

CAFII Regulator Meeting Report

Regulator: AMF
Date: June 19, 2012
Location: Quebec City

Attendees: **AMF:** Mario Albert, President and Chief Executive Officer, Autorité des marchés financiers

Nathalie Drouin, Executive Director Enforcement and Legal Affairs (Interim
Superintendent of Solvency)

Patrick Déry, Superintendant, Client Services, Compensation and Distribution

CAFII: Board and EOC

Location: Domaine Catarauqui

Discussion

Patrick Dery began the presentation, for which handouts were distributed at the meeting and briefly summarized the 6 areas of focus. Additional comments and discussion occurred as follows:

DWR Consultation

-The consultation was 1.5 years ago, 20 submissions were received. The reception to the changes was good and they feel they are nearly there in terms of completing changes. AMF currently doesn't have the power to investigate distributors.

-The distribution guide should be a simple 2 page document. If more space is needed then they question whether this should require advice and a representative.

-Currently in Quebec, you have to disclose any remuneration received over 30%. The issue is how do you calculate this. It was noted that banks don't work on commission and that total compensation can be affected by the length of the distribution chain ie if MGAs are used or not.

-Use of telemarketing - AMF acknowledged receipt of CAFII's recent letter on the distribution guide. CAFII noted the concern that in non face-to-face channels, it would not be possible to obtain a signature. AMF response - If the sale was done on the phone then recordings are sufficient: on the Internet, a button click is sufficient. The agent doesn't have to read the whole document but they should explain the intention of the contents to consumers so they understand. They are looking for some form of confirmation from the consumer so that they will be able to demonstrate to the consumer that they acknowledged receiving the necessary information.

-Telemarketing scripts. In the consultation, they indicated they want scripts to be filed with the AMF. M. Albert noted that they have not decided on this issue. The purpose of the request was to be sure the content remained simple. They really want the appropriate consumer disclosure. CAFII noted that most phone calls are inbound and can cover many areas and it's almost impossible to create and file the number of scripts required. A solution offered by CAFII would be to make recordings available. Another alternative offered was to include a representation of sufficient disclosure in the compliance return.

-Timing of offer -M. Albert noted that the sale of the incidental product should be made when the underlying transaction is made to be in compliance with the letter of the law. He notes that often

telemarketing calls are made months after the original product, which is not the spirit of DWR. CAFII advised that sometimes consumers are not eligible for the product until a later time; also consumer needs may change eg, children / dependants arrive after a mortgage is acquired. M Albert acknowledged such situations but noted that the timeframes are getting stretched and there needs to be a balance.

The next step is for legislative and regulatory change. The AMF believes their recommendations will make it easier for DWR and it will be clearer for consumers. P. Dery noted that they really appreciate the support of the industry. M Albert advised that AMF only makes recommendations to government. The final decision is not in AMF's control. There is a political side. Brokers have a powerful lobby and have different views. Brokers are portraying the changes as a reduction in consumer protection.

The AMF expects to sort out other DWR issues (eg telemarketing scripts) by the end of the summer.

Internet

Current laws date back to the 1990s- insurance distribution has changed in the time. There were 2 consultation done recently in May – AMF and CCIR. There are opposite views in the industry. Brokers are calling for a human being/representative to be involved in every transaction, others say that consumers doing transactions over the internet independently is sufficient. At this time they want to bring more clarity. No matter which channel is used, the consumer protection should be at a similar level. The AMF has been asked to provide PRPP (federal public pension plan) by Internet. The solution on Internet should be applicable to all products. It was noted by CAFII that private pension plans are all offered online with no intermediary.

-CCIR received 25 submissions. The next step is to present the information to the CCIR.

- Time Line – The AMF expressed that this file should have been closed 3 or 4 years ago. The government will have to prioritize the file as laws will need to be changed. Next 6-12 months is the perceived time frame.

Commercial Practices Guideline (CPG)

They have been working on the CPG for 2 years now. They have changed the approach and narrowed the scope of it. Currently they are waiting for comments from the government and they suspect they will get feedback that the guideline is not accomplishing much. They believe that most international standards are fulfilled by the Distribution Act. (The Act may need to go a bit farther in some areas to meet international standards.) The AMF is not viewing the CPG as good tool to fulfill international standards. They noted in particular that manufacturers give incentives and AMF may need to make sure that such incentives are appropriate. More information on this may be available soon.

Ontario- Quebec Trade Agreement

This large agreement was signed in September 2009 and contained a chapter on the financial sector. Patrick Dery outlined what was agreed to as listed in their presentation. The ministries have been finalizing the work plans which are expected to be published online in June or July. Implementation is due to start this year. An announcement will be forthcoming that CAFII members should like.

Financial Literacy Index (Education of Consumers)

AMF focus is on helping consumers make informed decisions s i.e. that consumers will know what to do in particular situations. Their concern is that theoretical knowledge is not always linked to responsible behaviour. The education campaign that was aired last spring encouraged consumers to ask themselves some basic questions to become more informed about the process (e.g. Is it too good to be true?). A financial literacy survey of consumers (40 questions) shows about half are well advised and act accordingly. 30 % are aware of financial issues but do not act accordingly and 20% were not aware and do not care. CAFII indicated that this information would be very interesting to know particularly for all those who are under-insured. The survey is a tool to help the AMF target groups who are open and will benefit from receiving financial education. There was no indication about why consumers are ambivalent about insurance. It appears that consumers do not absorb information unless they are in the buying situation. Since FIs know who is buying, a partnership could help, however a regulator is criticized if he is seen to be partnering / endorsing a company. M. Albert indicated that the AMF has an education component with a good budget. A partnership would need to involve no conflict of interest (no money, no endorsement). CAFII offered assistance.

Wrap up

CAFII noted the common goal of improving consumer literacy to make the industry stronger. CAFII appreciates Quebec's leadership and innovation. CAFII offered to be part of the solution and thanked AMF for their presence at the meeting. AMF noted that this type of meeting with CAFII is done every year and the interaction is valuable.