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BRIEFING DOCUMENT FOR CAFII LIAISON MEETING WITH

**JOANNE ABRAM, CEO, AND RONALD GILBERTSON, BOARD CHAIR,
ALBERTA INSURANCE COUNCIL**

MAY 7, 2013 IN VANCOUVER

This document sets out current issues, and related recent news, of interest to CAFII vis a vis the Alberta Insurance Council in particular, and also the insurance regulatory community in general.

ABOUT CAFII

CAFII's goal as an association is to foster an open and flexible marketplace that allows consumers an expanded choice in the purchase of insurance products and services.

CAFII members offer convenient and cost effective insurance alternatives for all Canadians.

- New structure with an Executive Director, and an enhanced website.
- CAFII intends to use the new structure for research, and communication. Indicate that we hope regulators will find the website a good source of information and hope they will let us know what further information they require.

Alberta Insurance Council Began Publishing Disciplinary Decisions Effective April 1, 2013: How Is This going?

On February 25, the Alberta Insurance Council announced that it will begin publishing disciplinary decisions effective April 1, 2013.

The Minister of Finance has issued an order directing the Alberta Insurance Council to publish the decisions of the General, Life and Adjusters' Insurance Councils effective April 1, 2013. There will be a link placed on the web site directing interested parties to the source of the decision.

National Database of Disciplinary Information

CCIR and CISRO have agreed in principle to move forward with an electronic form-based database as a central source for disciplinary information, and CCIR has approved a new Disciplinary Information Implementation Working Group (DIIWG) to oversee the building of the database.

The DIIWG is to be joint between CCIR and CISRO and co-chaired by Shonna Neil, FSCO's Senior Manager of Licensing, for CCIR; and a designate to be named by CISRO.

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The idea is to allow consumers, regulators and firms to search a single database to determine whether an insurance advisor has faced disciplinary action in any province across the country. The database would include listings for both life and property and casualty agents.

CAFII supports this initiative and encourages CCIR to take the national database concept even further by including not only disciplinary details but also licensing information for all insurance agents, as this information is also dispersed among different databases across the country.

From an operational standpoint, there are challenges associated with distinguishing between agents with the same name: regulators want to avoid having an advisor with a clean record mistaken for one with a history of misconduct.

To address this issue, **the Alberta Insurance Council (AIC) is pushing for each insurance advisor across the country to be assigned a unique registration number.** CAFII supports this thrust.

Alberta Superintendent's Request For Joint Review of Medical Questionnaires For Creditor and Travel Insurance (Raise with AIC Representatives only if prudent and appropriate to do so)

-See Appendix *Notes from Cathy Honor and Moira Gill meeting in January 2012 with Mark Prefontaine, Alberta Superintendent of Insurance, and Brad Geddes, Deputy Superintendent of Insurance*

CAFII (Brendan Wycks in early April 2013) has raised this with CLHIA (Leslie Byrnes), to see if CLHIA would be willing to take this under its wing, as it would be better to have the views of all relevant insurers represented in such deliberations, rather than just CAFII insurers.

(The Alberta Superintendent's raising of this issue with CAFII in January 2012 was pre-figured in CCIR's November 2008 final "Incidental Selling Of Insurance Report." The relevant excerpt is set out below:

In some situations, consumers did not fully understand or failed to appreciate the extent of the eligibility questions asked by the insurer. For example, many consumers would fail to disclose they saw a doctor in the last two years unless they were prescribed medication or had positive test results. Furthermore, consumers are not aware of the consequences of inadequate answers. The ISI WG believes that these situations do exist and may result in significant consequences (i.e.: coverage being rescinded). They therefore must be properly addressed and the consequences properly disclosed.

The ISI WG conducted a preliminary review of application forms relating to incidental insurance in order to appreciate their level of complexity. Eligibility questions and disclosure sections containing exclusions, restrictions and limitations ("ERL") of various insurers were reviewed. The ISI WG retained the Flesch reading ease test to conduct this review. The results were in line with the comments obtained from some stakeholders. Many documents reviewed were complex.

The ability of consumers to understand their eligibility, to understand ERL as well as the different elements of disclosure contained in ISI documents inevitably goes through an adjustment in the level of language used, structure of the qualification questions and the way the information is presented to consumers. Even though the bundling of medical questions⁵ can seem to be beneficial as it shortens the application forms, the ISI WG believes that it contributes to confusion of the consumer.

Over the years, the insurance industry has familiarized itself with techniques of plain language. The ISI WG believes that these techniques could be applied to the documents used in ISI. The application of these techniques would need to ensure that:

- o Plain language is used so that confusion for the consumers is significantly reduced;*
- o Consumers will be made clearly aware of consequences associated with improper filing of forms.*

The ISI WG encourages the industry to adopt plain language techniques but notes that it ultimately belongs to each regulator to determine if adoption of these techniques should be addressed solely through industry initiatives or by way of regulation.

Restricted Licensee Representation on Provincial Insurance Councils

CAFII is seeking the opportunity to have restricted licensees represented or otherwise participate on provincial Insurance Councils. The Licensing Efficiency Issues Committee identified a need for an analysis of options for BC, Alberta and Saskatchewan. This issue has been discussed with Saskatchewan and Alberta. CAFII has engaged legal assistance to assist in the analysis of options, given legislative and regulatory requirements, and preparation of a proposal, focusing on Saskatchewan in the first instance.

Insurance Act Reviews

Several provinces have made changes and several are planning changes. For major changes such as this, industry needs sufficient lead time- preferably 18 months.

Multi-Jurisdictional Licensing

Harmonized license requirements could reduce cost and complexity of licensing.

CAFII members have client contact centers and must manage licensing across a number of jurisdictions. Ideally, when agents are duly licensed in their home jurisdiction, CAFII would like this license to be recognized across all jurisdictions.

CAFII supports electronic license application and renewal systems as a means to increasing efficiency for both regulators and industry.

A national business number registration database would facilitate multi-jurisdictional licensing of intermediaries as well as assist insurers and regulators in undertaking background checks of licensees.

IAIS/IMF Audit of Canada Around Insurance Core Principles (ICPs)

The International Monetary Fund (IMF) will be conducting a financial stability assessment of Canada in 2013 under the Financial Sector Assessment Program (FSAP). The FSAP will assess Canada's adherence with international standards in the areas of insurance, banking, securities, payment/settlement systems, and fiscal transparency.

CCIR has shared with CAFII the news that, likely due to limited time and resources, the auditors/reviewers from the IMF will be taking a sample-based approach to Canada.

CCIR has learned that the IMF auditors will be looking at just Ontario and Quebec. They'll be on-site beginning in June, and working mainly out of Ottawa. They'll be looking at a wide range of financial system areas including banking, securities, clearing, solvency, and insurance.

How much time they'll have to focus on market conduct in insurance is unknown, but because the Insurance Core Principles (ICPs) are new, they may give that area a generous amount of time.

(Note ICP 18 deals with intermediaries, while ICP 19 focuses on Conduct of Business. It is in the latter that the "fair treatment of consumers" concept is embedded.)

CCIR Agencies Regulation Committee To Review Third Party Administrators (TPAs)

CCIR has approved a work plan for the second phase of its Agencies Regulation Committee (ARC)'s work. The ARC will now review the regulation of Third Party Administrators (TPAs) in group life, accident and sickness, creditor's group insurance, and travel insurance to determine potential risks to consumers. (This too was pre-figured in the Background (introduction) to CCIR's November 2008 "Incidental Selling Of Insurance Report," which states "the ISI Working Group did not review potential issues related to third party administrators since CCIR has mandated the Agencies Regulation Committee to work on this matter.")

CAFII has been asked, and has agreed, to have an initial telephone consultation with the ARC about the TPA review, in which clarity will be sought around what should be the definition of a TPA for the purposes of the review.

Harmonized Life Insurance Licensing Qualification Program

CISRO's LLQP Committee, chaired by Ron Fullan, Executive Director of Saskatchewan's Insurance Council, provided a comprehensive update on the Harmonized Life Insurance Licensing Qualification Program (LLQP) at Stakeholder Information Sessions held at the FSCO office in Toronto on January 17 and April 9, 2013.

At these information sessions, Fullan and LLQP Committee colleagues from B.C., Alberta, Ontario, Quebec, and New Brunswick updated attendees on the following:

- the harmonized LLQP's features, program governance, and development/implementation timeline;
- progress to date in developing the new program, including the just-released "Life Insurance Agent Competency Profile" and the anticipated Curriculum Design Document;
- stakeholder feedback and CISRO responses;
- their stakeholder engagement plan; and
- next steps in the process.

The recently published Life Insurance Agent Competency Profile was developed via a series of Occupational Assessment Workshops held across the country. Over 700 individuals have provided feedback on the Competency Profile via a survey link on the CISRO web site, with 90% of respondents being favourably disposed towards the Profile.

E-Commerce

CAFII made a submission to CCIR in response to its 2012 Consultation Paper on Electronic Commerce, ie. use of Internet for insurance distribution. CCIR is now preparing to release a follow-up Position Paper on E-Commerce. Its release will give rise to a 30 day consultation period, during which CAFII will deliver its second webinar for the CCIR community, on “E-Commerce and Use of Social Media in Insurance.”

Issues of interest re e-commerce are as follows:

Requirement for involvement of a licensed intermediary

Consumers should be permitted to transact in their channel of choice.

Clients self-select a channel to achieve satisfaction; consumers should not be required to use a broker as this would add redundancy and costs and go against clients’ needs and wants.

For those products that require a licensed intermediary, we recommend that a licensed intermediary be available for contact at the client’s request during business hours.

It is important to have Internet commerce available to consumers for broad access and to reach the underserved market.

Financial Literacy

A web-based offering can greatly simplify the learning process for consumers.

The web has the ability to clarify information and present it to consumers in a logical and consistent manner. Tools on websites step customers through typical scenarios, have hints, product suggestions, links, telephone access and allow for education and comparison on alternatives.

Designation of Beneficiaries/Termination of insurance

Industry would like legislation to clearly specify that electronic beneficiary designation is acceptable. This will provide clarity.

Underserved Market

Many Canadians need access to insurance

More than one third of adults in Canada have no life insurance coverage at all¹ and 47% of households find it very or somewhat difficult to find an advisor/agent². Mass market, younger and lower income households need and want access to insurance advice and simple, affordable products.

Independent insurance agents focus on higher face value and more complex products

It is difficult for a broker to make a living from the middle market with smaller needs. A broker would have to sell 7 small policies to earn the amount of commission from a single larger policy. Brokers target and develop relationships with more affluent clients.

Alternate Channels Provide Important Access to Underinsured Markets

Brokers are aging and few are entering the business. Simple, competitive and cost effective insurance solutions can be more broadly available through alternative distribution channels such as online, telephone, direct from insurers and branch distribution of creditor and travel products. It is important that regulatory regimes help to foster and support the ongoing growth and development of these channels.

Items From Alberta Insurance Council's 2011-13 Strategic Framework That Can Be Used To Start Or Continue Conversation, As Necessary

Sharing AIC Board Decisions and Industry Views

Your 2011-13 Strat Plan calls for industry trade Associations to be kept well-informed of the direction of the AIC Board; and that an “issues identification process” be utilized in seeking input from industry trade Associations. Are there any new developments on the horizon in this area?

Ongoing Education For Incidental Sellers of Insurance

Another objective in your 2011-13 Strategic Framework is to “be proactive in providing ongoing education for incidental sellers.” Any new developments looming in this **area**?

Government Relations and Influencing Alberta's Policy-Makers

Another objective in your 2011-13 Strategic Framework is to “establish and maintain a collaborative relationship between the AIC Board and the Minister.” How are your efforts to communicate with and influence the policy-makers and your overall Government Relations work in this area going?

Renewal of AIC's Strategic Framework

Your 2011-13 Strategic Framework is, obviously, up for renewal this year. What are your plans for developing a new Strategic Plan? Do you plan to seek industry input? Do you have any plans to publish an Annual Statement of Strategic Priorities and seek industry/stakeholder input on it, in the manner in which FSCO does that?

¹ LIMRA: 2007 Canadian Life Insurance Ownership, Person Trends, pg 10

² LIMRA: Tracking Opinions of the Public in Canada (TOPIC) 2009 pg 18

BIO PROFILE OF JOANNE ABRAM, CEO, ALBERTA INSURANCE COUNCIL



Joanne Abram commenced with the Alberta Insurance Council (AIC) in 1989 when the AIC began operations. As a crown controlled agency, the AIC is the body responsible by delegation for the licensing and regulation of insurance intermediaries in Alberta. Joanne became General Manager (later changed to C.E.O.) in December 1993. As C.E.O., she is responsible for a staff of 20 employees located in offices in both Edmonton and Calgary, dealing with all aspects of licensing and regulatory compliance for insurance intermediaries as well as investigations into complaints relating to insurance company activities. Joanne is responsible for governance – related strategy/policy setting, communications and business planning. She served as Chair of the Market Conduct Subcommittee dealing with the revision of the Alberta Insurance Act. She is past Chair of the Canadian Insurance Services Regulatory Organizations (CISRO), an organization of regulatory authorities for insurance distributors across Canada, and Chair of the Life Agent Education Committee of CISRO (responsible for development of the Life License Qualification Program).

Bio Profile of Ron Gilbertson , Chair, Alberta Insurance Council



Appointed to this role by provincial government in October 2012, for a three year term expiring October 2015

Ron Gilbertson is now semi-retired. His most recent position was the President and CEO of Edmonton Economic Development Corporation, a not-for-profit company owned by the City of Edmonton that is responsible for regional economic development and tourism marketing, and management of the Shaw Conference Centre and Edmonton Research Park.

Previous to this, he was with the Alberta Research Council (ARC) where, as Vice President, he was responsible for restructuring the technology commercialization division and investment fund, and for implementing a growth plan for the Engineered Products and Services division.

Prior to joining the ARC, Ron was President of Lacent Technologies where he helped transform the start-up company into a world leader in high speed laser cutting. He has also served as President of the Edmonton Regional Airports Authority, leading the organization through its formative years and establishing Canada's first independent airports authority.

Earlier in his career as a senior manager at Stanley Associate Engineering, Ron helped build one of Western Canada's largest economics consulting practices and Canada's second largest airports and aviation consulting group. He is an honours graduate of the University of Saskatchewan's Bachelor of Commerce program and carries a Master of Arts in Economics from the University of Manitoba.

Ron has served on the Board of Directors for the Sawridge Group of Companies, Lacent Technologies Inc., Agrigenomics Inc. and Inno-Centre Alberta Inc. A dedicated community supporter, he has also contributed volunteer time to a variety of organizations including the United Way, Edmonton Chamber of Commerce, the World University Student Games, local community leagues and the Edmonton Society for the Hearing Impaired.

Regulator: Alberta Finance

Date: January 13, 2012

Location: Wildflower Restaurant, Matrix Hotel
10640-100 Ave
Edmonton, AB T5J 3N8

Attended: CAFII: Cathy Honor (RBC & Chair), Moira Gill (TD and EOC Member)

AB Finance: Mark Prefontaine (ADM & Superintendent of Financial Institutions – Regulation & Policy Finance), Brad Geddes (Deputy Superintendent of Insurance), Alayne Brygadyr McCoy (Director Policy & Communications). *Note: Mark is also Chair of CAPSA and working on PRPP rules to respond to Federal and Quebec pension reform.*

Objective: Introduce CAFII; courtesy call to establish good working relations; inquire as to their priorities for life and creditor products.

Discussion:

- Introduction to CAFII
- Key issues from Superintendents perspective:
 1. Improve the transparency of rating Board decisions. Specify which rating factors are clearly acceptable in rate setting and which are not. Set a process up to assess new factors.
 2. Stressed the importance of stakeholder engagement and relationships and encouraged CAFII to provide proactive input.
 3. Staff Resources – very lean staffed and looking for opportunities for industry secondments or retirees.
- Surprised priority now to work on review of Auto Cap guidelines.
- Use of Credit Scores - Brad highlighted risks related to transparency:
 1. consumers mostly don't know their score
 2. "Black box" aspect means customers can't completely verify the information used.
 3. Mark concerned that use of too many variables moves us away from pooling of risks to individual risk assessment and that isn't good.

Stressed that it is very helpful for company to let them know about new products as they are launched rather than having customer services offices have to figure it out when they are faced with a customer with a question or concern.

Would welcome education on products that they do not have as much experience with (eg. critical illness insurance which they confess to have a lack of understanding on).

- They would like information on issues and regulatory trends outside of Alberta and internationally, environmental scans etc.
- Are interested in implementation of IAIS guidelines through CCIR committee.

Priorities of Deputy Superintendent:

1. Implementation of the transition regulations and issuance of new licenses to conform with the rationalized number of classes.
2. Development of a guideline to set standards for use of electronic beneficiary designation. Have been in initial stages of discussion with CLHIA, who have indicated they will work with CAFII on this file. Not to opine on the system of an individual insurer, but would like to get info on these systems to inform the guideline.
3. Creditor applications. Last year they gathered copies of creditor applications from insurers as well as collateral and reviewed them. The reason for the review was that they were getting complaints from consumers about misunderstanding the medical questions on creditor applications. He noted that there was a significant difference between a simple application, and one that was written in plain language and easy to understand. He would like to work with industry (CAFII) towards developing an application that a customer can be confident of understanding without taking it to a medical professional. Cited customer complaints that he didn't understand that having a blood pressure check equated to being treated for a heart condition (note that this actually came from Marketplace).

Said CCIR is not really about “Harmonization” as this is hard with varying rule making influence. More about identification of common risks and concerns.

Follow-up:

- Thank you letter from Cathy Honor
- Creditor application to be discussed by EOC
- Provide information on products on which they do not have as much information (eg. critical illness insurance). It is not imperative to provide a presentation on such products.