burden that the requirement for regulated entities to list all distributors (for example, all branches of a bank offering credit protection insurance or offering credit cards with embedded insurance benefits; or all travel agencies offering a particular travel insurance product) was onerous.

As a result, the AMF was currently engaged in an internal "data base overhaul and related technology upgrade exercise," the net result of which will be that regulated entities will soon be able to add or update an 'all distributors list' via a simple email instruction exchange with an AMF staff member; and the Autorite will then be able to look after the addition or update for the regulated entity.

The AMF will be reaching out to CAFII members and other industry players directly about this; and this burden reduction initiative will be phased in gradually over time, with a group of firms becoming beneficiaries of it in each of several successive phases.

However, because CAFII members had not been approached on this matter since that January 19/22 commitment by Mr. Beaudoin, CAFII reached out to him in early September and asked for an update on this matter.

Mr. Beaudoin responded quickly saying that the timing of our update request was ideal, and that he would like to set up a meeting to discuss this and other matters. A meeting was subsequently set up from 12 to 1:00 pm on 15 September, 2022 with the following comments and a three topic agenda proposed by Mr. Beaudoin (agenda was modified slightly by Mr. Beaudoin in the 15 September meeting itself):

Bonjour Brendan et Keith,

Thank you for your replies. It will be a pleasure to discuss on the 15th of September. I will introduce you to our new Senior Director Christian Beaulieu who overlooks my Direction as well as the Directions in charge of the inscription of representatives and the one in charge of qualifications. During our meeting, we will follow up with you about:

- 1. Resiliation notice and information sheet (CAFII translation: Notice of Rescission and Fact Sheet; and their application to credit card-embedded insurance benefits)*
- 2. Overview of annual disclosure results for 2021 and next steps*

3. *Disclosure of distributors' branches*

*Best regards,
Mario*

Participants at the 15 September, 2022 Meeting

From the AMF

- Mario Beaudoin, Directeur des pratiques de distribution alternatives en assurance (Director of Alternative Distribution Practices in Insurance)—*reports to new boss Christian Beaulieu who, in turn, reports to the Eric Jacob, Superintendent, Client Services and Distribution Oversight*
- Charlène Boucher, Analyst on Mario Beaudoin's team
- Christian Beaulieu, new boss to Mario Beaudoin—Directeur principal des opérations d'encadrement de la distribution (Senior Director, Operations and Distribution)

From CAFII

- Keith Martin, CAFII
- Brendan Wycks, CAFII

Key Takeaways

Fact Sheet and Notice of Rescission and Their Application to Credit Card-Embedded Insurance Benefits

The meeting began with Mr. Beaudoin introducing Christian Beaulieu, Mr. Beaudoin's new boss (formerly Louise Gauthier, Senior Director of Distribution Framework Policies) and a new Senior Director who reports to Eric Jacob, Superintendent, Client Services and Distribution Oversight.

Mr. Beaudoin said that "Mr. Beaulieu will be keeping an eye on me" and smiled. Mr. Beaudoin explained that Senior Director oversight of his portfolio of activities was previously divided between Louise Gauthier and Antoine Bedard, but now Mr. Beaulieu had joined the group of Senior Directors who report to Mr. Jacob and would be his sole boss.

Mr. Beaulieu's background is in the contract negotiation (procurement/purchasing and vendor management) area of business, including at the AMF, but in his new role he would be focusing on other things including DWR/alternative distribution practices, certification, and the related exam process. Mr. Beaulieu was primarily a passive observer/listener during the meeting, but in his self-introduction at the beginning he said that he was learning this part of the business and that Mr. Beaudoin "was an excellent teacher." He said he would be among the small group of AMF staff executives attending the 11 October, 2022 CAFII and AMF informal liaison lunch and Industry Issues Dialogue meeting in Montreal.

Mario Beaudoin then addressed the issue of distribution of the Fact Sheet and Notice of Rescission to holders of credit cards with embedded insurance benefits. However, he did not speak at all about the wording modifications to those two documents proposed by CAFII in January 2022, which recommended adding an asterisk (*) to the sections of those two documents which made inaccurate statements with respect to credit card-embedded insurance benefits, such the *ability to cancel the insurance at no cost* by qualifying those words with the following added statement:

**** 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.***

Instead, Mr. Beaudoin reiterated previously-advanced arguments that the Fact Sheet “could not be modified” and that its distribution was required to conform with the Regulation respecting Alternative Distribution Methods (RADM).

He then asked his Analyst Charlène Boucher to screen-share some counter-proposed wording modifications to the Fact Sheet and Notice of Rescission from the AMF.

Ms. Boucher began by saying that “with imagination” this issue could be easily resolved, by simply adding to the Fact Sheet—and to the Notice of Rescission—that any consumer who did not want the insurance embedded in their credit card could simply inform the card distributor of that desire, and the distributor could then “write an email to the insurer telling them the consumer did not want the insurance, and to exempt them from that.” Specifically, the AMF counter-proposed wording to be added to the ‘insurance section’ of the Fact Sheet (where the insurer can add some messages) would read as follows:

Credit card and debit card insurance

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.

Note that the distributor does not receive any remuneration for offering this product.

or

Note that the distributor receives a remuneration of (\$X or X% of the insurance premium) for offering this product.

or

Note that the distributor receives a remuneration of less than 30% of the insurance premium for offering this product.

Keith Martin quickly said that the wording modifications and related underlying ‘exception management’ process being proposed by the AMF as a solution would be even more problematic for CAFII members and the industry generally than the original wording in the Fact Sheet and Notice of Rescission. Essentially, the exception management/sidebar process being proposed for credit card-embedded insurance benefits would be extraordinarily difficult, if not impossible, to implement. This would not be something which CAFII members would be able to do, and the complexity of such an exception management process was far more difficult than seemed to be appreciated.

CAFII’s Co-Executive Directors also noted that the AMF’s proposed solution seemed to move the Autorité squarely into the realm of ‘product design’ and regulatory over-reach. It was also noted that while some industry players might be willing to try to apply the AMF’s proposed solution, there would almost certainly be others that would view it as far too complex and choose to cease offering credit card-embedded insurance benefits to Quebecers.

What was clear from this exchange is that either the AMF does not understand the basic elements of how credit card-embedded insurance benefits work, or it is deliberately proposing solutions that cannot realistically be adopted, in order to imply that CAFII and its members are not willing to co-operate in finding a workable solution.

Keith Martin queried why if the section of the Fact Sheet reserved for insurer can have language added to it, why can't the wording modifications proposed by CAFII (and by THIA) in January 2022 not be added there?

Further, since the AMF has previously indicated that the Notice of Rescission can indeed be modified, why can't the wording modifications proposed by CAFII (and by THIA) in January 2022 not be added to the Notice of Rescission?

Another concerning AMF assertion made in this meeting – which CAFII will need to address in the very near future -- is Mr. Beaudoin's statement that he would like to find a solution to this issue before CAFII members implement their approved Action Plans for bringing credit card-embedded insurance benefits into conformity with the RADM – which, in most cases, will occur by the end of calendar year 2022, which Mr. Beaudoin said was strongly-to-be-desired so that members would not need to go back and modify their approach after they have implemented their current Action Plans. It appears that Mr. Beaudoin does not understand that if the current Action Plans, which for nearly all members do not involve distribution of the Fact Sheet and Notice of Rescission, are changed and these documents do need to be distributed to holders of credit cards with embedded insurance benefits, it is not possible to make that happen within the same time frame; and CAFII members would have to provide the AMF with a new, achievable project timeline for the distribution of those two documents to card holders.

Mr. Beaudoin said that other, non-CAFII member distributors/insurers of credit cards with embedded insurance benefits had been distributing the Fact Sheet and Notice of Rescission to card holders during 2022, and there had been no complaints or issues raised by them or their card holders.

Keith Martin said that CAFII members would, in principle, continue to be very uncomfortable distributing documents that they considered to inaccurate and misleading for consumers.

Mr. Beaudoin concluding discussion of this issue by stating that there were many other more important issues for his team to focus on at the present time; that this was not a priority for the AMF at all; and that they would not enforce or apply penalties upon any distributor who was not distributing the Fact Sheet and Notice of Rescission to holders of credit cards with embedded insurance benefits. He agreed to take another look at the Fact Sheet and Notice of Rescission wording modifications proposed by CAFII (and by THIA) in January 2022, and also suggested that CAFII and the AMF meet again soon to discuss this issue further.

2021 Distribution Without a Representative Profile CAFII

Mario Beaudoin then shifted to a Powerpoint presentation titled *2021 Distribution Without a Representative Profile CAFII*. The findings in this presentation were based on analysis of three years of data from an AMF-exclusive annual disclosure survey of DWR regime participants, and included a comparison of the performance on certain metrics of CAFII members versus non-CAFII members. Where the AMF had found that the data provided by survey respondents did not make sense, or had changed more than expected from year to year, or deviated from general industry norms, the AMF had gone back to those respondents and asked them to review their data. On that basis, Mr. Beaudoin said that he has a very high degree of confidence in the data and the resulting analytical findings.

Mr. Beaudoin said that the AMF found that CAFII members represented 68% of the Distribution without a Representative (DWR) marketplace in Quebec in 2021.

<u>Highlights</u>		
	<u>CAFII MEMBERS</u>	<u>OVERALL MARKET</u>
Amount of written premium	\$1,19B	\$1,75B
Amount paid out in compensation/benefits (following a claim)	\$429M	\$524M
Average claims denial rate for all products offered	13%	14%
Number of claims processed	98,000	140,000
Number of active insurers	11	39
Number of products offered	227	584

Mr. Beaudoin then used a new AMF-coined aggregated insurance category acronym which CAFII had not heard before, the “Debtor Life, Health, and Employment (DLHE) insurance products. He said that CAFII members had a 13% claims denial rate in this sector of the industry, versus 14% for the overall market.

One slide in this Powerpoint presentation said that “Although the volume of business underwritten in this market segment by the insurer members of CAFII is still quite minimal, the AMF wished to reiterate its concerns about the high claims denial and remuneration rates for these products, which are mainly distributed through automobile dealerships.”

Mr. Beaudoin then focused on “claims denial rates of the DLHE insurance products” and he shared a four quadrants graph in which one axis was “claims denial rate” and the other axis was “return of premium to insureds” (an inverse form of the loss ratio). Each insurer’s submitted data from the AMF annual disclosure survey was plotted on this graph, in one of the four quadrants—Zone 1 was low claims denial rate and high return of premium, and was “a good place to be”; Zone 2 was low claims denial rate and a low return of premium; Zone 3 was a high claims denial rate and a high return of premium, in which several CAFII members were situated, Mr. Beaudoin indicated; and Zone 4 was a high claims denial rate and a low return of premium to insureds, which was a problematic zone that the AMF wanted to better understand (most CAFII and industry members were in this zone, Mr. Beaudoin asserted).

Mr. Beaudoin then had to rush through some slides in the DWR Powerpoint on travel insurance, which he said were sometimes difficult to interpret because of all the issues that the industry has had to deal with in recent years. One slide in this section indicated that CAFII members had a 14% average claims denial rate, versus 17% for the overall market. Mr. Beaudoin emphasized a finding that “Products involving the payment of a specific premium (travel agencies, banks and credit unions) had a 17% claims denial rate, while “Products included when signing up for a credit card (built-in)” had a 41% claims denial rate.

Information Letter and Survey That Will Be Going Out To All Underwriters of All Debtor Life, Health, and Employment (DLHE) Insurance Products Within The Next Several Weeks

Mr. Beaudoin said that as a next step, each insurer that had been included in the DLHE statistical analysis survey would receive a transmittal letter with the overall statistical findings, along their own performance relative to industry norms; and, in addition, a special letter and short survey would be sent to those insurers identified as underperforming (Zone 4, for example) with a request for an explanation as to why their results fall within an undesirable Zone in the analysis; and what was their plan for addressing this matter going forward. Mr. Beaudoin said he expected to require affected insurers to provide their response within three months of receiving the AMF letter and survey package.

Distribution Notification for New DWR Products to be Changed to Head Office Only

Finally, Mr. Beaudoin said that he had some good news to share with CAFII; and then reported that because our Association members had indicated that the requirement for them to provide a list of all distribution locations (branches, agencies) for new products in the DWR regime was time-consuming and burdensome, the AMF had identified an internal technological solution such that, in the very near future (this change to be announced before the end of 2022), the introduction of new DWR insurance products (not just embedded products) would only require the head office location to be listed on a go-forward basis.

Recommended Next Steps

- Given that on October 11, 2022 CAFII and the AMF are meeting for an “Industry Issues Dialogue” and under the agreed-upon ‘Shared Agenda Approach,’ each side will make one or two presentations on topics of mutual interest:
 - based on the outcomes of the September 15, 2022 meeting with the AMF and the ensuing/follow-up discussion at the 20 September CAFII EOC meeting, CAFII should make one presentation to the AMF staff executives on 11 October titled something like
 “Removing The Barriers to Doing DWR Insurance Business in Quebec,” which would be comprised of two or three sub-sections including
 -“A Primer on Credit Card-Embedded Insurance Benefits”; and
 -“Why Does CAFII Always Request 12 to 18 Months Transition Time for Its Members to Implement Changes Resulting from New or Amended Insurance Legislation and Regulations?”
- CAFII recommends **not** following up re a further meeting with Mario Beaudoin on the Fact Sheet and Notice of Rescission until after the 11 October, 2022 meeting with his AMF staff executive superiors; and
- CAFII recommends asking Mario Beaudoin, shortly after 11 October, to present the AMF findings around “2021 DWR Market Profile CAFII” in a webinar for CAFII members only.

Highlights Summary of CAFII Meeting with Mario Beaudoin and Charlène Boucher, AMF, on 19 January, 2022

Keith Martin and Brendan Wycks met with Mario Beaudoin and Charlène Boucher on 19 January, 2022 from 3:00 to 4:00 pm EST.

The meeting was extremely cordial and Mr. Beaudoin and Ms. Boucher were open, engaged, and friendly.

Following are the highlights of the meeting:

Action Plans For Bringing Credit Card-Embedded Insurance Benefits Into Compliance With Regulation Respecting Alternative Distribution Methods (RADM): Mario Beaudoin reported that Action Plans had been received from many CAFII members and other industry players in mid-December, and they were generally of a good quality. “We are generally happy with the Action Plans and there are just a few ‘points of vigilance’ that we need to follow-up on with a small number of players. Most of what we’ve received is in line with our expectations,” he said.

Mr. Beaudoin advised that 186 (“just shy of 200”) credit card-embedded insurance benefits had been ‘disclosed’ to the AMF via the Action Plans. In comparison, in the prior industry disclosure to the AMF on insurance products distributed without a representative, 450 such products were disclosed. Mr. Beaudoin said he was impressed by how many credit card-embedded insurance products there are in the marketplace.

Combining of Different Classes/Types of Insurance Benefits Into A Single Product Summary Is Not Acceptable: Ms. Boucher had shared a report with Mr. Beaudoin prior to the meeting with CAFII, which indicated that two industry players had submitted an Action Plan in which they had combined quite different classes/types of embedded insurance benefits into a single Product Summary. That approach is not acceptable to the AMF, Mr. Beaudoin emphasized, because it will not serve consumers well.

Mr. Beaudoin elaborated that including all travel insurance embedded benefits (health; trip cancellation; trip interruption; baggage loss, etc.) was fine, but warranty-type embedded insurance benefits and rental vehicle-related embedded insurance benefits cannot be grouped into the same Product Summary as embedded travel insurance benefits. Warranty-type embedded insurance benefits and rental vehicle-related embedded insurance benefits are distinct classes/types of insurance that must be separated into their own Product Summary, he asserted.

Ms. Boucher advised that she would be following up with the two firms that had made this *faux pas* in their Action Plan submissions; and requiring them to decouple the distinct types of embedded insurance benefits into separate Product Summaries and to resubmit to the AMF in February.

Asking The Customer for Consent to Provide The Product Summary Later Does Not Remove The Requirement To Provide Pre-Sale Disclosure: Mr. Beaudoin said that some of the Action Plans submitted make reference to the firm’s intention in certain situations -- for example, in a call centre sale of insurance -- to ask the customer for consent to send him/her/them the Product Summary later, subsequent to that sales call.

Mr. Beaudoin said that while that approach was acceptable under the RADM, it did not remove the disclosure obligation to disclose to the consumer “pre-sale” what is in the offer of insurance. He emphasized that the whole point behind the Product Summary, as a key component of RADM compliance, is that it is intended to provide “pre-contract disclosure”; and once a customer is actually insured, he/she/they should consult the insurance contract or certificate of insurance, rather than the Product Summary.

As such, RADM compliance is not achieved if the key information about the insurance is not provided to the customer until after the offer is accepted. If the customer does not receive the actual Product Summary pre-sale, then they still need to have the insurance described to them in adequate detail before the sale is actually confirmed, including key information such as coverage features, limitations, and exclusions.

Particular Concern In The Case Of Credit Cards Secured ‘Over The Internet’ and Actively ‘Delivering’ The Product Summary Versus Just Making It Available:

Mr. Beaudoin said that some companies that permit consumers to apply for and secure a credit card over the internet included in their Action Plans a reference to “making the Product Summary available.” However, the RADM compliance requires “delivery” of the Product Summary to the consumer, for the purpose of drawing directly to his/her/their attention key information such as coverage features, limitations, and exclusions.

Mr. Beaudoin elaborated on this point, stating that simply telling/directing the consumer as to where to find the Product Summary is not good enough. What’s required is direct and active, not passive, delivery of the Product Summary; and the onus should not be placed on the customer to find it. And even when a sale is completed in person, the Product Summary cannot just be handed over to the customer and left at that, it must be described and explained as well. This is not a legal disclosure; it is a way to help the customer make the right decision, Mr. Beaudoin stressed.

In that connection, Mr. Beaudoin expressed the AMF’s concern about some companies’ Action Plan-stated intention to merely provide an internet customer with a link/URL to the Product Summary on the insurer’s website, opining that “the information posted at internet links often quite rapidly becomes outdated and incorrect.”

However, in response to a question from Brendan Wycks, Mr. Beaudoin indicated that the AMF would be open to further discussion/negotiation about the use of internet links to fulfil the Product Summary disclosure obligation, if the link was to a PDF and there was a commitment on the regulated entity’s part to constantly monitor the link and the related PDF to ensure that they are always functional and up-to-date.

Action Plans ‘Conditional’ Upon The AMF’s Modification of Fact Sheet and Notice of Rescission By A Certain Date Are A Concern: Mr. Beaudoin said that some of the Action Plans submitted state that the commitments and related dates set out therein are conditional upon the AMF confirming its position on the applicability/wording of the Fact Sheet and Notice of Rescission by a certain date, such as 31 March, 2022.

However, he emphasized that whatever the outcome of the review of the Fact Sheet and Notice of Rescission turns out to be, a company is still expected to meet all of the other commitments in its Action Plan; and he was dismissive of any conditions of this nature being included in an Action Plan.

A 31 December, 2022 Target Date For Full Action Plan Implementation Is Prolonged, But Yet Acceptable To The AMF: Mr. Beaudoin said that the AMF would accept the 31 December, 2022 target date for full implementation that was specified in many Action Plans, but that he was surprised by how long it would take to implement the changes necessary to become compliant with the RADM. CAFII explained that in many member companies, there are often hundreds of projects competing for resources, and that the changes necessary to bring credit card-embedded insurance benefits into compliance with the RADM would not be simple to implement; and they would impact training, communication, processes, and IT. Mr. Beaudoin responded that that was a valid point and he understood the challenges.

Additional/Tangential Points of Discussion

AMF Initiative To Reduce Regulatory Burden Upon The Industry: Attempt to Simplify Disclosure of All Distributors: Mr. Beaudoin said that he understood from CAFII's October 2021 written submission on *AMF Opportunities To Reduce Industry Regulatory Burden* that the requirement for regulated entities to list all distributors (for example, all branches of a bank offering credit protection insurance or offering credit cards with embedded insurance benefits; or all travel agencies offering a particular travel insurance product) was onerous.

As a result, the AMF was currently engaged in an internal "data base overhaul and related technology upgrade exercise," the net result of which will be that regulated entities will soon be able to add or update an 'all distributors list' via a simple email instruction exchange with an AMF staff member; and the Autorite will then be able to look after the addition or update for the regulated entity.

The AMF will be reaching out to CAFII members and other industry players directly about this; and this burden reduction initiative will be phased in gradually over time, with a group of firms becoming beneficiaries of it in each of several successive phases.

Proposal for Regular Meetings with CAFII: Mr. Beaudoin said that he felt that more regular communication and dialogue meetings between the AMF and CAFII would be mutually beneficial, as they would help to avoid any communication gaps or miscommunications.

In discussion with CAFII's Co-Executive Directors, Mr. Beaudoin and Ms. Boucher concurred with their recommendation that a quarterly frequency for such meetings would be ideal to begin with, at least for the first year or two, after which the frequency could be re-evaluated.

Next Steps: Ms. Boucher will capture all of the above-noted industry-level feedback points on the Action Plans in a draft letter; send that draft letter to Keith Martin and Brendan Wycks by February 4/22 for review and feedback; and, after receiving their feedback, send out a revised/final draft of the letter to all affected industry contacts in early February.