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RE: CAFII Feedback on the Gathering of Statistics for Credit Protection Insurance

Dear Mario,

Thank you for sharing the findings associated with the 2023 DWR Market Profile study conducted by the Alternative Insurance Distribution team.

We value your sharing your findings and insights with us. Certain aspects of these products are important to consider when interpreting the statistics you have gathered.

Credit Card Embedded Benefits Premiums

The credit card marketplace is extremely competitive, and companies offering credit cards to customers are constantly looking at ways to increase the attractiveness of their products. Embedded insurance benefits are often offered to customers as part of the overall credit card value package and as an additional benefit for customers to consider. Insurance is not the principal reason that people obtain a credit card; access to credit, interest rates, and rewards are the top three reasons that people choose one credit card over another. Embedded insurance benefits are part of a series of benefits that comprise the credit card. The cost of embedded insurance benefits is managed by the card provider and is spread across the total cardholder base; it is not individually allocated. Embedded benefits also include benefits which would not generate a claim. For example, travel benefits can include non-monetary features such as travel rewards, or legal and emergency assistance services.

It is important to make a distinction between embedded benefits and optional balance protection insurance, where a trigger event (like loss of life or diagnosis of a critical illness) results in a covered loss. The premiums for these optional products are paid for by the customer. On the other hand, embedded benefits that are offered as part of the credit card, like various forms of travel insurance, are offered as part of the package of benefits associated with the credit card and there is no individual underwriting. It must be understood the premiums charged by the insurer to the card provider are based on a portfolio that could include hundreds of thousands, if not millions of customers. When there is a claims payout, the customer is paid the benefit by the insurer, but this is not a “return of premium” to the end customer because they never paid a premium in the first place.

In summary, the series/bundle/package of benefits included with a credit card never result in a premium that is directly charged to the customer and as a result when a customer submits a claim and is paid a benefit by the insurer, this is not a “return of premium” because the customer never paid a premium in the first place.

Annual Review of Claims Denial Rates and Return of Premium to Customers May Be Misleading

Credit protection insurance is a group product, unlike the individual approach taken by term life insurance, for example. As a group product, pricing is based on number of customers and on the pooled risk profile of those customers. In a given year, there may be low claims activity, while in another year, there could be a large claim that would change the statistics around the return of premiums to customers. Claims denial rates vary between insurers based on maturity of the portfolio with growing or less mature portfolios having more claims in the two-year contestability period more likely to be denied. Aligned with actuarial best practices, claims payout ratios are also impacted by one off events, such as the COVID-19 pandemic. We encourage the AMF to not just look at these statistics annually but to also look at the trends over a longer period of time.

Products May Be at Different Stages of Market Maturity

Some mature products may be offered to a very significant number of customers, while new offerings may initially be offered to a small pool of customers. A new offering with an initially small number of customers could result in a number of claim denials having a greater impact on the claims denial rate than the same number of denials for a more mature product with more customers. While this might not be as great a factor in the overall statistics that the AMF has collected, this could be very relevant for an individual insurer whose performance around claims denial appears to be higher than the average for the industry, as this could reflect that company offering new products that have a low customer base. In these cases, claims denial

rates could reflect an initial low customer base as opposed to reflecting the value of the insurance offered.

Critical Illness Insurance is More Complex than Life Insurance

The AMF presented statistics that demonstrated that claims denial rates are higher when critical illness insurance is included in the product mix. Adjudicating life insurance is much simpler than adjudicating critical illness insurance; for life insurance, one is alive or not, but for critical illness, there is significant complexity around diagnosis, life expectancy, type of disease or illness etc. Insurance companies want to assist customers who believe they may have a covered loss, and CAFII's members act honourably and encourage customers to claim in those events, even if it appears to the customer that coverage may not apply. This could increase the claims denial rate if the criteria for payout of the claim is not met. It is better to encourage the customer to claim to determine if the claim is eligible for payout, rather than have the customer self-adjudicate and potentially not claim when they could have received a payout if they did. It is also important to note that the years 2020 -2023 were influenced by COVID which saw fewer claims for critical illness due to hospitals being overrun by COVID cases, which unfortunately, diverted preventative care resources such as cancer screening and diagnosis.

A Range for Statistics is Recommended

An annual gathering of statistics could result in companies being held to a new standard every year. We encourage the AMF to consider looking at ranges for industry performance rather than a hard and fast number in any year and to look at trends in the marketplace over a longer period than one year.

Some Claims Denial Rates May be Misleading Due to Lack of Activity

For credit card claims and variable Line of Credit claims, the coverage considers the outstanding balance of the credit facility at the time of the covered loss. If a customer has a covered loss, but their account has no balance at the time of the event, the claim will be denied because there is no balance to settle against. In a similar vein, estates often make a claim for a line of credit without knowing if the line of credit was in use, and if it was not, the claim could be denied. This would appear as a claim denial because the claim was made without an insured balance.

Priority Payments for Travel Insurance Claims

A customer may have multiple insurance coverages that may be applicable for a travel insurance event; for example, a customer may have purchased an individual insurance product, they may have coverage through their employee benefits, and they may have embedded insurance through their credit card. In some cases, coverages may be available through a

home, or even an auto insurance policy. There are protocols in place in the insurance industry, such as coordination of benefits, to determine which policy is the one that the claim should be made to. If the customer makes a claim to their credit card, and the adjudication process determines that another policy is first in line, this could be recorded as a claims denial, even though the customer may be paid out in full by the other policy.

Conclusion

CAFII thanks the AMF for the opportunity to share our insights on the statistics it has gathered on credit protection insurance products. We are encouraged by the AMF's transparency and willingness to engage in dialogue with our Association and with our members, and we look forward to the opportunity to continue to do so going forward. Should you require further information from CAFII or wish to meet with representatives from our Association at any time, please contact Keith Martin, CAFII Executive Director, at keith.martin@cafii.com or 647.460.7725.

Sincerely,



Karyn Kasperski
Board Secretary and Chair, Executive Operations Committee

À propos de l'ACIFA

L'ACIFA est une association sectorielle sans but lucratif qui se consacre au développement d'un marché de l'assurance ouvert et souple. Elle a été créée en 1997 pour fournir une voix aux institutions financières qui vendent de l'assurance par l'entremise de différents canaux de distribution. Nos membres offrent de l'assurance par l'entremise de centres d'appels, d'agents et de courtiers, d'agents de voyage, de publipostage, de succursales d'institutions financières et d'Internet.

L'ACIFA croit que les consommateurs sont mieux servis lorsqu'ils disposent de diverses possibilités pour l'acquisition de produits et services d'assurance. Nos membres offrent des produits d'assurances voyage, vie, santé et dommages, de même que l'assurance protection de crédit partout au Canada. Plus particulièrement, l'assurance protection de crédit et l'assurance voyage sont les gammes de produits prioritaires de l'ACIFA, puisqu'elles sont offertes par tous nos membres.

La diversité des membres de l'ACIFA lui permet d'avoir une vue d'ensemble du régime de réglementation qui régit le marché de l'assurance. Nous travaillons avec les gouvernements et les organismes de réglementation (principalement provinciaux) pour faire évoluer le cadre législatif et réglementaire pour le secteur de l'assurance et contribuer à favoriser l'achat par les consommateurs canadiens de produits d'assurance qui répondent à leurs besoins. Notre objectif est d'assurer la mise en place de normes appropriées pour la distribution et la commercialisation de tous les produits et services d'assurance.

Les membres de l'ACIFA comprennent les branches d'assurance des principales institutions financières du Canada – Assurance CIBC, Banque Nationale Assurances, BMO Assurance, Desjardins Assurances, Assurance Scotia, RBC Assurances, et TD Assurance – de même que les principaux acteurs de l'industrie, soit Assurant Canada, CUMIS Services Incorporated, La Compagnie d'Assurance du Canada sur la Vie, Securian Canada, Manuvie (La Compagnie d'Assurance-Vie Manufacturers), Chubb, Banque Canadian Tire, et Canadian Western Bank.