

## SUMMARY OF CAFII MEETING WITH FCAC ON CAFII MEMBERS'

*Agenda Item 6(a)(3)*

*March 24/20 EOC Meeting*

### **Background**

CAFII met with Financial Consumer Agency of Canada (FCAC) officials on 9 March, 2020 in Ottawa, to share information about the sales practices of CAFII members and the fair treatment of customers.

### **Participants**

#### **From the FCAC**

Teresa Frick, Acting Managing Director: Supervision & Promotion Branch  
Stephen Wild, Senior Research & Policy Officer  
Laury Johnson, Senior Supervisor  
Vincent Gadbois, Supervision Officer  
Ruth Stephen, Director: Research, Policy & Education  
Véronique Milot, Manager: Consumer Education  
Dave Hayes, Research & Policy Officer  
Thierry Plante, Senior Consumer Education Officer

#### **From CAFII**

Chris Lobbezoo, Vice-President, Creditor Product & Sales Distribution, RBC Insurance (CAFII Board Vice-Chair)  
Martin Boyle, Manager, Compliance and Operational Risk, BMO Insurance (CAFII Board Secretary and Chair, Executive Operations Committee)  
Dana Easthope, Chief Legal Officer, Chief Compliance Officer, and Corporate Secretary, Canadian Premier Life Insurance Company (Member, CAFII Executive Operations Committee)  
Rob Dobbins, Senior Director, Compliance, Assurant (Member, CAFII Executive Operations Committee)  
Brendan Wycks, CAFII Co-Executive Director  
Keith Martin, CAFII Co-Executive Director

### **Summary of Meeting**

After participants at the meeting introduced themselves, Keith Martin delivered a Powerpoint presentation of approximately 35 slides – developed for CAFII by Dog and Pony Studios -- on CAFII members' credit protection insurance (CPI) sales practices and related fair treatment of consumers considerations.

The presentation identified the major consumer debt obligations in association with which CPI is offered as optional protection, namely mortgages, lines of credit (secured or unsecured), credit cards, and loans. The different types of risk which CPI protects against were highlighted -- namely death, disability, critical illness, and job loss -- along with the fact that a benefit under this group insurance can result in total payout of the insured's debt, periodic payments against the debt for a specified period of time, or postponement of payments, depending upon the terms of the particular policy.

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The next section of the presentation noted the high levels of satisfaction reported by consumers with credit protection insurance and reported CPI's high claims payout ratio, based on recent CAFII-commissioned research carried out by Pollara Strategic Insights. Background on the 13 members of CAFII was also provided.

The presentation then provided statistical information to demonstrate that Canadians, especially those in middle and lower income brackets, are vastly uninsured or underinsured, at precisely a point in time when Canadians' are carrying very high levels of debt obligations.

The presentation then focused on the importance of letting Canadians know about the option of credit protection insurance, and the risks to Canadians of not having insurance. It was also noted that this conversation is not always easy, as these are not topics most people want to think about.

The next section of the presentation focused on the optional nature of the coverage, the sales practices of CAFII members including the importance of providing consumers with accurate information and consumer-friendly documentation, fair sales practices, oversight and monitoring of sales practices, and straight-forward, accessible complaints procedures.

The presentation concluded with a review of the regulatory environment, including CLHIA Guidelines and the CBA Code of Conduct for Authorized Insurance Activities, provincial regulation, and federal oversight.

During Mr. Martin's presentation of CAFII's Powerpoint deck, there was a modest amount of interactive dialogue, with FCAC attendees asking a number of questions and CAFII representatives adding clarifying comments, elaboration, and illustrative examples in support of Mr. Martin's remarks, both of which led to valuable sidebar discussion and education opportunities.

Following the conclusion of Mr. Martin's presentation of the CAFII deck, an open Q&A session ensued for about 45 minutes which was marked by highly engaged and interactive dialogue. The tone of the FCAC representatives was inquisitive and respectful, and they seemed genuinely interested in the points CAFII was making.

The FCAC representatives seemed to have some pre-conceived notions about how the CPI industry works, but they also seemed very open and receptive to our arguments and explanations intended to correct their misconceptions.

Teresa Frick, the FCAC's Acting Managing Director: Supervision & Promotion Branch, began by indicating that given the nature of how the Agency works, it will often hear about complaints from consumers but not about the positive issues, but that that did not mean there was not an appreciation for the industry's positive features.

In that connection, she said that complaints about credit card balance protection insurance (CCBPI) were the type of CPI-related complaint that most often come to the attention of the FCAC.

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She also noted that the industry, in her view, had taken very seriously the concerns expressed by the FCAC coming out of its Domestic Banks' Sales Practices Review, and that it had made important and positive reforms.

For example, Ms. Frick asserted that the FCAC was aware that in some banks, CCBPI is now being offered only by a dedicated team of individuals with a very high degree of expertise in the product, which she stated was viewed by the FCAC as a very positive development.

Ruth Stephen, the FCAC's Director: Research, Policy & Education, was interested in more information about the demographics of those who hold CPI, such as the average age, educational levels of customers, percentage of female versus male customers, etc. CAFII offered to follow-up and provide Ms. Stephen with those statistics from the Pollara Consumer Research project. She also referenced the value proposition project that CAFII mentioned on the cost of CPI versus term life, and said she would be interested in that information. We offered to also send her that information after the meeting.

Ms. Frick then launched a discussion topic on "who is this insurance meant for?," raising a concern that the insurance should only be sold to those who are eligible to make a claim. In that connection, she referenced, as an example, selling job loss insurance to a student who is not working full-time, and who is therefore not eligible to make a job loss claim.

This led to a discussion on these issues, with CAFII representatives emphasizing that eligibility for CPI coverage is an important element of the sales process; and that if a consumer who would not be eligible to make a claim is enrolled in CPI coverage, that would be a problem at the front end of the sales process. Controls and monitoring mechanisms are in place and continue to evolve to identify and rectify such a situation.

Ms. Frick agreed that problems with claims being denied are most often a by-product of inappropriate sales in the front end, and that this is where that situation could best be managed. She said that the sales practices of the banks in her view had improved significantly since the FCAC's publication of its Domestic Banks' Sales Practices Review Report, but that their sales processes will continue to be an area of focus for the FCAC and further progress will need to be part of the future.

The FCAC also asked about post-claims underwriting. Keith Martin responded that while CAFII members practise simplified underwriting, that was still underwriting that occurred at the time of product offer. To verify, at the time of a claim, the accuracy of the information originally provided by the insured, he emphasized, was claims adjudication, which was a completely legitimate procedure practised by the by the claims departments of all types of life and health insurance.

It was additionally noted that CPI has a high claims payout rate – for CPI life insurance, it's the same 95% of claims paid as is the industry norm for term life claims.

Chris Lobbezoo indicated that the business processes of CAFII member financial institutions are geared toward only accepting CPI applications that would result in a payout if a claim were made.

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Rob Dobbins highlighted the typical life cycle of an insured consumer's experience with CPI insurance products and the rigorous, ongoing monitoring which CPI insurers have in place, over the full extent of the product life cycle, to ensure that appropriate sales behaviour has occurred, which is evidenced by their strong focus on the "three cs: cancellations, claims, and complaints."

Martin Boyle emphasized that if a situation came to light where a consumer was enrolled in CPI that he/she was not eligible to make a claim on, that would not be an example of post-claims underwriting but rather a case of a defect in the original sales process. There could be two causes, he noted, one of which was an inappropriate sales process, and the other incorrect information provided at the time of sale by the customer. In either case, the situation is best addressed at the point of sale.

A follow-up FCAC question was how could it be that post-claims underwriting was not occurring if a customer could obtain insurance without being asked any health-related questions at the time of application. Chris Lobbezoo explained that if a customer was accepted into the CPI group policy without questions being asked, then there was acceptance on the part of the insurer/underwriter and the distributor that some of the customers may have pre-existing medical conditions, and that would lead to any resulting claims from such insureds being paid despite their having a pre-existing medical condition.

Chris Lobbezoo also advised that CPI is a simple insurance product which is geared to younger, middle class consumers. And over time, as a person accumulates assets and increases his/her net worth, he or she may "outgrow" the main utility/value proposition of CPI and graduate to other insurance products. Ms. Frick said that that explanation made sense to her and she appreciated the clarification.

There was discussion about the importance of communicating with consumers in simple and plain language, and about the balance and fine line between that and the need to have legal language that protects both insurers and customers.

Dana Easthope emphasized that CAFII members are not allowed to provide consumers with advice in offering them optional CPI insurance coverage as an Authorized Insurance Product, and the point was made several times that a "suitability" test is not deployed with respect to CPI, but rather an "eligibility" test is.

In that connection, Ms. Frick shared the insight that imminent new legislation which will empower the FCAC will use the concept of "appropriateness" of products, and related nomenclature, rather than the "suitability" of products; and she added that CAFII members would need to be able to demonstrate that they were complying with expectations related to "appropriateness."

Brendan Wycks noted that FCAC Commissioner Judith Robertson's Communications/Events Officer, with whom he had recently been dealing, had indicated that the Commissioner's upcoming 26 March, 2019 speech at the CAFII Annual Members' Luncheon would include comments on suitability. Ms. Frick jokingly replied that "the Commissioner can talk about whatever she wants to talk about," but the legislation in question would reference "appropriateness" of banking products and not suitability.

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Brendan Wycks also noted that CAFII had undertaken a new strategic priority in recent years of responding to “urban myths” and false arguments about CPI – such as post-claims underwriting, or the claim CPI is only for the benefit of the bank, etc. -- which had long been propagated by the broker and advice-based distribution channel; and CAFII’s initiatives in this area included independent consumer research, media releases, and information on the Association’s website.

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Ruth Stephen advised that the mandate letter for Canada's new Minister of Innovation, Science and Industry included a new role around serving as a Consumer Advocate. The details of that new Consumer Advocate role were still being worked out, including what role the FCAC would play in this, at least with respect to financial institutions<sup>1</sup>.

CAFII representatives asked the FCAC what was next in terms of the Agency's near-term priorities. Teresa Frick replied that further, follow-up work arising from the FCAC's recently issued report on banks' complaints processes, complaint escalations, and related third party ombudservices was an immediate priority; and that individualized supervisory letters would be sent shortly to each CAFII member FI and other FRFIs arising from that review and report.

Brendan Wycks asked Ruth Stephen what research projects the FCAC was planning in the foreseeable future. Ms. Stephen replied that the Agency would be focusing on consumer financial literacy-related research, and research related to educating consumers. Digitization in the financial services sector and implications for consumers' digital financial literacy were also of research interest to the FCAC.

Overall, the Q&A session dialogue was marked by a high degree of engagement and the FCAC participants seemed genuinely interested in the information and insights being conveyed and discussed.

In concluding the meeting, Brendan Wycks asked whether the FCAC would be interested in having such information-sharing and dialogue meetings with CAFII on a periodic but regular basis, at least annually and perhaps semi-annually.

Ruth Stephen replied on behalf of the FCAC (Teresa Frick apologetically had to depart from the meeting five minutes early) that she saw much value in what CAFII was proposing, and she agreed that we should definitely plan to have such meetings on a periodic, regular basis.

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<sup>1</sup> The 13 December, 2019 Mandate Letter from the Prime Minister states: *"With the support of the Minister of Middle Class Prosperity and Associate Minister of Finance and the Minister of Seniors, create a new Canadian Consumer Advocate to ensure a single point of contact for people who need help with federally regulated banking, telecom or transportation-related complaints. Ensure that complaints are reviewed and, if founded, that appropriate remedies and penalties can be imposed."* The mandate letter can be viewed at: <https://pm.gc.ca/en/mandate-letters/2019/12/13/minister-innovation-science-and-industry-mandate-letter>