

XX July, 2020

Mr. Mario Beaudoin, Director, Alternative Insurance Distribution Policy
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1

c.c. Mr. Frédéric Pérodeau, Superintendent, Client Services and Distribution Oversight
Mr. Patrick Déry, Superintendent, Solvency
Ms. Nathalie Sirois, Senior Director, Supervision of Insurers and Control of Right to Practise
Ms. Louise Gauthier, Senior Director, Distribution Policies

WITHOUT PREJUDICE

Dear Mr. Beaudoin:

Re: Applicability of the Regulation respecting Alternative Distribution Methods (RADM) to Credit Card-Embedded Insurance Benefits

During our Association's 11 February, 2020 meeting with you and AMF colleagues at the Autorité's office in Quebec City, CAFII communicated its strongly held view that the RADM – as drafted, finalized, and published -- does not apply to credit card-embedded insurance benefits. Credit card-embedded insurance benefits are not directly purchased or offered, but rather are included with some credit cards as part of the ancillary benefits the card provides to the customer. If a customer does not want the embedded insurance benefits, he or she cannot refuse them if he or she wants that particular credit card; rather, he or she would have to decline the card.

Nevertheless, despite our firm view that the RADM does not apply to this product line, CAFII, as an industry Association that represents both insurer underwriters and financial institution distributors of credit card-embedded insurance benefits has endeavoured, through the proposals outlined below, to provide customer outcomes for this product line which align with offers of insurance, as per the AMF's interpretation of the RADM and related expectations.

In response to the AMF's request that CAFII identify "creative solutions," the purpose of this letter is to outline the solutions we have identified to meet the AMF's expectations with respect to the RADM's applicability to credit card-embedded insurance benefits.

Filings and Disclosures to the AMF

With respect to credit card-embedded insurance benefits, CAFII members would be able to meet the following mandated disclosures to the AMF:

- the name and contact information of the distributor; and
- the contact information of the insurer's assistance service.

However, some of the other RADM-mandated disclosures do not fit with the credit card-embedded insurance benefits product line. More, specifically

1) The customer cannot cancel credit card-embedded insurance benefits as a component part of the overall credit card package; rather, he/she must cancel the credit card in its entirety. Customers most often choose to cancel a credit card because they do not like the annual fee, the interest rate, the rewards program, or to reduce the overall amount of credit he/she is carrying. Having the industry report on credit card cancellations would provide the AMF with no market conduct or consumer protection-related indicators or red flags relevant to the embedded insurance benefits.

2) For credit card-embedded insurance benefits, there is no remuneration paid to distributors.

Given the realities outlined above, but to ensure that the AMF still receives relevant data from the industry, CAFII recommends that instead of addressing the requirements set out in Clause 21 of the RADM, the AMF should expect the industry to align reporting requirements with CCIR's Annual Statement on Market Conduct ("ASMC"), which calls for credit card-embedded insurance benefits data that is relevant to this product line. Insurers could provide the same data called for in the ASMC, but with a focus on the Quebec market specifically.

Customer Disclosures

Given the AMF's request, CAFII members are prepared to produce summaries for consumers of each particular type of credit card-embedded insurance benefit. We propose that these summaries would be made available to all consumers on-line on the insurer's website; and, separately at point of sale, consent would be obtained from a credit card applicant for the online provision to them of summaries of the embedded insurance benefits, via the insurer's website.

Given that credit cards can have over 10 different embedded insurance benefits, and each issuer has a portfolio of unique credit cards, each issuer may have dozens of different embedded insurance benefits. It would be impractical to expect that, at the point of sale, the credit card issuer would provide the consumer with 10-plus summaries of the embedded insurance benefits, when the primary information the consumer is seeking relates to the card's annual fee, its interest rate, payment grace period, and its rewards program. Customers have a lot to contemplate when choosing a credit card and providing them with additional up-front, point of sale disclosures related to ancillary embedded insurance benefits will overwhelm them, while providing very little in the way of consumer protection benefit.

The summaries of the embedded insurance benefits will accurately reflect the unique properties of each type and will be accessible to customers through the insurer's website.

The summaries of embedded insurance benefits will

- be concise;
- (retain and do not remove if this comes directly from the RADM) be written in a clear, consumer-friendly languages;
- I present accurate information;
- not contain any advertising or any promotional offers; and
- not be the Certificate of Insurance.

The summaries of embedded insurance benefits will include

- the insurer's name and contact information;
- the client number of the insurer registered in the Authority's register of insurers and the Authority's website address;
- the name and type of insurance product embedded;
- the eligibility criteria;
- the name and contact information of the distributor that offers the product;

- the product coverage, exclusions and limitations;
- any other specific clauses which may affect the insurance;
- the insurer's website address providing access to the information on where the client can file a complaint with the insurer and a summary of the complaint processing policy; and
- the manner in which the Certificate of Insurance can be accessed on the website.

It is important to emphasize that information on the right of cancellation would not be included in these product summaries because credit card-embedded insurance benefits cannot be cancelled without cancelling the credit card itself.

A fundamental premise underlying credit card-embedded insurance benefits is that they are part of "group" insurance policies. Therefore, an individual enrollee in the group plan cannot terminate a coverage when the other members of the class do not have that same ability. Only the Group policyholder (i.e. the credit card distributor) is entitled to cancel the contract.

Fact Sheet

It is CAFII's intent to try to find creative solutions to the AMF's expectations which will lead to positive consumer outcomes. The Fact Sheet, as prescribed by the RADM, is not well-aligned with credit card-embedded insurance benefits and would be a "forced fit." As a result, if no modifications are made to the Fact Sheet or other creative solutions are not identified, mandating the use of the Fact Sheet in the case of credit card-embedded insurance benefits will only lead to major consumer confusion.

Therefore, CAFII recommends that, in the case of credit card-embedded insurance benefits, the AMF should authorize credit card distributors to use the "*Reserved for use by the insurer*" section of the Fact Sheet to clarify important details, including how termination of coverage would operate.

The "*It's your choice*" and "*How to choose*" sections are not well suited to credit card-embedded insurance benefits, but the Fact Sheet section that is of particular concern is "*Right to Cancel*." As stated previously, credit card-embedded insurance benefits cannot be cancelled without cancelling the credit card itself.

Other comments:

Information collected from consumers

With respect to the RADM clause 25, no information is collected upfront from consumers relative to credit card-embedded insurance benefits. Any information collected from the credit card applicant is compliant with all applicable privacy requirements, including the federal PIPEDA. The insurer does not see any of the details about a specific enrollee in the group plan underlying a credit card-embedded insurance benefit until there actually is a claim.

Similarly, under RADM clause 30, insurers would not be in a position to provide an applicant with the summary of the information collected from the client, as it is not collected for insurance purposes. However, the certificates of insurance would be forwarded, per normal fulfillment procedures.

Insurer Assistance service

CAFII members would be able to meet the expectations regarding the insurer having an Insurer Assistance Service, to answer questions from the distributor regarding each benefit offered, as referenced in RADM clause 27. This is already part of the industry's normal operating procedures.

Distributor training

Per RADM clause 34, training and supervision of distributor staff already exists. Staff are provided with the necessary knowledge to ensure that customers' questions are addressed and that the appropriate information is being provided about the credit card-embedded insurance benefits. A common practice is for the distributor's staff to provide high level product information (e.g. *this credit card includes \$X Million in travel medical insurance for up to X days*) and to direct more detailed questions around eligibility, pre-existing conditions, etc. to a licensed insurance agent (who works for the insurer?)

However, with respect to RADM clause 33 related to the insurer "monitoring and supervising the offering of insurance products," CAFII emphasizes that this provision is not applicable to credit card-embedded insurance benefits because for this product line, there is no "offering of insurance," as there is, for example, in the case of credit card balance protection insurance, which is sold as a stand-alone product offering.

Conclusion

We thank you, in advance, for considering the creative solutions and related recommendations put forward by our Association in this letter. We look forward to dialoguing with the AMF on the proposals we have made. In that connection, please contact Keith Martin, Co-Executive Director, at keith.martin@cafii.com or 647-460-7725 at your earliest convenience, to set up an in-person or teleconference meeting for that purpose.

Sincerely,

Martin Boyle
Board Secretary and Chair, Executive Operations Committee

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 travel, life, health, property and casualty, and creditor's group insurance across Canada. In particular, creditor's group 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 that helps ensure Canadian consumers get the insurance products that suit their needs. Our aim is to ensure appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII is currently the only Canadian Association with members involved in all major lines of personal insurance. Our members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant, Canadian Premier Life Insurance Company, CUMIS Services Incorporated, Manulife (The Manufacturers Life Insurance Company), Sun Life Financial, and The Canada Life Assurance Company.