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The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

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CAFII Board of Directors Meeting

Date: Tuesday, April 17, 2018
Location: Lena Restaurante
Sala Dos (Private Boardroom), 2nd Floor
176 Yonge St., Toronto, ON
Chair: P. McCarthy

Time: 3:00 – 5:00 p.m.
Dial-in: 416-477-0921; 514-447-8925; 604-283-9145; or 1-888-543-2449; Participant: 1500|Host: 1501
http://cafii.adobeconnect.com/cafiiboardmtg17april2018/

Agenda

Item		Presenter	Document	Action
1. Call to Order; Governance and Special Matters	*3:00 p.m.*	P. McCarthy		
1.1. Approval of Agenda			✔	Approval
1.2. Appointment of a CAFII Director			✔	Approval
1.3. CAFII Board and EOC Chair Succession			✔	Update
1.4. 2018 Pollara Travel Insurance Research; High Level Results		S.Manson/Pollara Guests	✔	Presentation
2. Consent Items	*3:25 p.m.*	P. McCarthy		
2.1. Draft Board Meeting Minutes, November 28,2017			✔	Approval
2.2. Draft Board Meeting Minutes, February 7, 2018			✔	Approval
2.3. Summary of Board & EOC Action Items			✔	Receipt
2.4. Regulatory Update			✔	Receipt
2.5. Regulator and Policy-Maker Visit Plan			✔	Receipt
3. Financial	*3:27 p.m.*			
3.1. Financial Statements as at March 31, 2018		T. Pergola	✔	Approval
3.2. Draft 2017 Audited Financial Statements		T. Pergola	✔	Approval
4. Regulatory	*3:35 p.m.*			
4.1 Consultations/Submissions Timetable		B. Wycks	✔	Update
i. BC FIA Review: Preliminary Recommendations Paper		B. Wycks/K. Martin	✔ (2)	Update
ii. Quebec Bills 141 and 150		K. Martin/B. Wycks		Update
iii. FSCO Draft 2018 Statement of Priorities		R. Beckford/B. Wycks	✔	Update
iv. FSCO Treating Consumers Fairly (TCF) Guideline		R. Beckford/B. Wycks	✔	Update
v. CCIR Fair Treatment of Customers Guidance		R. Beckford/B. Wycks	✔ (2)	Update
4.2 FCAC "Domestic Bank Retail Sales Practices Review"		P. Thorn/K. Martin	✔ (2)	Update
4.3 Outcomes of Saskatchewan Exemptions to PST on Insurance Premiums Issue		K. Martin	✔ (4)	Update
4.4 CAFII Letter to Manitoba on Single Premium Insurance Policies		K. Martin	✔	Update
4.5 March 6/18 CAFII Meeting with FSRA Board of Directors		B. Wycks/K. Martin	✔	Update
4.6 CAFII Regulator and Policy-Maker Meetings During 2018 CLHIA Conference		B. Wycks		Update
4.7 CAFII Atlantic Canada Regulators and Policy-Makers Visits Tour, May 13-17/18		B. Wycks	✔	Update
5. Strategy and Membership	*4:00 p.m.*			
5.1 Initiation Member Application: Canada Life Assurance		B. Wycks/K. Martin	✔	Approval
5.2 Initiation Member and Associate Status Applications: OneMain Solutions Canada		B. Wycks	✔ (3)	Approval
5.3 Other CAFII Initiation Member, Returning Member, and Associate Prospects		B. Wycks/K. Martin		Update
6. Committee Reports Addressing CAFII Priorities:	*4:15 p.m.*			
6.1 Market Conduct		R. Beckford		Update
6.2 Media Advocacy		C. Blaquiere		Update
i. March 28/18 CAFII Media Awareness & Training Session		K. Martin	✔ (2)	Update
ii. CAFII Website Enhancement Investments in 2018		K. Martin	✔	Update
6.3 Licensing Efficiency Issues		M. Gill		Update
i. CAFII/CLHIA Joint Submission Re Saskatchewan RIA Advisory Ctte		K. Martin		Update
6.4 Research & Education		D. Quigley		Update
i. Recommendation for 2018 and 2019 CAFII Research		D. Quigley/K. Martin	✔	Update
ii. Syndicated/Omnibus Research for CAFII		K. Martin		Update
6.5 Travel Medical Experts		S. Manson		Update
7. Other Business	*4:35 p.m.*			
7.1 CAFII Transition to Managing Matters		K. Martin		Update
7.2 Expected Regulator and Policy-Maker Attendance at April 17/18 CAFII Reception		B. Wycks		Update
7.3 Next CAFII Board Meeting and Reception: June 5/18 at ScotiaLife Financial		B. Wycks		Update
8. In-Camera Session	*4:40 p.m.*	P. McCarthy		Discussion

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Agenda Item 1.2
April 17/18 Board Meeting

Appointment of CAFII Director for New Initiation Member: Manulife Financial

Monika Spudas, Director, Account Management, Consumer Markets at Manulife, has communicated to CAFII Co-Executive Directors Brendan Wycks and Keith Martin that her company nominates Wally Thompson, Vice-President of Sales and Marketing, Consumer Markets at Manulife, for appointment as Manulife's first Director on the CAFII Board of Directors.

Mr. Thompson's career profile may be found here:

https://www.linkedin.com/in/wally-thompson-649bb82/

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Agenda Item 1.3
April 17/18 Board Meeting

CAFII Board Chair Succession

In light of the need for the CAFII Board to identify a successor Board Chair and appoint a candidate at the June 5/18 Board meeting, the following information is provided:

•Candidate Profile: CAFII Board Chair; and

•Reverse Chronology of CAFII Board Chair, Board Vice-Chair, EOC Chair, and Treasurer Appointees.

<u>Candidate Profile: CAFII Board Chair</u>

CAFII Bylaw-Prescribed Duties and Responsibilities of the Board Chair:

•if present, preside at all meetings of the Board and of the Members;
•be an *ex officio* member of all committees appointed by the Board;
•sign all instruments which require his or her signature in accordance with the By-laws or otherwise;
•represent the Corporation as a spokesperson at public or official functions;
•have such other powers and duties as may from time to time be assigned to him or her by the Board; and
•must be a Director, i.e. from/nominated by a Foundation Member or a Regular Member (may not be from an Initiation Member).

The following are desired skills, attributes, experience, and related qualifications for the position of CAFII Board Chair:

•strong knowledge of principles, ethics, and practices of successful organizations, in particular industry Associations;
•strong verbal communication, interpersonal, and relationship-building skills;
•a collegial nature, as must be able to work co-operatively with other Directors; the EOC Chair; the Co-Executive Directors; and the Administrative Co-ordinator;
•ability to partner with and manage the EOC Chair and Co-Executive Directors;
•strong numeracy and financial literacy skills;
•strong monitoring orientation and attention-to-detail;
•ability to work effectively with a diverse group of stakeholders;
•experience in communicating and dealing with insurance regulators and policy-makers;
•experience and skills in Board meeting management; ability to set, control, and run the agenda, keeping within time limits;
•demonstrated strength in handling confidential matters;
•ability to lead by example and "set the standard" for the Board; and
•ability to groom and help to develop the next Board Chair.

Reverse Chronology of

CAFII Board Chair, Board Vice-Chair, EOC Chair, and Treasurer Appointees

Appointments to the CAFII volunteer Officer positions of Board Chair, Board Vice-Chair, Executive Operations Committee (EOC) Chair, and Treasurer are typically made during the first Board meeting of a new governance year, immediately following the Annual Meeting of Members each June, except where noted below. In most cases, the appointed Officers have served two consecutive, one-year terms, except where noted below.

Terms (June to June, except where noted)	**Board Chair**	**Board Vice-Chair**	**EOC Chair**	**Treasurer**
2017-18	Peter McCarthy, BMO Insurance	Vacant	Pete Thorn, TD Insurance	Tony Pergola, ScotiaLife Financial
2016-17	Peter McCarthy, BMO Insurance	Joane Bourdeau, National Bank Insurance *(until April 2017, at which time National Bank Insurance left CAFII membership)*	Pete Thorn, TD Insurance *(May 2017 onwards)* Eleanore Fang, TD Insurance *(until April 2017)*	Tony Pergola, ScotiaLife Financial *(April 2017 onwards)* Raja Rajaram, CIBC Insurance *(until April 2017)*
2015-2016	Peter McCarthy, BMO Insurance	Joane Bourdeau, National Bank Insurance *(Oct 6, 2015 onwards)* Isaac Sananes, Canadian Premier *(Jun 9-18, 2015)*	Greg Grant, CIBC Insurance	Raja Rajaram, CIBC Insurance
2014-2015	Rino D'Onofrio, RBC Insurance *(Sep 19, 2014)*	Isaac Sananes, Canadian Premier *(Sep 19, 2014)*	Greg Grant, CIBC Insurance	Raja Rajaram, CIBC Insurance
2013-2014	Mark Cummings, ScotiaLife Financial	Rino D'Onofrio, RBC Insurance	Jennifer Hines, RBC Insurance	Raja Rajaram, CIBC Insurance
2012-2013	Mark Cummings, ScotiaLife Financial *(Dec 2012 onwards)* Cathy Honor, RBC Insurance *(until Dec 2012)*	Keith Demmings, Assurant Solutions *(until Dec 2012)*	Jennifer Hines, RBC Insurance *(Dec 2012 onwards)* John Lewsen, BMO Insurance *(until Oct 2012)*	Matt Fabian, BMO Insurance *(until Dec 2013)*
2011-2012	Cathy Honor, RBC Insurance *(Dec 2011 onwards)* David Minor, TD Insurance *(until Dec 2011)*	Keith Demmings, Assurant Solutions	John Lewsen, BMO Insurance	Matt Fabian, BMO Insurance

Terms (June to June, except where noted)	Board Chair	Board Vice-Chair	EOC Chair	Treasurer
2010-2011	David Minor, TD Insurance	Keith Demmings, Assurant Solutions	John Lewsen, BMO Insurance	Matt Fabian, BMO Insurance
2009-2010	David Minor, TD Insurance	Keith Demmings, Assurant Solutions	Lawrie McGill, CIBC Insurance	Matt Fabian, BMO Insurance
2007-2009	Rick Lancaster, CIBC Insurance	Steve Phillips, Assurant Solutions	Moira Gill, TD Insurance	Matt Fabian, BMO Insurance *(Dec 2009 onwards)* Monica Smith, BMO Insurance *(Oct to Dec 2009)* Victor Pywowarczuk, BMO Insurance *(until Oct 2009)*
2005-2007	Neil Skelding, RBC Insurance *(Oct 2005 onwards)*	Steve Phillips, Assurant Solutions	Lawrie McGill, CIBC Insurance	Victor Pywowarczuk, BMO Insurance
2004-2005	Cathy Honor, RBC Insurance *(until Oct 2005)*	Steve Phillips, Assurant Solutions	Lawrie McGill, CIBC Insurance	Victor Pywowarczuk, BMO Insurance
2002-2004	Oscar Zimmerman, ScotiaLife Financial	Isaac Sananes, Canadian Premier		Ambrish Jaiswal, CIBC Insurance
2001-2002	Oscar Zimmerman, ScotiaLife Financial	Isaac Sananes, Canadian Premier		
2000	Russell Dunbar, TD Insurance	Isaac Sananes, Canadian Premier (Mar 2000 onwards) Bernard Dorval, Canada Trust (until Mar 2000)		
1998	Russell Dunbar, TD Insurance	Bernard Dorval, Canada Trust		

Travel Medical Insurance Study
Wave 2 Report

cafii The Canadian Association of Financial Institutions in Insurance

pollara strategic insights

April 2018

Background and Methodology

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Study Background and Objectives

- In 2015, a survey was conducted by Pollara on behalf of CAFII, as part of an industry review of Travel Medical Insurance requested by the Canadian Council of Insurance regulators, triggered by concerns raised in the media. In 2018, CAFII decided to repeat this quantitative research to determine if consumer perceptions and experience changed over the past three years.

- The specific objectives of this study are to quantitatively test:
  - The general public's perceptions of the travel medical insurance sector and the level of confidence in travel medical insurance
  - Experiences and satisfaction levels with the travel medical insurance purchase process among recent buyers (past 12 months)
  - Experiences and satisfaction with the travel medical claims submission process and outcomes among recent claimants (past 24 months)

- CAFII again engaged Pollara, an independent market research firm, to conduct a Canada-wide study that would provide answers to the aforementioned topics.

- Results of this study are compared to the 2015 benchmark study wherever possible.

Methodology

- Survey conducted nationally between February 16th and March 5th using an online methodology
  - First wave conducted August 17 - 28, 2015
- Stratified sample in 2018 was increased to 1,200 adult Canadians from 1,000 in 2015 to allow for more in-depth analysis of purchasers and claimants:
  - General population - Non-buyers of insurance, or purchased more than 12 months ago: n=400 (n=400 in 2015)
  - Purchased travel medical insurance over the past 12 months: n=800 (n=600 in 2015)
  - Subsample #1: made a claim over the past 24 months: n=400 (2015 – made a claim over past 12 months n=300)
- Three-part survey, completed by the following respondent groups:
  - Section 1: Perceptions of the travel medical insurance – completed by all respondents (n=1,200; 2015 n=1000)
  - Section 2: Travel medical insurance purchase experience and satisfaction - completed by buyers (n=800; 2015 n=600)
  - Section 3: Experience and satisfaction with travel emergency experience, claims submission and outcomes– completed by claimants (n=400; 2015 n=300)
- Because of very low incidence levels of buyers and claimants, quota were set to ensure that a sufficient number of completes was obtained for these sub-segments.

Key Observations

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Key Observations

- Over the past 12 months, 30% of Canadians purchased travel medical insurance (31% in 2015); 64% have access to coverage through work or a credit card (63% in 2015).
- Buyers of private coverage are 2 to 3 times more likely to claim extensive knowledge of their work/credit card coverage suggesting that the higher the level of knowledge, the greater the likelihood of buying private coverage.
- While many do not read policies in detail, they do read some and feel they are laid out in an easy to understand way. Claimants and purchasers feel more strongly positive than those less involved in the process.
- The main observation regarding satisfaction is that positive attitudes toward industry and specific experiences with travel medical insurance far outweigh negative ones.
- While the intensity of the positive impressions varies across respondent groups, there are no obvious areas of concern within any segment.
- The more involved the consumer is with the industry (through purchase or making a claim) the more positively they feel. That said, positive attitudes among non-buyers prevails 3 to 1 over negative ones.
- High satisfaction levels are virtually identical by channel – phone, online including mobile and in-person. While all demographics feel satisfied, it is more intense among older consumers.
- Higher regard toward travel medical insurance in general and purchase experience in particular correspond with having a claim event.
- Most importantly, 98% of processed claims were paid: 75% fully, 23% partially, 2% denied (2015: 75% fully, 24% partially, 1% denied)

Comparison to 2015

- Usage of travel medical insurance, purchased or through credit cards/work coverage, remains consistent this year.
- Overall positive attitudes toward travel medical insurance remain unchanged since 2015, with involvement (making a purchase or a claim) continuing to have a positive impact on impressions.
- Consumers have become even more discriminant with their travel insurance purchase; wanting even more from their policies, such as a better price, ease of purchase, coverage for pre-existing conditions, than they did in 2015.
- While satisfaction remains high all on factors, there has been an increase in satisfaction with access to live representatives and their explanation of policies
- The incidence of reading policies and the confidence in knowledge of coverage has seen little change since the first wave of study.
- Satisfaction with the purchase and claims process remains high.
- However, consumers are less likely to know who to call in case of an emergency, and are less likely to feel the process of making this call lived up to expectations.
- While claimants continue to make complaints at the same rate as they did in 2015, they are even more likely to complain about the time it took to process. Policy-wording is less likely to be blamed, but unclear expectations (not tested in 2015) is a primary complaint.

Summary of Key Findings

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Key Findings

- As in 2015, confidence in the travel medical insurance industry is high, with consumers continuing to expect they would receive a high quality service that would provide the assistance they need and the expected reimbursement to cover the cost of the emergency. The more involved the consumer has been in this process (through making a purchase or a claim) the more confident they are.

- Providers in the insurance or financial industry and associations generate the highest trust, moreso than those working in the travel field (consistent with 2015 findings). Consumers are most likely to make purchases from insurance companies (up since 2015), associations or banks, and continue to do so via telephone, online or in-person, in almost equal proportions.

- Consumers are looking for a number of factors when it comes to the policies they buy. More than four-fifths are influenced by features and benefits, amount of coverage, ability to speak to someone, and price, with price being more important now than it was in 2015.

  – While ease of purchase and coverage for pre-existing conditions are slightly less important than other factors, they are more important now than in 2015.

- Consumers are likely to buy single trip insurance, and will buy it as a package, particularly if it means a cost savings.

- While consumers do not always read their policy thoroughly, they feel the policies are laid out in a way that is at least somewhat easy to read and they have an at least reasonable understanding of the coverage terms and limitations, amount of coverage and who to contact in an emergency. Results are similar to that of 2015.

Key Findings

- Purchasers continue to be satisfied with the purchase experience, with at least eight-in-ten being satisfied with each tested factor: the highest being ease of purchase (92%) and the lowest being value for money (84%). Satisfaction with ease of access to a live insurance rep and policy details explained well by live rep has increased, while other factors remain consistent from 2015 findings.
- Those who made an emergency call were satisfied with the experience and said it met or exceed expectations. That said, the number who felt it was in line with expectations, while still high, did drop compared to 2015.
- Almost all claims continue to be paid by travel medical insurance. Satisfaction with this process overall as well as specific aspects of it, is high, not surprisingly even more so by those receiving full payments. However, three-quarters of those receiving partial payments were also satisfied overall. Satisfaction on all factors rose slightly from 2015. However, there was a drop in those who said their payment exceeded their expectations.
- Despite high satisfaction, one-third continue to make a complaint during the claims process, mostly through the insurance representative or manager and mostly about the length of time it took to process the claim. While the level of satisfaction with the result of this complaint is lower than last wave (73%), when looking specifically at those who had made a claim in the past year, the satisfaction with the result of the complaint is similar to 2015 findings.

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CAFII Board of Directors Meeting
Tuesday, November 28, 2017
CIBC Insurance, 25 King St
7th Floor, Commerce Court North, Toronto, ON
3:00 – 5:00 p.m.

MINUTES

Board Present:	Nicole Benson	valeyo
	Bob Grant	ScotiaLife Financial
	Chris Knight	TD Insurance
	Chris Lobbezoo	RBC Insurance
	Peter McCarthy	BMO Insurance *Chair*
	Sandra Rondzik	CIBC Insurance
	Kelly Tryon	The CUMIS Group *(by teleconference)*
Regrets:	Nick Bilodeau	AMEX Bank of Canada
	André Langlois	Desjardins Financial Security
	Robert Zanussi	Assurant
EOC Present:	Jason Beauchamp	BMO Insurance
	Rose Beckford	ScotiaLife Financial
	Charles Blaquiere	Canadian Premier Life
	Moira Gill	TD Insurance
	John Lewsen	BMO Insurance
	Sue Manson	CIBC Insurance
	Tony Pergola	ScotiaLife Financial *Treasurer*
	Andrea Stuska	TD Insurance
	Peter Thorn	TD Insurance *Secretary and EOC Chair*
Also Present:	Keith Martin	CAFII *Co-Executive Director*
	Brendan Wycks	CAFII *Co-Executive Director*
	Caroline Bucksbaum	T•O Corporate Services *Recording Secretary*

1. Call to Order; Welcome; and Meeting Confirmation

The meeting was called to order at 3:08 p.m. P. McCarthy acted as Chair; P. Thorn acted as Secretary; and C. Bucksbaum acted as Recording Secretary.

P. McCarthy extended a particular welcome to Sandra Rondzik from CIBC Insurance, who is attending her first CAFII Board meeting as a newly appointed CAFII Director.

P. McCarthy noted two reasons for a larger than usual Consent Items section on the agenda: (1) to allow for a hard-stop adjournment at 5:00 p.m. for a timely departure to Canoe Restaurant for the Year-End Reception beginning at 5:30 p.m.; and (2) to provide at least 30 minutes for the Board's i*n-camera* session, where there are important matters to discuss.

The purpose of the Consent item approach is to streamline the meeting by bundling non-controversial items together for one vote of approval and receipt for the record by the Board.

Secretary P. Thorn confirmed that notice of the meeting had been sent to all Directors in accordance with the Association's By-Law and that there was a quorum of Directors present, with six Directors present in-person and one Director participating by teleconference.

P. McCarthy declared this meeting of the Board of Directors of the Canadian Association of Financial Institutions in Insurance duly convened and properly constituted for the transaction of business.

1.1. Approval of Agenda

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:
The Meeting Agenda be and is approved as presented.

1.2. Welcome to New CAFII Directors

Sandra Rondzik from CIBC Insurance was welcomed to her first meeting as a new CAFII Director.

2. Consent Items

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:
The following Consent Items be and are approved or received for the record, as indicated in the Action column in the Consent section of the agenda:

2.1. Draft Board Meeting Minutes, June 6, 2017
2.2 Draft Board Meeting Minutes, October 30, 2017
2.3 Summary of Board & EOC Action Items
2.4 Balanced Scorecard
2.5. Regulatory Update
2.6. Regulator and Policy-Maker Visit Plan
2.7. Notes from October 23/17 CAFII/AMF Industry Issues Dialogue
2.8. Notes from November 13/17 AMF Rendez-Vous Event
2.9. CAFII Committee Updates

IT WAS FURTHER RESOLVED that:
The Minutes of the meeting of the Board held on June 6, 2017, and the Minutes of the meeting of the Board held on October 30, 2017, be and are adopted in the form presented, and that a copy of these minutes be signed and placed in the Minute Book of the Corporation.

3. Regulatory

3.1. Alberta Authorization of CI Sales Under an RIA Certificate

The Alberta Insurance Council (AIC) agreed on approved definitions of the types of insurance that can be sold as "credit-related insurance" under a Restricted Certificate of Authority in that province – including *Creditors' critical illness insurance* – as of July 2017. This definition, along with three other definitions, were acceptable to CAFII and CLHIA; however, an ongoing issue is whether the AIC will publicly publish the four definitions on its website. CLHIA is concerned that publishing these publicly could be counter-productive and could lead to confusion among consumers.

During CAFII's regulator and policy-maker visits tour in Western Canada in October, 2017, Joanne Abram, CEO of the AIC, told CAFII that the decision to publish is delayed indefinitely. The AIC will not bring the issue forward until two public representatives are appointed to fill vacant seats, as the two public representatives ought to be involved in the decision-making. CAFII has shared this news with CLHIA.

3.2. Insurance Regulator and Policy-Maker Visits in BC, Alberta, and Manitoba, October 17-19/17

B. Wycks, K. Martin, and members of the EOC provided an update on the six (6) CAFII liaison visits with regulators and policy-makers in BC, Alberta, and Manitoba. CAFII was warmly received by each regulatory body, and left with the sense that each appreciated CAFII's initiative to make the trip. All regulators were pleased that CAFII intends to have regular visits in their locale no less than once every 18 months. CAFII gained at least 2-3 important nuggets of intelligence from each visit. The FICOM meeting was the only notable exception to the friendly, co-operative tone which marked each of the other five meetings, with the tenor and tone of that meeting being more authoritarian and focused partly on FICOM's recent issuance of a Cease and Desist Order against Western Life Assurance sales practices with payday lenders.

At each meeting, CAFII made a presentation that included highlights from its soon-to-be-launched website, along with its intention to invest more in research. Regulators reacted positively to both initiatives and indicated an interest in being consulted on the research, specifically on topics of interest to them, such as the impact of Fintech, technology, and digitization on their regulatory models.

These visits enabled CAFII to successfully raise awareness of the Association's priorities, and left regulators, their staff, and members of western Insurance Councils with a better understanding and impression of CAFII. The Insurance Council of BC benefited from learning about CAFII members, bank-owned insurers, and creditor insurance products that are offered within their marketplace., As well CAFII "gained" a new member prospect based in BC called CUISA, a credit unions-based Association focused on creditor insurance.

3.3. Manitoba Concerns Re 'Single Premium' Insurance Products

The Insurance Council of Manitoba (ICM) raised a concern regarding 'single premium' insurance products and the fair treatment of consumers during its liaison meeting with CAFII in Winnipeg in October, 2017. The ICM's Incidental Sale of Insurance (ISI) Committee is specifically concerned about how single premium products are being sold and structured; for example, having the insurance premium rolled into the principal of the loan. In instances where a consumer repays a loan early, this should result in a refunded premium; however, it is unclear to the ICM whether this occurs in single premium situations.

Prior to the introduction of the province's RIA regime in July, 2015, the ICM reviewed a number of consumer complaints involving consumers and financial institutions such as credit unions that charged the entire insurance premium for creditor-related products up front by adding the insurance premium into the principal of the loan (vs. having the premium payments made separately and periodically, over the course of the loan).

The ICM has asked CAFII members for a response on whether their companies offer single premium products, and if so, how they are structured to ensure fair treatment of consumers. The ICM clarified that these questions are about disclosure to consumers at the point of sale by RIAs, and are not meant to challenge CAFII members.

The Board noted that the information requested applies more to insurers than to CAFII members as distributors. For CAFII's response, individual members could respond directly or CAFII could provide a joint aggregated response. It was suggested that CAFII consider a joint response, which D. Quigley and R. Dobbins offered to draft and circulate to the EOC for review. It was decided that the EOC should discuss the best approach in formulating a response to the ICM, and keep Directors informed of their decision.

3.4. Stakeholder Meeting With CCIR, October 25/17

CAFII was one of the limited number of stakeholders to participate in a meeting with CCIR in a condensed single day of Stakeholder Meetings on October 25/17, as opposed to the two days CCIR allocates in alternating years, during which it meets with a larger number of stakeholders. CCIR noted its completion of its 2017-2020 Strategic Plan, and stated that it is now working on a second co-operative supervisory plan for 2018, to include reviews on the recognized need to improve the Annual Statement, specifically the Instructions section. CCIR has offered to hold a webinar with each stakeholder group to go over the Year II tweaks to the Annual Statement.

A new area of interest for CCIR is home warranty insurance, and compliance with related market conduct requirements. CCIR spoke about the move in Ontario from FSCO to the Financial Services Regulatory Authority (FSRA), an integrated financial services regulator excluding only securities. The formal launch of FSRA is expected in 2019. Currently, FSCO cannot engage in regulatory sandbox activity because it does not have the rule-making authority to approve regulatory forbearance; whereas the OSC does have this rule-making authority and has launched a regulatory sandbox. When the OSC proposes a forbearance initiative on its regulatory body, The Ministry if Finance has 75 days to approve or deny it, and FSRA – when launched – will have the same rules and powers.

A staff executive from the AMF stated that, while it is still necessary for insurance sales representatives to be licensed in each jurisdiction across the country, CCIR recognizes that the industry could find a system of mutual reciprocal recognition to be easier. CCIR's Regulatory Harmonization Working Group will be looking into possibilities in this area. CCIR was asked to send CAFII a list of CCIR Working Groups and their Chairs, which we have subsequently received.

3.5. Meeting With Insurance Councils of Saskatchewan & CLHIA, October 27/17

B. Wycks, K. Martin, and M. Gill attended this meeting along with two CLHIA representatives, and two executive staff members from the Insurance Councils of Saskatchewan (ICS). ICS requested that CAFII and CLHIA work together to submit a joint updated proposal about "representation" for Restricted Insurance Agent licence holders in Saskatchewan. CAFII and CLHIA plan to prepare a joint response over the coming months with a target to submit a joint proposal to the ICS by March 1/18.

3.6. FSCO Life and Health Market Conduct Symposium, November 6/17

Two key learnings from the FSCO Life and Health Market Conduct Symposium are: (1) FSCO will be issuing its planned Incidental Insurance Market Conduct Questionnaire, as well as its CEO Attestation; and (2) FSCO plans to introduce a Fair Treatment of Consumers (FTC) Guideline for the insurance industry in 2018, on which it will be consulting with the industry. CAFII has raised with CCIR Policy Managers the question of why FSCO would create their own FTC Guideline as an independent provincial initiative, rather than at a national level through CCIR – further noting that the AMF has its own FTC Guideline already. CCIR responded that provincial regulators have their own authority. CCIR will take learnings from FSCO's Guideline and ensure it is reflected at the national level.

3.7 Liaison Lunch with CCIR Policy Managers, November 17/17

Two CCIR Policy Managers, Martin Boyle and Tony Toy, joined CAFII for a liaison lunch hosted by Assurant Solutions at its offices near FSCO headquarters in North York. The lunch was held in a Boardroom and catered instead of held at a restaurant, which was more effective, avoiding extra noise and din and allowing for more CAFII representatives around the table and some on the phone. The liaison was valuable to both sides. CAFII will continue to have these liaison lunches with CCIR on a quarterly basis.

3.8 FSCO Life Insurance Working Group Meeting, November 21/17

i. Process for Responding to FSCO Incidental Insurance Market Conduct Questionnaire and CEO Attestation for Bank-Owned Insurance Companies

K. Martin reported on FSCO's newly released Incidental Insurance Market Conduct Questionnaire, and the Bank-Owned Insurance Company CEO Attestation. This was raised at the FSCO Life and Health Market Conduct Symposium on November 6/17, and again at the FSCO Life Insurance Working Group Meeting on November 21/17. FSCO agreed that CAFII could consult with its members and share the drafts of both documents with its members. Materials have subsequently been distributed to CAFII's EOC members, who have provided helpful suggestions.

FSCO has offered to hold a 90 minute consultation session with CAFII. Originally the session was to include only one CAFII representative and one CLHIA representative, meeting together in the same session. Upon CAFII's suggestion, FSCO agreed to have a session with CAFII separately and to let more than one representative be present. The session will be held on December 5/17.

A draft written response will be circulated to the EOC for feedback and comments, and will be developed into a final written submission from CAFII. CAFII's submission will seek clarity as to whether FSCO is only asking bank-owned insurance companies, or also the manufacturers of insurance products whether they are banks or not, to fill out the Questionnaire. It will also clarify that not all bank-owned insurance companies manufacture or underwrite the products they distribute. While FSCO has not asked for a written submission, the EOC will decide whether it would like to use the draft written submission as a discussion guide for the in-person 90 minute session with FSCO, or as a submission. It was also suggested that consideration be given to collaborating with the CLHIA and possibly even meeting FSCO with them, as there could be significant overlap in the positions of the two Associations.

ACTION: Send a written draft submission for responding to FSCO re: the proposed FSCO Incidental Insurance Market Conduct Questionnaire and CEO Attestation for Bank-Owned Insurance Companies to all EOC members for review and feedback [K. Martin; November 29/17].

ACTION: Schedule a conference call for the EOC to discuss CAFII's written response to FSCO in advance of a 90 minute consultation on December 5/17 [C. Bucksbaum; November 30/17].

ACTION: Send a plan and agenda for CAFII's consultation with FSCO to all CAFII representatives attending the session [K. Martin; December 5/17].

CAFII's key message during the private consultation and in the possible written submission will be that FSCO does not realize that several bank-owned insurers are just distributors, not manufacturers, and that the Questionnaire is not applicable to all CAFII members. It is not clear whether FSCO intends to only send the Questionnaire to insurance companies manufacturing these products, which is the direction CAFII feels they should take.

It was suggested that CAFII discuss its input with CLHIA prior to the consultation to ensure the two Associations are aligned in their responses. As well, CAFII will be sure to include responses from the two CAFII members that are insurers.

3.9 CISRO LLQP Stakeholder Engagement Committee

Ron Fullan, Chair of CISRO, recently brought to stakeholders' attention CISRO's plan to form a Stakeholder Engagement Committee around the new Life Licence Qualification program (LLQP) launched on January 1, 2016. CISRO wants CLHIA to quarterback the new committee, which will consist of a small group of approximately 5 members. The primary mandate will be to have a lot of information-sharing and liaison with the LLQP Governance Committee. CAFII must decide if it would like to have a representative on this new committee.

ACTION: Canvass the EOC for suggestions to determine if CAFII should have a representative on CISRO's new LLQP Stakeholder Engagement Committee [B. Wycks/K. Martin; December 4/17].

3.10 Consultations/Submissions Timetable

i. AMF Issues Paper on "Managing Conflict Of Interest In Relation To Incentives"

CAFII made a formal submission to the AMF in mid-October, 2017, on its "Managing Conflict Of Interest In Relation To Incentives" Issues Paper.

ii. BC Ministry of Finance 10-Year Review of FIA

With regard to the BC Ministry of Finance 10-year Review of Financial Institutions Act (FIA), CAFII learned during its recent Western Canada regulatory visits tour that the Ministry is now planning to release its Policy Paper in Q1 of 2018; and that it will include a proposal that the province align with the other three Western Canada provinces by introducing an RIA regime. The release of the Policy Paper has been delayed due to a change of government, with a new Deputy Minister of Finance who has not previously been involved in Finance and with the lead on the FIA initiative being away on personal leave. The earliest possible implementation date for any changes arising from the FIA review is now mid-2019.

4. Strategy

4.1. Proposed CAFII 2018-2020 Strategic Plan

K. Martin presented on the proposed 2018-2020 Strategic Plan, reviewing the decision-making process, highlighting key documents the EOC used to review the strategic options for the Association, and summarizing the main recommendations. There were a variety of opportunities for EOC members to consult and provide feedback on the Strategic Plan, both at and between meetings in June, July, and August of 2017.

To allow the Board an opportunity to reflect on the proposed priorities for CAFII over the next three to five years, it was suggested by the EOC that the Board of Directors only be asked for formal approval of the key components of the Strategic Plan at a subsequent meeting, which would likely be achieved through a special purpose Board teleconference meeting in early 2018.

The focus of CAFII has been on regulatory and policy-maker relationship building, with a strong communications and advocacy component, with limited focus on research and public relations. CAFII will want to maintain its regulatory priority, but could also develop new initiatives to supplement, reinforce, and build on this strength. It was noted that a consumer-oriented website, enhanced communication and networking capabilities, and original research all reinforce CAFII's regulatory emphasis.

The strategic initiatives reviewed by the EOC were reviewed in different buckets. One bucket was initiatives related to CAFII's existing regulatory emphasis, such as meeting with regulators on a regular basis, in their own locale; a newsletter to share regulatory findings; developing proactive, forward looking regulatory positions that reflect our long-term regulatory objectives; and new committees that can develop positions on specific regulatory issues. Another bucket was initiatives outside the direct regulatory emphasis, such as thought leadership, additional research, enhancing the website, developing a networking and communication plan with influencers such as bureaucrats, politicians, academics, and thought leaders, and a more active media presence. The EOC looked at options in terms of which paths to pursue, the implications of investing in different priorities, and potential costs. A prioritization structure was developed by evaluating each potential initiative as a high, medium, or low priority. Each initiative was then scored and bucketed into categories of unanimous support, strong support, medium support, and low support (see slide 12).

High priorities included more emphasis on research, continuing to invest in the website, executing on a communication and networking plan with influencers, and being proactive with regulators. All of these priorities were supported in particular by high-quality research, which was a factor in the success of the other components of the strategy.

It was agreed that medium priorities such as more meetings on our research, internal presentations on CAFII within member institutions, and developing the value proposition for Associations, would continue to receive attention but would not be the subject of immediate investment or resources.

The Board's approval will be requested on the areas that the Strategic Plan has identified as important to invest in.

ACTION: Each Board member to meet will with his/her EOC member to go through the options and recommended priorities set out in the Proposed CAFII 2018-2020 Strategic Plan [All Board members; January 22/18.]

It was noted that, while T. Pergola will speak to the 2018 Operating Budget options in the *in-camera* session, an entity's Operating Budget is meant to be a costing out of its Strategic Plan; which might lead to a challenge if the budget is approved before the Strategic Plan. A thought was raised by the Board that approving the budget at the current Board Meeting can help inform what CAFII will do in terms of the Strategic Plan, and ensure the EOC goes down a Strategic Path that the Board generally supports.

P. McCarthy recommended that further discussion and considerations regarding approving the 2018 Operating Budget and CAFII 2018-2020 Strategic Plan be held for the *in-camera* Session.

4.2. Media Strategy Pre-Approved Op-Ed Responses

The Board was asked to approve the Pre-Approved Op-Ed Responses – collaboratively developed by CAFII's Co-Executive Directors and CAFII's Media Consultant, and vetted by EOC members – that will enable CAFII to respond in a timely period of one-two days to negative media articles.

K. Martin outlined the proposed Media Protocol involving a small committee comprised of CAFII's Co-Executive Directors, CAFII's Media Consultant, the Board Chair and the EOC Chair, to discuss specific negative media articles, and assemble responses based on the existing pre-approved material to submit on the Board's behalf. It was raised that, if the Board approves – in advance – the several Op-Ed responses, perhaps it is not necessary to have this small committee review and approve each drafted response. It was proposed to instead give the CAFII Co-Executive Directors and CAFII's Media Consultant authority to draft and submit final responses without further approval. It was suggested that the pre-approved responses be shared with the Media Advocacy Committee for their comments, and noted that where there are product nuances in a response, EOC members are available to be consulted prior to a response being sent through.

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:

The Board approves the Pre-Approved Op-Ed Responses for CAFII's implementation and use, as specified in the related Media Protocol, with the exception that the "small Committee" for final authority be comprised only of the CAFII Co-Executive Directors and CAFII's Media Consultant.

4.3. New CAFII Website Launch; Media Coverage; and Announcement to Insurance Regulators and Policy-Makers

K. Martin reported that the new CAFII website launched two weeks ago; and an announcement was subsequently sent to insurance regulators and policy-makers across the country. CAFII has already received positive feedback. The site has had over 700 hits on the English side and over 200 hits on the French side. English and French Media Releases were issued about the launch of the new site, yielding Media Coverage including two media articles, one in English and one in French. Both articles were positive and reflected key messages CAFII wanted to share. The initiative has been successful, and the new website is an instrument that can continue to be utilized as a communication tool as CAFII finds new ways to invest in it going forward.

4.4 New Website Launch-Based Outreach to National Bank Insurance and Laurentian Bank Insurance

B. Wycks provided an update on the new website-based outreach initiative in which the new website launch was used as a vehicle to reach out to National Bank Insurance and Laurentian Bank Insurance. CAFII sent an email to the primary contact at each bank announcing CAFII's new website in both English and French with Media Coverage in both languages, and encouraged them to share this news internally. National Bank, a former member of CAFII, has not yet responded. Laurentian Bank replied that they will discuss internally and follow up with CAFII. Laurentian was a CAFII Associate for several years until this year, and has indicated that their Associate status was not beneficial to them, given that they are in Montreal and cannot attend many Toronto events. They are considering becoming a full member.

ACTION: Follow-up with Joane Bourdeau at National Bank and schedule a meeting with Caroline Oum at Laurentian Bank to pitch the benefits of membership with CAFII [B. Wycks/K. Martin; January 31/18].

5. Financial Management

5.1. Financial Statements as at October 31, 2017

Treasurer T. Pergola reported on the financial statements as at October 31, 2017. He noted that the Statement of Operations shows a YTD deficit of $118K; revenues are down as a result of one member and three Associate members not renewing. There has been some savings on expenses, relative to forecast. The budgeted YTD figure shows a budgeted deficit of $161K; however, this is pro-rated over 10 months and is not time-adjusted, meaning there may be timing differences in the current and budgeted YTD figures. The 2018 Operating Budget will provide more accurate monthly budgets to have more reflective YTD figures. With respect to the Balance Sheet, there are no liquidity concerns; CAFII has the funds to meet obligations and satisfy the remaining expenses for 2017. From a financial reserves perspective, CAFII is operating between the minimum and maximum targets of 25% and 50% of annual operating expenses, currently at 35% as at October 31, 2017.

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:

The CAFII Financial Statements as at October 31, 2017 be and are approved in the form presented.

5.2 Draft CAFII 2018 Operating Budget Options *(assigned to In-Camera Session)*

P. McCarthy noted that, as indicated on the agenda, the discussion of the draft CAFII 2018 Operating Budget Options would be deferred to the *in-camera* session at the conclusion of this meeting.

6. Other Business

6.1. New CAFII Associate: DGA Careers

DGA Careers was approved by the EOC as a new CAFII Associate. DGA Careers is an executive recruiting agency that specializes in P&C insurance and hopes to branch into life and health insurance. They see benefit in becoming an Associate of CAFII in terms of networking and business development. DGA Careers joined in September 2017, and was given pro-rated dues of $1200 for the last quarter of 2017. Gerald Legrove, DGA Careers' CEO, will attend the CAFII Year-End Reception following this meeting.

Regarding other prospective Associates, it was shared that two lawyers from Torys LLP will also attend the reception following this Board meeting. As well, a marketing executive from Manulife Financial reached out about full membership with CAFII. B. Wycks and K. Martin provided information on the costs, benefits, and opportunities for a CAFII member, and contrasted this with Associate status membership. Fasken Martineau, and other law firms, might be prospective Associate members; however, law firms may be a harder sell because the partnership model within a law firm requires that all partners must be in agreement that the firm join an Association.

ACTION: Follow-up with the pitch to law firms to join CAFII as an Associate [B. Wycks/K. Martin; January 31/18].

6.2. Proposed 2018 CAFII Annual Members' Luncheon and Board Meeting Dates

B. Wycks highlighted the dates proposed for the four Board Meetings in 2018 and for the upcoming Annual Members' Luncheon & Speaker Forum, outlined on a one-page document in the meeting package. The Board assented to the five dates.

i. Proposed Speaker for 2018 CAFII Annual Members' Luncheon
It was proposed that the 2018 CAFII Annual Members' Luncheon speaker be Richard Nesbitt, CEO of the Global Risk Institute. The Board assented to the proposed speaker for this CAFII annual event.

7. In-Camera Session

The Board of Directors met *in-camera* from 4:40 p.m. to 5:23 p.m. Co-Executive Directors B. Wycks and K. Martin, along with EOC members, remained with the Board at first to discuss the below-noted two items on the *in-camera* agenda, following which they departed from the *in camera* session.

- 7.1 Re-Evaluation of CAFII Administrative Support Model; and
- 7.2 Draft CAFII 2018 Operating Budget Options.

8. Termination
There being no further business to discuss, the meeting was terminated at 5:23 p.m.

It was noted that the next CAFII Board of Directors meeting will be held on Tuesday, April 17, 2018, from 2:30 to 4:30 p.m., with the location TBA.

______________________ __________________________________
Date Board Chair

____
Recording Secretary

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CAFII Special Purpose Teleconference Board of Directors Meeting
Wednesday February 7, 2018
Teleconference Only
3:00 – 4:00 p.m.

MINUTES

Board Present:	Nicole Benson	Valeyo	
	Nick Bilodeau	AMEX Bank of Canada	
	Bob Grant	ScotiaLife Financial	
	Chris Lobbezoo	RBC Insurance	
	Peter McCarthy	BMO Insurance	*Chair*
	Kelly Tryon	The CUMIS Group	
Regrets:			
	Chris Knight	TD Insurance	
	André Langlois	Desjardins Financial Security	
	Sandra Rondzik	CIBC Insurance	
	Robert Zanussi	Assurant	
EOC Present:			
	Jason Beauchamp	BMO Insurance	
	Rose Beckford	ScotiaLife Financial	
	Charles Blaquiere	Canadian Premier Life	
	Moira Gill	TD Insurance	
	John Lewsen	BMO Insurance	
	Sue Manson	CIBC Insurance	
	Tony Pergola	ScotiaLife Financial	*Treasurer*
	Andrea Stuska	TD Insurance	
	Peter Thorn	TD Insurance	*Secretary and EOC Chair*
Also Present:	Keith Martin	CAFII	*Co-Executive Director*
	Brendan Wycks	CAFII	*Co-Executive Director*
	Natalie Hill	Managing Matters	*Recording Secretary*

1. Call to Order; Welcome; and Meeting Confirmation

The meeting was called to order at 3:12 p.m. P. McCarthy acted as Chair; P. Thorn acted as Secretary; and N. Hill acted as Recording Secretary.

P. McCarthy noted the reason for the Special Purpose Meeting was to secure the Board's approval of several time-sensitive matters, including

- the proposed CAFII Three-to-Five Year Strategic Plan which was presented to the Board for consideration at the board's previous meeting on 28 November 2017;

- a new version of the CAFII 2018 Operating Budget, which had been updated to reflect our Association's current financial situation and some economizing measures which were implemented based on Directors' feedback on the initial draft budget provided during the board's 28 November 2017 *in-camera* discussion; and

- a new concept proposal around a new CAFII "Initiation Membership" category, which responds to some considerable momentum which our Association has recently developed around potential new members.

P. McCarthy summarized by noting that there are four items (4) "For Approval" and one (1) "Information" item on the agenda.

1.1. Confirmation of Quorum

P. Thorn confirmed that notice of the meeting was sent to all Directors in accordance with the Associations By-Law. P. Thorn confirmed that a quorum of Directors was present, noting (6) Directors were on the phone.

P. McCarthy declared this Special Purpose Meeting of the Board of Directors of the Canadian Association for Financial Institutions in Insurance duly convened and properly constituted for the transaction of business. He also welcomed members of the Executive Operations Committee present on the phone, along with the Co-Executive Directors Brendan Wycks and Keith Martin.

1.2. Approval of Agenda

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:
The meeting agenda be and is approved as presented.

2. Strategy, Financial Management, and Governance Matters

2.1. CAFII Three-to-Five-Year Strategic Plan

P. McCarthy advised that at the previous board meeting on 28 November 2017, Keith Martin presented the highlights of the proposed CAFII Three-to-Five-Year Strategic Plan, which was the result of nine months of intensive work by the EOC and our Co-Executive Directors throughout much of 2017. At that time, Keith indicated that the proposed Strategic Plan would be left with board members to consider and reflect upon for a period of time, prior to a Board vote to approve it in early 2018.

P. McCarthy thanked all EOC and the Co-Executive Directors for their hard work.

K. Martin provided a brief overview on the proposed CAFII Three-to-Five-year strategic plan, with a focus on the process used to arrive at the recommended Strategic Plan, and the key recommendations from the EOC on the Strategic Plan.

Out of this exercise the EOC identified some key areas for CAFII to invest in: maintaining and building on our regulatory strength, developing a significant research program, building an assertive communication and networking program with influencers, continuing to invest in the website, and developing long term proactive regulatory positions. All five areas reinforced each other and together could make the Association more effective, including developing the Association's profile and credibility.

Areas for a "watching brief" and for investment but behind other priorities were also identified. Finally, a CAFII Core Strategic Prioritization Statement, summarizing the key recommendations in the Strategic Plan, was also identified, and together these were the items that the Board was asked to approve.

K. Tyron stated that she is supportive of the plan and recognized the great efforts that were put forward. Chris Lobbezoo asked how the Plan would be formally reviewed. K.Martin explained that it would be reviewed annually by the EOC to assure that what the Plan was being successfully deployed, with updates to the Board after those evaluations.

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:
The proposed High Prioritization elements of the Strategic Plan; the areas that are being relegated to Low support; the areas identified as Medium Support; and the Core Strategic Prioritization Statement which will be an internal reference and guideposts document as the Association moves forward – be and are hereby approved.

2.2. CAFII 2018 Operating Budget

T. Pergola presented the revised/updated CAFII 2018 Operating Budget and highlighted changes made since the Board had the *in camera* discussion about a Budget Options document at its 28 November 2017 Bmeeting.

Drawing attention to the spreadsheet provided, the 2018 proposed budget projects a 2018 deficit of $89,000. The minimum reserves ratio at the end of the 2018 fiscal year is expected to be 13%, well below the minimum target of 25%. At the end of the 2018 fiscal year, the surplus cash available to the Association will be reduced to 88,993.

While the current situation is not sustainable on an ongoing basis, there are initiatives in place to increase revenue, and there are some discretionary expenses (such as research) that could be reduced later in 2018 if we do not see a positive change in the Association's financial situation, Mr. Pergola advised.

B. Wycks added that membership dues revenue assumptions underlying the budget are conservative. Dues revenue from the four new Associates is now included in the budget, but it does include the possibility of new Members joining the Association.

On a motion duly made, seconded and unanimously carried,

IT WAS RESOLVED that:
The proposed CAFII 2018 Operating Budget – be and is hereby approved.

2.3. Proposed New CAFII "Initiation Membership" Category

B. Wycks presented the proposed new CAFII "Initiation Membership" Category, and identified which financial institutions and other creditor insurance-related organizations in Canada would be immediate prospects for this form of introductory CAFII membership.

B. Wycks explained that the Initiation Membership category was designed to entice member prospects that are interested in full membership, but who might be experiencing "sticker shock" at the prospect of paying the full membership dues immediately upon joining. The Initiation Membership will create a trial membership for a period of two years, during which a new Member company can enjoy the benefits of full membership with a 40% dues reduction.

After the two year trial period, an Initiation Member will have to decide whether it wishes to continue as a Regular Member, at full Regular Member dues, or leave the Association. But the expectation is that after experiencing the benefits of CAFII for a two year period, they will be in a better position to sign on as full paying Regular Members. Initiation Members will go through the same review and vetting process as all other members, and will have the same privileges as other Regular members, with the following exceptions: Initiation Member representatives cannot serve as Chair of the Board, Vice-Chair of the Board, or as the Chair of the EOC.

A few prospective companies that are potential candidates for the Initiation Membership category are Laurentian Bank, HSBC, Canada Life, and OneMain Solutions Canada.

B.Wycks and K. Martin have an upcoming lunch meeting organized in Montreal with Joane Bourdeau from National Bank, at which they will explore the prospect of National Bank returning to CAFII membership. However, National Bank is not eligible for Initiation Membership offer because applicants may not have been a Member of CAFII for at least the past five years.

However, B.Wycks proposed that CAFII allow National Bank to come back in at the mid-point range between lower and upper tier dues for 2018, and step up to the upper tier in 2019. This suggestion received unanimous support from CAFII Board members.

On a motion duly made, seconded an unanimously carried,

IT WAS RESOLVED that:
The proposed new CAFII "Initiation Membership Category – be and is hereby approved.

2.4. CAFII Media Awareness/Training Session

K. Martin provided an overview of the CAFII Media Awareness and Training Session planned for Wednesday, 28 March, 2018. All interested Directors and EOC members are invited to participate in the "Setting Expectations" and "Managing the Media" components, during the 60 minutes and subsequent 90 minutes of that session. The last 90 minutes of the session will be for a customized media training session with CAFII media spokesperson K. Martin.

K. Martin noted that the session will include suggestions on how to engage the media, looking at the benefits and risks on engaging the media, and a high level review on the latest developments in the media, in particular the impact of social media.

2.5. CAFII Associate Status Application from OneMain Solutions Canada

P. McCarthy informed the Directors that based on previous discussion, it was decided that it would be premature to ask the Board to make a decision on the CAFII Associate Status Application from OneMain Solutions Canada in today's meeting. The decision will be deferred to the next regularly scheduled Board Meeting on 17 April 2018. More time is needed to complete further research and due diligence on OneMain Solutions Canada before being in a position to determine if it is a good fit for CAFII.

B. Wycks provided background context to OneMain Solutions Canada's application for CAFII Associate Status. He noted that OneMain Solutions Canada consists of two insurance companies; AHL (American Health and Life Insurance Company) and Triton (Triton Insurance Company).

Mr. Wycks advised that OneMain Solutions has indicated that, if its application for CAFII Associate status is approved, it will then give consideration to applying for CAFII Initiation Membership. It was agreed that OneMain Solutions Canada will be invited to have representatives attend the 2018 CAFII Annual Members' Luncheon on February 20/18; and its representatives will be positioned at tables with EOC and Board Members.

P. McCarthy thanked everyone for the valuable discussion about OneMain Solutions Canada's Application for CAFII Associate Status.

8. Termination

With the five agenda items for this meeting been discussed and/or approved, and there being no further business, the meeting was terminated at 3:58 p.m. It was noted that the next CAFII Board of Directors meeting will be held on Tuesday, April 17, 2018, from 2:30 to 4:30 p.m., at a location to be announced.

______________________ ______________________________

Date Board Chair

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Recording Secretary

cafii acifa

	Summary of CAFII Board and EOC Action Items				
	Source	Action Item	Responsible	Deadline	Status 23-Mar-2018
		Ontario Ministry of Finance & FSCO Regulatory Issues			
1	EOC January 16, 2018	Reach out to Erica Hiemestra and Sarah Hobbs at CLHIA to determine the best way for CAFII/CLHIA Working Group to request from FSCO a delayed deadline on the Working Groups written submission to aviod confusion between the FSCO Questionaire and Attestation	Keith	19-Jan-18	Complete
2	EOC January 16, 2018	Remind FSCO of CAFII's late December request for input re Bank-Owned Insurance Company CEO Attestation	Keith	19-Jan-18	Complete
3	EOC January 16, 2018	Forward to EOC Members FSCO's timetable of meetings regarding their Incidental Sales of Insurance (ISI) Market Conduct Questionnaire	Keith	23-Jan-18	Complete
		Alberta Critical Illness Insurance Issue			
4	EOC February 21, 2017	Contact J. McCutcheon to ask her to review the definition of Creditors' Critical Illness Insurance approved by the Alberta LIC to ensure there are no issues with it from an industry-wide perspective.	Brendan	28-Feb-17	Deferred
		Saskatchewan Insurance Act and Regulations Issues			
5	EOC November 14, 2017	Schedule a follow-up meeting with Erica Hiemstra and Sarah Hobbs from CLHIA for mid-December to discuss the joint submission to ICS	Brendan, Keith	24-Nov-17	Complete
		Quebec Ministry of Finance & AMF Regulatory Issues			
6	EOC Janaury 16, 2018	Follow-up with the Quebec Ministry of Finance after CAFII's submission to the Committee on Public Finance of the Quebec National Assembly re Quebec Bills 141 and 150 has been tabled	Keith	31-Jan-18	Complete
7	EOC Janaury 16, 2018	Obtain Pete Thorn's signature on the English and French submissions to the National Assmebly's Committee on Public Finance re Quebec Bills 141 and 150; and submit the French verision to the Committee on Public Finance of the National Assembly of Quebec.	Keith	18-Jan-18	Complete
		Finance Canada Regulatory Issues			
8	Board Nov 29, 2016	Monitor Canadian Bankers Association's plans and actions for seeking redress with Finance Canada re deficiencies in Bill C29, Budget Implementation Act's Consumer Framework related to creditor insurance and standalone insurance products.	Brendan	Ongoing	In progress
		Regulator and Policy-Maker Meetings			
9	EOC April 25, 2017	Prepare and present proposal for an Atlantic Canada Regulators and Policy-Makers Visits Tour in the Fall of 2017	Brendan	31-Aug-17	Deferred to Spring 2018
		Association Strategy and Governance			
10	Board November 28, 2017	Each Board member to meet will with his/her EOC member to go through the options and recommended priorities set out in the Proposed CAFII 2018-2020 Strategic Plan	All Board	22-Jan-18	Complete
11	EOC September 19, 2017	Approach Directors to see if they would consider becoming the new CAFII Chair to succeed Peter McCarthy; or becoming the Vice-Chair	All EOC	23-Oct-17	In progress
12	EOC June 20, 2017	Review "Candidate Profile: CAFII Board Chair" and "Reverse Chronology CAFII Board Chair, Board Vice-Chair, EOC Chair, and Treasurer Appointees" and discuss with own CAFII Board member the possibility of his/her being a nominee for the CAFII Board Chair or Vice-Chair roles, for a 1 or 2 year appointment.	All EOC	5-Sep-17	In progress
13	EOC January 16, 2018	Discuss with Board Chair Peter McCarthy the proposed new CAFII Initation Membership Category and related amendment to Member Dues Policy	Brendan, Keith	31-Jan-18	Complete
14	EOC January 16, 2018	Go back to Fasken Martineau regarding the opportunitiy to join CAFII as an Associate, this time reaching out to Robert McDowell	Brendan, Keith	31-Mar-18	In progress
15	EOC February 27, 2018	Document in writing the process for reviewing, approving, and admitting applicants for CAFII Members and Associate status	Brendan	30-Apr-18	In progress
		Association Media and Communications			
16	EOC January 16, 2018	Follow-up with C. Blaquiere on specific proposals around future investments for the CAFII website and what options to prioritize	Keith	22-Jan-18	Complete
		Association Administration and Financial Management			
17	EOC June 20, 2017	Review the mandate of the CAFII Networking and Events Committee; solicit/recruit interest, as necessary; and propose 3-5 volunteers -- from among current EOC member or other individuals from member organizations -- to reconstitute and reactivate the Committee.	All EOC	24-Oct-17	In progress
18	EOC January 16, 2018	Reach out to each Committee Chair for budgeted expense allocations for each month in 2018	Brendan, Keith, Managing Matters	9-Feb-18	Completed
		CAFII Research			
19	EOC January 16, 2018	Get exact dates from Pollara Strategic Insights on when research will be out-of-field and when results will be completed	S. Manson	19-Jan-18	Complete
20	EOC January 16, 2018	Create a timeline, working backwards, from predicted completion to present day for each potential research option which CAFII could pursue, to identify next steps and a project management map	Keith	31-Jan-18	Complete
		Manitoba Financial Institutions Regulatory Branch & Insurance Council of Manitoba Issues			
21	EOC January 16, 2018	Write to Scott Moore and Barbara Palace-Churchill to confirm that CAFII is working on a response re Single Premium Insurance Products, and state CAFII's timeline for completion	Keith	19-Jan-18	Complete

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Regulatory Update – CAFII Board of Directors and Executive Operations Committee, 23 March, 2018

Prepared by Keith Martin, CAFII Co-Executive Director

Table of Contents

Federal/National:

Provincial/Territorial

Thought Leadership/Research/International Developments

Appendix A

Federal / National

Financial Consumers Agency of Canada (FCAC)

FCAC to Expand its Probe Sales Practices to Smaller Banks and Federally-regulated Credit Unions
The Financial Consumers Agency of Canada (FCAC) plans to extend its probe into the sales practices of Canada's largest banks to smaller and medium-sized banks, federally-regulated credit unions, and federal trust companies. The Agency's Commissioner Lucie Tedesco said that FCAC has found grievances about sales practices at these other institutions as well, adding that "There are issues with the medium or smaller banks… Our review may not be as intensive, we will have to see what measures they have put in place once we get there."

Canadian Foundation for the Advancement of Investor Rights (FAIR)

The Canadian Foundation for the Advancement of Investor Rights (FAIR) Calls for Reform to Protect Bank Consumers
The Canadian Foundation for the Advancement of Investor Rights and the Public Interest Advocacy Centre, said the government should work towards having one national statutory ombudservice for financial services complaints that can issue binding decisions.

Marian Passmore, director of policy at FAIR Canada, said existing rules fall short. "There is inadequate protection for Canadians at banks and reform is needed. FAIR Canada calls for a best interest standard so Canadians get the advice they expect and deserve," Passmore said in a statement.

Federal Government

Federal Government Budget Includes Intention to Strengthen the FCAC
The federal government has signalled its intention to enhance consumer banking protection in its February 2018 budget. Ottawa said it proposes to introduce legislation that "would strengthen the Financial Consumer Agency of Canada's tools and mandate and continue to advance consumers' rights and interests when dealing with their banks."

The announcement represents the government's latest pledge to ramp up consumer protection in the federally-regulated financial services sector. Previous efforts have floundered amid issues of jurisdiction, particularly possible conflicts between federal and provincial consumer protection legislation, and in the face of criticism about weak standards and oversight along with an inadequate dispute-resolution system. Nevertheless, the government declares in the budget that it takes financial consumer protection "very seriously and intends to ensure that all Canadians benefit from strong consumer protection standards."

Canadian Life and Health Insurance Association (CLHIA)

Travel Medical Insurance Industry Faces Challenges Repatriating Ontarions Due to Lack of Beds

CBC News reported on 7 March, 2018 that Ontarians who've fallen ill while travelling outside the country have found it difficult to get hospital beds. The province said insurance companies may not be doing enough to find beds, but industry rep Joan Weir says companies have nothing to gain by keeping clients in hospitals abroad.

Premier Kathleen Wynne said earlier this week there has been an inexplicable disconnect between the insurance industry and the health system, and that the problem must be solved.

Joan Weir, the director of Health and Disability Policy for the Canadian Life and Health Insurance Association, told CBC's *London Morning* program Wednesday that bed shortages happen from time to time in many Canadian cities, but recent research reveals that "London is a particular problem." "We're not quite sure as insurers whether we're not being able to access available beds, or if there just aren't available beds. So there's a little bit of a communication breakdown there," said Weir.

In the legislature Tuesday, Health Minister Helena Jaczek said when Ontarians purchase travel insurance they are relying on the insurer to work with the provincial health-care system. "And our staff at the ministry are willing to go the extra mile to ensure the highest quality of care for Ontarians … I certainly am very committed to ensuring that coordination, communication mechanism Is strengthened," said Jaczek.

Weir said the insurance industry shares that commitment. She said not being able to obtain a bed for a client is a frustrating process. "And there's nothing in it for insurers to delay the process. We definitely work very hard to find somebody a bed to come home to." She noted it can cost up to $20,000 a day to keep a patient in intensive care in a U.S. hospital. Weir said there needs to be more dialogue between the Ministry of Health and the insurance industry to determine where the problems and bottlenecks can occur.

Currently insurers have to place direct calls to individual hospitals in the region where the patient lives. But Weir said "there must be a better way of doing things than using resources to try and determine which bed is available, where." She suggested a database or other form of centralized system to streamline the process. She thinks the insurance industry has a role as a stakeholder to contribute ideas. "It probably is the Ministry of Health's role to figure it out, but we definitely can provide assistance and support."

<u>CLHIA releases Program for its 2-4 May, 2018 Annual Compliance and Consumer Complaints Conference, in Calgary, Alberta</u>

The CLIHA has released its program for its 2018 Annual Compliance and Consumer Complaints Conference. Peter McCarthy, President and Chief Executive Officer, BMO Life Assurance Company, will talk about fostering a Fair Treatment of Customer Tone from the Top by embracing a customer centric focus across all decisions and practices from product design, to distribution, sales, service and claims. There are several speakers from new CAFII Member Manulife, including Jane Birnie, AVP Compliance Shared Services, Canadian Division, who will speak about anti-fraud measures; Jean Lamy, Ombudsman, Manulife will speak about “the Evolving Complainant”; and Kim Hayes, Director, Market Conduct Compliance, Manulife, will speak on a panel about the CCIR’s Annual Statement on Market Conduct.

Richard Hogeveen, VP, Chief Compliance Officer Canada at Manulife and John Lewsen, Chief Compliance Officer, BMO Life Assurance Company will be on a panel on “Risk Culture, Risk Appetite, and the Risk Based Approach to Regulation.”

Among the regulators who will be speaking at the conference are: **David Sorensen**, Deputy Superintendent of Insurance Regulation and Market Conduct, Treasury Board and Finance, Government of Alberta; **Anatol Monid**, Executive Director, Licensing and Market Conduct Division, Financial Services Commission of Ontario; **Frederic Pérodeau**, Superintendent, Client Services and Distribution Oversight, Authorité des marches financiers, Quebec; **Connie Dewar**, Managing Director, Office of the Superintendent of Financial Institutions Canada; J**oanne Abram**, Chief Executive Officer, Alberta Insurance Counsel; **Ron Fullan**, Executive Director, Insurance Councils of Saskatchewan; **Barbara Palace Churchill**, Executive Director, Insurance Council of Manitoba; **Janet Sinclair**, Executive Director, Insurance Council of British Columbia.

CAFII is in the process of organizing small liaison sessions with many of these regulators and CAFII members in attendance at the conference.

<u>Millenials Want Targeted, Individualized Information from their Insurer: CLHIA</u>
Younger people want more targeted insurance information than their older counterparts, according to Suzie Pellerin, Assistant Vice President of Public and Government Affairs at the Canadian Life and Health Insurance Association, Quebec Division (ACCAP-Quebec), who drew on data collected by Sun Life Financial in 2016 to come to this conclusion. Ms. Pellerin notes that more millennials agree to receive targeted information from insurers about their health than other age groups: "There is customization and targeting that is possible through technology. People are used to it. Inevitably, when it comes to group insurance, they expect the same approach, " she says.

Travel and Health Insurance Association (THiA)

<u>THiA Issues Bulletin on Quebec Bill 141</u>
The Travel and Health Insurance Association (THiA) issued a bulletin on Quebec's Bill 141, in which it notes that Jill McCutcheon, THiA's legal counsel, has indicated that "the Bill should be considered good news as it clarifies and codifies what was generally understood by the industry, but which was not previously made clear in the acts and regulations." THiA highlights that the sale of insurance products online (i.e. without an intermediary) is now permitted, and that while the Distribution Guide in its current format has been removed, the distributor will still be required to deliver some documentation, the form and timing of which will be prescribed in the regulations.

Ombudsman for Banking Services and Investments (OBSI)

<u>OBSI Report Says that Complaints from Bank Customers Hit Five-Year High in 2017</u>
The Globe and Mail reports that Banking-related complaints handled by an industry ombudsman rose 28 per cent in 2017, reaching the highest level in five years as disputes over credit cards nearly doubled. The Ombudsman for Banking Services and Investments (OBSI) opened 370 banking-related cases last year, mostly related to credit cards, mortgages and personal accounts, compared with 290 a year earlier.

All told, the 721 cases OBSI opened marked a 13-per-cent increase from 2016, which the organization attributed partly to "increased consumer awareness" in its annual report. OBSI is an industry-funded body that resolves disputes between customers and their banks and investment firms. The largest share of complaints about credit cards in 2017 was over chargebacks – reversed charges on customer accounts – followed by fraud and unauthorized transactions.

Mortgages were also a common source of complaints, with consumers disputing penalties and incomplete or incorrect information. Customers who won banking related cases with OBSI received an average of $2,089 in compensation, for a total of more than $165,000 for the year.

OBSI Names Jim Emmerton as New Chairman

The Ombudsman for Banking Services and Investments (OBSI) announced on 27 February, 2018 the appointment of its new chairman, Jim Emmerton. Emmerton has been a long-serving community director and a member of the Finance and Audit Committee of the OBSI board. Previously, he served as the executive director of the British Columbia Law Institute and the Canadian Centre for Elder Law. He has also served as a member of the National Seniors Council and as a member of OBSI's Consumer and Investor Advisory Council before joining the board.

"I am looking forward to my new leadership role on the board and to continue working with OBSI stakeholders and staff towards shared goals for the future," says Emmerton, in a statement. Emmerton succeeds Fernand Bélisle as chairman.

CUMIS Group Ltd.

Co-operators Acquires Full Ownership Stake in CUMIS

The Co-operators Group Ltd. is acquiring full ownership of The CUMIS Group Ltd., a provider of insurance products to the Canadian credit union system, from CUMIS co-owner Central 1 Credit Union, the credit union central for British Columbia and Ontario. Since 2009, Guelph, Ont-based Co-operators and Vancouver-based Central 1 have been joint owners of the insurance firm. When the deal closes, CUMIS General Insurance Co. and CUMIS Life Insurance Co. will become fully owned subsidiaries of Co-operators.

In a news release, both Co-operators and Central 1 indicate that the deal was made to strengthen each firm's respective core business. "This change simplifies our structure and operations," says Rob Wesseling, president and CEO of Co-operators. "We continue to enjoy a strong relationship with Central 1 through our shared interest in Aviso Wealth, and mutual commitment to credit unions."

Co-operators says that it will retain the CUMIS brand in the credit union marketplace after the deal closes, which is expected to occur by March 31, subject to approval from regulators. "The Co-operators has recognized the strength and significance of the CUMIS brand for many years; it was part of the reason we sought to acquire CUMIS almost a decade ago," Wesseling says, in a statement. "We remain deeply invested in the success of credit unions, and our products and services will continue to evolve to meet their needs."

For Central 1, the divestiture of its ownership stake in CUMIS will allow it to better concentrate its efforts on the delivery of core products and services. "This shift allows us to focus our attention and resources on banking and payments solutions that provide the greatest value to our clients and their customers," says Mark Blucher, CEO of Central 1, who took over the reins of the credit union central in January. Central 1 has recently articulated a strategic plan to become "the national partner of choice for financial, digital banking and payment solutions" for its credit union partners and their members.

Manulife Financial

Manulife Trims down Canadian Workforce

An industry publication notes that Manulife Financial, citing a shift towards a more "digital" strategy, has revealed that it has cut jobs across Canada. Approximately 80 people in total were impacted by the decision – 35 of which were based in the Kitchener-Waterloo area. "Our commitment to become a digital, customer-centric leader requires us to think and work differently," Manulife vice-president of global external communications Marija Mandić wrote in an email to CBC News. "As a result, we eliminated some roles and positions."

Provincial/Territorial

Manitoba

Insurance Council of Manitoba (ICM)

ICM Fines Travel Insurance Firm for not Adhering to RIA Regime

CAA Manitoba, also licensed as MML Club Services Ltd. and CAA Manitoba Travel, has been fined $3,000 by the province's insurance regulator after two agents sold an annual travel accident and sickness policy to a commercial trucker who was excluded from coverage under the policy he purchased. Neither of the agents held the proper license to sell that type of standalone policy coverage to the consumer.

CAA Manitoba changed over to the regulator's new licensing regime, which included a new license for a Restricted Insurance Agent (RIA), in June 2015. The RIA license allows only for the incidental sale of insurance products. In other words, the insurance had to be incidental to the sale of some other travel product. But in this case, council noted, the complainant did not purchase his personal travel insurance in conjunction with any other type of travel product. And the second agent who sold him the standalone travel policy was not authorized to do so under the RIA license.

"On Sept. 4, 2015, the complainant should have been directed to an agent qualified and licensed to sell the product required by the complainant," council noted in its decision, "It did recognize that this was not an area of expertise for which the [two] employees of the [CAA Manitoba] were licensed, as the complainant was not travelling as a vacationer." Council's decision also noted that the supervisor should have caught this, because they were or ought to have been aware of the RIA license restriction against selling standalone policies.

Ontario

Travel Insurance and Premature Birth

Ontario Couple Informed Travel Insurance Covers Woman, but not her Prematurely Born Baby

According to a media article, an Ontario woman travelling with her husband to the Philippines was informed she could travel, despite being pregnant, because she was under 31 weeks pregnant. However, when she went into labour prematurely and gave birth 4 months early, she was informed that the travel insurance she had purchased covered her, but not her baby.

The Philippine hospital where her baby is being treated will not release the baby for travel to Canada until it is more mature, and to date her bills for the baby have totaled over $60,000.

Quebec

Quebec Sections of the Canadian Life and Health Insurance Association (CLHIA/ACCAP), Canadian Association of Direct Relationship Insurers (CADRI/CADD), Insurance Bureau of Canada (IBC/BAC)

<u>Quebec Based Divisions of Three Insurance Associations Meet le *Journal de l'assurance* To Dispute Claims Made about Bill 141</u>
Lyne Duhaime, President of l'Association canadienne des compagnies d'assurances de personnes (ACCAP-Quebec); Johanne Lamanque**,** Quebec Vice President for le Bureau d'assurance du Canada (BAC) ; and Denis Côté, Executive Direcotor**,** la Corporation des assureurs directs de dommages du Québec (CADD) met individually with *le Journal de l'assurance* to dispute claims made about Bill 141. The representatives of the Associations stated that the bill would continue to protect consumers, and that the Internet provisions brought Quebec legislation in line with current realities. Ultimately, they argued, it was up to the consumer to decide how they wanted to purchase insurance products.

Thought Leadership / Research / International Developments

KPMG

<u>KPMG's Releases its 5th Annual Canadian Insurance Industry Opportunities & Risks Report, with 50% of Canadian Insurance Professionals Citing "Regulatory and Compliance Burden" as a Top 2018 Risk</u>
With input from insurance professionals across the country, KPMG has released a report that looks at what Canadian insurance professionals feel are the top opportunities and risks in 2018.

The report finds that the top risks are as follows:

- 50% of survey respondents highlighted the regulatory and compliance burden as a top risk for organizations over the next year.
- 54% expect major disruption in the insurance sector in the coming 3 years as a result of technological innovation.
- Failure to adopt new technologies successfully poses as one of the top risks for organizations (44%) and Canadian insurers (50%) alike over the next 3 – 5 years.

The report finds that the top opportunities are as follows:

- Survey respondents reveal that data analytics to enhance product design, marketing and pricing is the top opportunity for their organization in the short-term (63%) and long-term (63%).
- Changing customer needs and expectations is the top opportunity within the insurance industry in the short-term (65%) and long-term (71%).
- Enhanced operational processes and use of technology is one of the top opportunities for organizations (54%) and for Canadian insurers (58%) over the next year.

Toronto Financial Services Alliance (TFSA)

TFSA Commissions a Study on Ontario Students' Perceptions of Financial Services Careers
To provide insight into Ontario post-secondary students' perceptions of the Financial Services sector as a career destination, Toronto Financial Services Alliance (TFSA) commissioned data from Univerum, a leading researcher of student viewpoints TFSA, to report on Ontario postsecondary students' perceptions of the Financial Services sector as a career destination.

The report found that while 1,373 students identified at least one Financial Services firm on their list of 5 ideal employers, a larger number, 2,387, were aware of at least one Financial Services firm, but did not identify ANY FS firms on the list for which they would consider working upon graduation—a group that the report identifies as "lost talent."

TFSA Report says Toronto's Financial Services Sector Report Will be Key Player in Global Public-Private Partnerships to Address Infrastructure Gap
Toronto's financial sector is uniquely positioned to help governments across the globe leverage public-private partnerships (P3) to address the growing infrastructure gap in Canada, finds a new report from the Toronto Financial Services Alliance (TFSA) in collaboration with KPMG in Canada. The report, *Knowing When to Partner*, ranks Toronto's financial services sector only behind New York and London in its strength and ability to provide the expertise and funding to deliver on these large-scale capital projects.

LIMRA / LOMA

LIMRA / LOMA Announce Annual Conference to be Held on 7 June, 2018
Insurance research leaders LIMRA / LOMA have announced that their annual Canadian conference will be held on 7 June, 2018 at the downtown Toronto Manulife Centre. They indicate that "This year's conference features indie thinkers and trailblazers on the forefront of trends who will dissect key consumer, technology and regulatory changes and their impact on your business." Among the speakers is.Dr. Bruce Empringham, Vice President and Medical Director, Great-West Life, London Life and Canada Life, who gave a presentation at the CLHIA Annual Compliance and Consumer Complaints Conference in London, Ontario in May, 2017.

Mastercard and Dream Payments Corp.

MasterCard Taps Toronto Startup's Technology to Accelerate Insurance-Claim Payments
Dream Payments Corp. is teaming up with MasterCard International Inc. to speed up the long wait for insurance-claim cheques and clearances faced by people making claims. The partnership will use Dream's technology to send disbursements to claimants' accounts within an hour of the payments being approved, MasterCard said, beginning in Canada with a subsidiary of Fairfax Financial Holdings Ltd. Dream, whose secure-payment cloud platform helps merchants quickly process debit and credit transactions in person and online, has linked with the MasterCard Send money-transfer service to create the Dream Payments Hub, which lets companies push funds directly into a customer's debit-card account. The companies will announce on Tuesday that Fairfax-owned Northbridge Financial Corp. will be the first insurance company to use the Hub to pay policyholders, with the option rolling out to its customers in phases over several months.

The program will circumvent some of the lengthy steps associated with insurance disbursement. Among them, the sometimes weeks-long wait for disbursement cheques to arrive in the mail and subsequent bank-account holds on funds once cheques are deposited. Canada, through Northbridge, will be the first market for the partners' platform, followed by the United States, as it expands through other Fairfax insurance properties – then, potentially, other markets worldwide.

"It puts Dream, a Toronto-based tech company, at the centre of revolutionizing insurance reimbursements globally," said Janet Bannister, a Dream board member and general partner at Real Ventures, which invested in Dream's Series A round of financing. While Dream has had a historic focus on retail, Ms. Bannister said its expansion into insurance "demonstrates the capacity and flexibility of the Dream Payments platform."

Insurance-Canada.ca Technology Conference (ICTC)

Speakers at Conference Discuss Relevance of Insurtech

Although Canada has at least 50 companies that could be described as "insurtech," the term itself is just a buzzword, some speakers suggested at the 26 February, 2018 Insurance-canada.ca Technology Conference. "I think the biggest thing of insurtech is the buzzword that is insurtech," Adam Mitchell, president of Whitby, Ont.-based Mitchell & Whale Insurance Brokers Ltd., said during a panel discussion at ICTC, held at the Canadian National Exhibition grounds in Toronto. Mitchell added, "there is no such thing as insurtech." Mitchell compared insurtech to cloud computing, another tech buzzword.

The panel discussion, entitled *CX: Today's Reality and the Path Ahead for Insurance*, was moderated by Mark Breading, partner with Boston-based research firm Strategy Meets Action. Breading said the "insurtech startup phenomenon has in some ways rocked the industry," adding SMA is "tracking about 1,200 startups globally and around 50 of those are in Canada." Insurtech, he added, has "really has been a catalyst for many insurers to start to rethink how they do business and to rethink who they partner with."

One company that sees itself as an insurtech is Kanetix Ltd., said Janine White, vice president of marketplaces for the quoting firm, who was also on the ICTC panel Tuesday. She sees the number of insurtechs growing "exponentially." "We are in an industry that needs technology help," White said. "We are slowed down by regulations. We are slowed down by a complicated product."

Allianz Global Assistance

43 % of Canadian Millenials Forgo Travel Insurance

A study by Alliance Global Assistance found that 43% of travellers aged 18-34 are not getting travel insurance. "When we look at our claims experience, the reality is that medical emergencies can happen to anybody at any time, regardless of age, how long they're travelling for, or where they're travelling to," Dan Keon, vice president of market management at Allianz, told *Insurance Business*. Yet young people don't see this insurance as necessary because they're in good health or haven't had to go to the doctor at home for a while. In the meantime, other travellers – not just the young ones – may not think the risk is significant enough to warrant the extra cost, especially if they're going on a shorter trip, said Keon.

“The situations that can result in the highest claims are just those unexpected emergencies, things like appendicitis or a slip and fall that results in concussion,” said the VP, who’s seen exorbitant bills from travellers during the claims process. “Clearly, there is a need to increase awareness of the importance of travel insurance among young travellers,” said Keon, especially as medical policies often also include a benefit where travellers in remote areas with medical emergencies will have arrangements made for them by their insurance to cover the cost of getting them to a hospital with the right equipment and expertise.

“We have a wide range of products available through different distributors, through travel agents and brokers as well as some banking partners, but all of those products will include a medical component if it’s a travel medical policy,” said Keon. In fact, this type of policy is something the government recommends all Canadians have when travelling.

“One of the key ways that insurers can communicate the importance of insurance is simply presenting ‘what if’ scenarios,” said Keon, “so asking the individual, what if you were to experience a medical emergency while travelling? Would you know how to find treatment, would you have funds available to pay for care, and what would you do if the hospital you were at wouldn’t accept you as a patient if you couldn’t provide payment upfront or didn’t have insurance?”

Showing clients the cost comparison of a one-night hospital stay in the US, which averages US$10,000, versus the cost of getting travel insurance for one week is another helpful approach. “Medical coverage can cost as low as $25 to $30, so it is a very small price to pay when you consider the risk,” said Keon, “and it’s much better to be travelling and have it when you need it than to find yourself in a situation where you need it and don’t have it.”

Mintel Market Research

Market Research from Mintel Finds Bank Branches Retain their Appeal Among Canadians
New research from global market research firm Mintel reveals that more than eight in 10 (86%) Canadian bank consumers have visited a branch in the past year, with one quarter (25%) saying they visit their local branch more than once a month on average.

The country’s oldest and youngest consumers are more likely than Canadians overall to be frequent visitors to their local branch as three in 10 (29%). Younger millennials (aged 24-31) and baby boomers (aged 54-72) say they visit their local branch more than once a month on average. While Canadians young and old are frequenting their neighbourhood bank branch, their reasons for doing so are quite different. Older bank consumers aged 55+ are the most likely age group to visit their branch for financial planning advice (20% vs 16% of Canadians overall) and to buy investment products (16% vs 11% overall). Meanwhile, younger bank consumers aged 18-24 are most likely to visit their bank branch for money transfers (33% vs 21% overall), to open an account (26% vs 13% overall) and to apply for a credit card (20% vs 9% overall).

Younger Canadians represent a prime target for bank branches as they are the most likely consumers to be increasing their visits. In fact, more than one quarter (28%) of bank consumers aged 18-24 say that they find themselves visiting their local branch more as they get older, compared to just 13% of consumers overall.

“The branch network can play a critical role in building relationships, enhancing trust, providing financial advice and easing the transition to digital channels,” says Sanjay Sharma, senior financial services analyst at Mintel, in a statement. “We see that younger consumers are increasing the frequency of their visits to banks likely because they are relatively inexperienced in financial matters and have weaker credit histories, resulting in a desire to learn about their finances in-person. However, brands should avoid marginalizing older customers through mass reduction of human personnel as baby boomers are some of the most likely visitors of their bank branch as they are typically more affluent and seeking financial planning and investment advice,” he continues.

While more than half (54%) of bank consumers say they prefer to look online for answers about their financial accounts rather than visit a branch, many consumers agree that some things are better handled in person. In fact, nearly three quarters (72%) of bank consumers agree that they would prefer to buy more complex products at a branch rather than online, and 68% say they would be more likely to buy new financial products/services at their local branch than through call centre sales.

European Commission

<u>European Commission to Focus Efforts on Fintech (Page 11)</u>
The European Commission launched an action plan on Thursday aimed at turning Europe into a centre for fintech innovation. The European Commission says its action plan is designed to enable the financial services sector to capitalize on innovations such as blockchain technology, advances in artificial intelligence (AI) and cloud computing.

To start, it is proposing new rules to encourage the growth of crowdfunding platforms, allowing them to operate throughout the European Union (EU). Along with the new crowdfunding rules, the plan details 23 measures designed to enable companies that are launching innovative business models to scale up; supports the adoption of new technologies; and aims to increase cybersecurity and the integrity of the financial system. The European Commission will also host a fintech lab to connect regulators and the fintech industry.

In addition, the European Commission it is working on “a comprehensive strategy” for adopting distributed-ledger (blockchain) technology in various sectors and it plans to consult on digitizing public company disclosure to give investors better access to information.

Finally, the European Commission says that it’s developing a blueprint on best practices to use in “regulatory sandboxes,” which various regulators around the world (including Canada) have launched to help both fintech and established firms test innovative financial products and services in a controlled environment.

United Kingdom--Financial Conduct Authority (FCA)

<u>FCA Publishes Paper on Transforming Culture in Financial Services</u>

A discussion paper published on 12 March, 2018 by the U.K. Financial Conduct Authority (FCA) is intended to stoke debate about ways to improve the financial sector’s culture. The paper aims to stimulate efforts to transform the industry’s culture, with a set of essays that discusses what constitutes a “good culture,” the role of regulation in shaping culture, how financial firms could go beyond incentives at driving behaviour, and how to improve industry conduct.

"Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history, causing harm to both consumers and markets," the paper says. "To increase confidence, firms need to demonstrate they are working in the interests of consumers and the market."

The industry's culture is a priority for the FCA given its impact, and the role that it must play in re-building trust in financial services. "We expect firms to foster cultures which support the spirit of regulation in preventing harm to consumers and markets," the discussion paper says. However, it also acknowledges that changing culture is easier said than done. "Some still see changing culture as a 'soft' discipline; and clarifying how to define, measure, and manage it in practical terms is difficult. Its intangible nature has left business leaders pondering how to influence and transform culture," it says.

Although there's no single culture that firms should try and build, there are characteristics of healthy cultures that can reduce the risk of harm, the paper says. The role for regulators, it says, includes holding individuals accountable, as well as firms. To that end, the FCA's 'accountability regime' for senior managers, "aims to hold firms' leadership to account for their own behaviour and for taking reasonable steps to manage the behaviour of those in their areas of responsibility," the paper says.
"We as a regulator have long gone beyond having the mindset that simply complying with rules is enough," says Jonathan Davidson, executive director of supervision, at the FCA, in a statement. "However we don't believe a one size fits all culture is the right way to go. So we want to promote a discussion and consensus on the essential features of a healthy culture and how firms, regulators, employees and customers can help deliver that culture."

Appendix A
CAFII Alerts February 26 – March 23 2018

Date of Email Alert	**Topic of CAFII Alert**
March 22	Article in Journal de l'assurance Highlights Creditor Group Issues Raised in FCAC Report
March 20	Lawrence Ritchie Appointed to FSRA Board of Directors
March 16	Quebec Proposes Amendment to New Law Allowing Sale of Insurance Online
March 6	FSRA Announces New Board of Directors Appointments / L'ORSF annonce de nouvelles nominations à son conseil d'administration
February 26	Saskatchewan Government Reverses Imposition of Provincial Sales Tax (PST) On Life and Health Insurance & Agriculture Insurance Premiums

CAFII Regulator and Policy-Maker Visit Plan 2018-19

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
British Columbia				
Insurance Council of BC: Janice Sinclair, Executive Director (started November 1/17)	-liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	**-May 2-4, 2018, during CLHIA Conference in Calgary (presenting)**	-Council's current view on 10-Year Review of Financial Institutions Act -Representation of alternate distribution/non-resident sellers on Council -Update on Council priorities	**Pending**
Gerry Matier, Executive Director (outgoing; but retained as an interim consultant by successor J. Sinclair)	**-Dec 6/17 informal discussion with K. Martin at CISRO LLQP Session** -liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -June 2/17 CAFII presentation to CISRO in Saskatoon -May 5/17 liaison breakfast in London, Ontario -Dec 9/16 informal discussion with B. Wycks at CISRO LLQP Session -Feb. 27/15 liaison breakfast in Toronto	None at this time		
FICOM: Frank Chong, Acting Superintendent of Financial Institutions (effective August 1/16)	-liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -Nov 10/15 in Vancouver re CGI Information Bulletin	None at this time	-FICOM Information Bulletin on CGI ('effecting' of CGI in BC issue: ED and EOC to monitor re need for meeting/ dialogue around any member or industry issues re compliance with CGI Info Bulletin -Monitoring for appt. of interim or permanent FICOM CEO successor -10 yr. Review of BC Financial Institutions Act (if appropriate)	
Doug McLean, Deputy Superintendent of Insurance	-liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	None at this time	-See F. Chong above	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Chris Carter, Acting Superintendent, Real Estate and Acting Registrar, Mortgage Brokers (effective August 1/16)	-April 14/16 teleconference re CAFII follow-up letter - Follow-up letter, seeking clarification on CGI Info Bulletin key issues, sent March 15/16 - Nov 10/15 in Vancouver re CGI Information Bulletin	None at this time	-See F. Chong above	
Michael McTavish, Acting Executive Director, Market Conduct (joined FICOM in Spring 2017) Lorena Dimma, Director, Market Conduct (assuming Harry James' former policy advisor role re 'effecting' of CGI issue)	-liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -April 14/16 teleconference re CAFII's March 15/16 follow-up letter on CGI Info Bulletin	None at this time None at this time	-See F. Chong above	
Harry James, Senior Regulatory Advisor (Chair of CCIR's Travel Insurance Working Group)	-liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -Dec. 8/16 cordial reply email to E. Fang, agreeing with CAFII's request that auto dealers are creditors for a moment-in-time issue be closed. -April 14/16 teleconference re CAFII's March 15/16 follow-up letter on CGI Info Bulletin	None at this time	-See F. Chong above	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Molly Burns, Analyst, Policy Initiatives Erin Morrison, Regulatory Analyst, Policy Initiatives	-April 14/16 teleconference re CAFII's March 15/16 follow-up letter on CGI Info Bulletin -Nov 10/15 in Vancouver -August 10/16 in Toronto, accompanied Harry James and participated in CCIR TIWG meeting with CAFII	None at this time None at this time	-See F. Chong above -See F. Chong above	
Ministry of Finance: Carole James, Minister of Finance Lori Wanamaker, Deputy Minister of Finance	-None to date. Appointed Minister of Finance in July 2017, with change in BC government. Delivered first provincial budget on September 11/17 -None to date. Appointed July 2017	None at this time **See E. Cole below**	TBD until CAFII has a "direct ask" at Ministerial level **-See E. Cole below**	 **See E. Cole below**
Elizabeth Cole, Executive Director, Strategic Projects & Policy (head of 10-Year Review of FIA) (on personal leave until sometime in mid- to late 2018)	-April 20/17 and June 23/16 telephone conversations with B. Wycks re updates on expected release date of Policy Paper and other FIA Review timelines -November 10/15 in Vancouver along with Dan Ashton; and separate meeting along with Brian Dillon and Kari Toovey	**Q2 or Q3 2018 in-person or teleconference meeting with Ministry of Finance officials re Preliminary Recommendations Paper's Insurance Sector recommendations and CAFII's response to same, if necessary.**	**-Preliminary Recommendations Paper emerging from 10-Year Review of Financial Institutions Act, making proposals for change, released March 16/18 with a June 16/18 deadline for responses.**	**Pending**
Brian Dillon, Director, Financial Institutions Kari Toovey, Acting Executive Director, Strategic Projects & Policy (head of 10-Year Review of FIA); normally Senior Policy Advisor	 -liaison meeting on October 17/17 in Vancouver as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	**See E. Cole above** **See E. Cole above**	**-See E. Cole above** **-See E. Cole above**	**See E. Cole above** **See E. Cole above**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Alberta				
Alberta Insurance Council: Joanne Abram, CEO	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -June 2/17 CAFII presentation to CISRO in Saskatoon -May 4/17 liaison lunch in London, Ontario -December 21/16 letter to CAFII confirming definition of CGI critical illness insurance approved by Life Council to include selling of CI under existing RIA licence -Oct 31/16 CAFII submission of letter proposing definition of CGI critical illness insurance to be adopted for inclusion under existing RIA licence -Sept 16 & 28/16 and Oct 11/16 e-mail correspondence with B. Wycks re LIC decision on allowing CI to be sold under an RIA licence	**May 2-4, 2018 during CLHIA Conference in Calgary (presenting)**	**-Alberta Government consultation paper on plans to create a single financial services regulator in the province (which J. Abram would like to meet with CAFII about)** -AIC's implementation of approved definition and process for CI to be sold under existing RIA licence -Representation for Restricted Licence Holders on Life Insurance Council	**Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Anthonet Maramieri, COO	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers **-**March 8/17 email to B. Wycks advising of Life Council's further look at definition of credit-related insurance approved to be offered under a Restricted Certificate, at April 12/17 meeting. -Sept 12/16 teleconference with G. Grant and B. Wycks -July 12/16 teleconference with G. Grant and B. Wycks - April 11/16 informal discussion with B. Wycks, at CISRO LLQP Info Session - Feb 27/15: Toronto: B. Wycks met A. Maramieri and had get acquainted chat at CISRO LLQP Stakeholder Info Session	**-May 2-4, 2018 during CLHIA Conference in Calgary**	**-See J. Abram above**	**Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Warren Martinson, Legal Counsel	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -June 2/17 CAFII presentation to CISRO in Saskatoon -W. Martinson in attendance at Feb. 22/17 CAFII stakeholder meeting with CCIR TIWG -May/June 2016 telephone discussion with J. McCutcheon (on CAFII's behalf) re legislative and regulatory underpinnings of selling of CI benefits as credit-related insurance under an RIA licence -Feb 10/14: Toronto, ON (with B. Wycks, as W. Martinson then on LLQP Governance Ctte.)	**May 2-4, 2018, during CLHIA Conference in Calgary**	-**See J. Abram above**	**Pending**
Sylvia Boyetchko, Director of Licensing	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	**-May 2-4, 2018, during CLHIA Conference in Calgary**	-**See J. Abram above**	**Pending**
Treasury Board and Ministry of Finance: Nilam Jetha, Superintendent of Insurance (made permanent at beginning of 2017, following one year interim period)	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	**-Q2 or Q3 2018 teleconference, if necessary, re Alberta Government plans to create a single financial services regulator in the province**	-Update on Superintendent's priorities -Communicate CAFII issues; build and strengthen relationship	**Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
David Sorensen, Deputy Superintendent of Insurance	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	**-May 2-4, 2018, during CLHIA Conference in Calgary (presenting)**	**-Alberta Government plans to create a single financial services regulator in the province** -See N. Jetha above	**Pending**
Laurie Balfour, Director, Financial Compliance, Insurance Regulation and Market Conduct Branch (Chair of CCIR Insurance Core Principles Implementation Ctte)	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -CAFII 20th Anniversary: April 5/17 -Sep 30/14: Fredericton, NB (informal meeting) -Jul 28/14: call with CAFII reps re: "effecting of CGI"	**-Q2 or Q3 2018 teleconference, if necessary, re Alberta Government plans to create a single financial services regulator in the province**	**-Alberta Government plans to create a single financial services regulator in the province** -See N. Jetha above	**Pending**
Wayne Maday, Director, Insurance Policy	-liaison meeting on October 18/17 in Edmonton as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	**-Q2 or Q3 2018 teleconference, if necessary, re Alberta Government plans to create a single financial services regulator in the province**	**-Alberta Government plans to create a single financial services regulator in the province** -See N. Jetha above	**Pending**
Joe Ceci, President of Treasury Board and Minister of Finance	No contact – appointed May 24/15	-None at this time	TBD until CAFII has a "direct ask" at Ministerial level	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Saskatchewan				
Insurance Councils of Saskatchewan: Ron Fullan, Executive Director**,** (CISRO Chair)	-October 27/17 three-way meeting in Toronto -- involving ICS (R. Fullan and A. Stadnek), CAFII, and CLHIA -- re "Representation for RIA Licence Holders in Saskatchewan" -June 2/17 liaison meeting in Saskatoon -CAFII 20th Anniversary: April 5/17 -R. Fullan in attendance at Feb. 22/17 CAFII stakeholder meeting with CCIR TIWG -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -Dec 9/16 informal discussion with B. Wycks at CISRO LLQP Session	**-May 2-4, 2018, during CLHIA Conference in Calgary (presenting)** **-further three-way meeting re "Representation for RIA Licence Holders in Saskatchewan" in Q2 2018, once CAFII and CLHIA develop and submit joint proposal to R. Fullan (project deferred to Spring 2018 at CLHIA's behest). Working Group of CLHIA and CAFII representatives formed for this purpose, with first meeting scheduled for mid-April 2018.**	-establishing and implementing a Restricted Insurance Agents Advisory Committee -ICS-relevant aspects of implementation of new Saskatchewan Insurance Act and Regulations -Sask. RIA regime and licensure issues	**-Pending** **-Pending**
April Stadnek, Director of Compliance	-October 27/17 three-way meeting in Toronto -- involving ICS (R. Fullan and A. Stadnek), CAFII, and CLHIA -- re "Representation for RIA Licence Holders in Saskatchewan" -June 2/17 liaison meeting in Saskatoon -Sept 22/15 CISRO LLQP Stakeholder Info Session in Toronto (B. Wycks) - Sep 30/14; Fredericton, NB (informal meeting) - November/13 in Toronto when April attended CLHIA CCOSS Seminar	-**See R. Fullan above**	-**See R. Fullan above**	**-Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Financial Consumer Affairs Authority (FCAA): Roger Sobotkiewicz, former Director of FCAA Legal Branch, became Interim Chairperson and Superintendent of Insurance, effective Feb. 1/15	-June 1/17 get acquainted and liaison meeting in Regina	-See J. Seibel below	-see J. Seibel below; and -introduce CAFII and build relationship -Regulations being developed following passage of *Bill 177, The Insurance Act (Saskatchewan)* -ISI: Representation for Restricted Licence Holders -Sask's imposition of PST on all insurance premiums - Update on Superintendent's priorities	-Pending (see J. Seibel below)
Ian McIntosh, Deputy Superintendent of Insurance	-Jul 28/14 call with CAFII reps re: "effecting CGI"	-see J. Seibel below	-see J. Seibel below; and -see R. Sobotkiewicz above	-Pending (see J. Seibel below)

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Janette Seibel, Lawyer, became lead on Bill 177 and Regulations file effective June 1/15	-June 1/17 get acquainted and liaison meeting in Regina -March 2017 email exchange with B. Wycks re invitation to CAFII to provide feedback on FCAA-proposed definition of TPA, for inclusion in Insurance Regulations -February 17/17 call to B. Wycks advising that "in force" date for new Insurance Act and Regulations had been deferred to Spring 2018 -Jan 2017 email exchange with B. Wycks re timing of "in force" date for new Saskatchewan Insurance Act and related Regulations -Nov and Dec. 2016 email exchanges with B. Wycks re Insurance Regulations Consultation and TPAs sub-consultation.	**-teleconference meeting in Q3 2018, if necessary, for final questions/clarifications as Fall 2018 "coming into force" target date for Insurance Act, Saskatchewan; related Regulations; and The Insurance Amendment Act, 2017 approaches**	-timing of "in force" date for new Saskatchewan Insurance Act and related Regulations -CAFII's response submissions on FCAA's Insurance Regulations Consultation document (submitted Dec. 2/16) and TPAs sub-consultation (submitted Dec. 9/16) -Sask's imposition of PST on all insurance premiums	**-Pending**
<u>Ministry of Finance</u> Donna Harpauer, Minister of Finance (appointed Oct/17) (predecessor: Kevin Doherty, whom CAFII met with on June 1/17 in Regina)	-June 1/17 get acquainted and CAFII profile-raising meeting in Regina with Minister and Ministry officials re Sask's imposition of PST on insurance premiums	**-April or May 2018 in-person meeting or teleconference, if necessary, re need for a level playing field in exemptions to PST on insurance premiums**	-Sask's reversal of PST on all insurance premiums decision via exemptions -further introduce CAFII and build relationship	-**Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Manitoba				
Ministry of Finance: Scott Moore, Deputy Superintendent of Insurance	-CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto -liaison meeting on October 19/17 in Winnipeg, hosted by ICM, as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -CAFII 20th Anniversary event: April 5/17 -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -August 10/16 CAFII stakeholder meeting re CCIR travel health insurance Issues Paper (participated by teleconference) -April 15/15 teleconference with three CAFII reps -April 29/14: meeting in Winnipeg, MB	-None at this time	-Maintain and build relationship -Representation for Restricted Licence Holders on Life Insurance Council -concern about amended Insurance Act's apparent residency requirement for employees of Restricted Insurance Agents	
Cameron Friesen, Minister of Finance	No contact – took office May 3/16	-None at this time	TBD until CAFII has "direct ask" at Ministerial level	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Barbara Palace Churchill, Executive Director, Insurance Council of Manitoba (appointed late November 2016)	-liaison meeting on October 19/17 in Winnipeg, hosted by ICM, as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers -June 2/17 CAFII presentation to CISRO in Saskatoon -May 4/17 short get acquainted/liaison meeting in London, Ontario	**-May 2-4, 2018, during CLHIA Conference in Calgary (presenting)**	**-CAFII response letter of March 2018 re Single Premium Insurance Policies** -Introduce CAFII and build/maintain relationship -Representation for Restricted Licence Holders on Life Insurance Council -Insurance Council's "ISI items for further review and development" -communicate CAFII issues	**-Pending**
Heather Winters, Director, Licensing & Compliance	-liaison meeting on October 19/17 in Winnipeg, hosted by ICM, as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	None at this time		
Lee Roth, Investigator	-liaison meeting on October 19/17 in Winnipeg, hosted by ICM, as part of CAFII tour of BC/Alberta/Manitoba regulators and policy-makers	None at this time		
Ontario				
FSCO: Brian Mills, appointed Interim CEO and Superintendent on October 18/14. Will likely be FSCO's last CEO, as Ontario Government transitions to a new Financial Services Regulatory Authority (FSRA) over next two years (2017 and 2018), as stated by B. Mills at FSCO Symposium on November 25/16.	-November 6/17: informal chat with B. Wycks during FSCO 2017 Life and Health Insurance Symposium -CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto -May 3/17: informal chat with K. Martin during CLHIA Conference -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -January 28/15 stakeholder meeting with CCIR	None at this time	(i)Build/maintain relationship (ii) Ontario government review of FSCO's mandate (iii) next steps in Life Insurance Product Suitability Review (iv)CCIR review of travel health insurance (v)Update on Superintendent's priorities (vi)communicate CAFII issues	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Anatol Monid, Executive Director, Licensing and Market Conduct Division	-November 6/17: informal chat with B. Wycks during FSCO 2017 Life and Health Insurance Symposium -June 2017 liaison lunch with M. Gill and J. Lewsen re CAFII advice on FSCO's planned survey of bank insurers re sales practices -June 2/17: questions raised by A. Monid, on the phone, at end of CAFII presentation to CISRO in Saskatoon **-**May 3/17: informal chat with K. Martin during CLHIA Conference -CAFII 20th Anniversary event: April 5/17 -June 7/16, December 8/15 and June 9/15: informal update conversations at CAFII Reception events -January 28/15 stakeholder meeting with CCIR	-**May 2-4, 2018, during CLHIA Conference in Calgary (presenting)** **-Q2 2018 in-person or teleconference meeting, if necessary, re FSCO's draft Treating Consumers Fairly (TCF) Guideline and CAFII response to it**	**-FSCO consultation on Treating Consumers Fairly Guideline** **-FSCO consultation related to Incidental Sales of Insurance (ISI) Questionnaire and Bank-Owned Insurance Company CEO Attestation** -next steps in Life Insurance Product Suitability Review -other FSCO initiatives re life insurance agent and/or insurer compliance -initiatives of FSCO LII Working Group	**-Pending** **-Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Izabel Scovino, appointed Director, Market Conduct Regulation Branch in Nov/14	**-February 28/18 meeting with joint CLHIA/CAFII Working Group re FSCO's planned "CEO Attestation for Bank-Owned Insurers"** **-February 1/18 meeting with joint CLHIA/CAFII Working Group re FSCO's planned "Incidental Insurance Market Conduct Questionnaire"** -November 6/17 during FSCO 2017 Life and Health Insurance Symposium: private discussion with B. Wycks re setting up a consultation meeting with CAFII reps re FSCO's planned "Incidental Insurance Market Conduct Questionnaire and Attestation" - -September 12/17 meeting of FSCO Life Insurance Industry Working Group (LII Working Group) of which Izabel Scovino is a member (K. Martin and H. Pabani)	**-Q2 2018 in-person or teleconference meeting, if necessary, re FSCO's draft Treating Consumers Fairly (TCF) Guideline and CAFII response to it**	-see A. Monid above	-**Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Heather Driver Director, Licensing Branch Licensing and Market Conduct Division (assumed position in Jan 2016, following retirement of Shonna Neil)	-September 12/17 second meeting of FSCO Life Insurance Industry Working Group (LII Working Group), of which H. Driver is Chair (K. Martin and H. Pabani) -June 2/17 CAFII presentation to CISRO in Saskatoon -May 30/17 initial meeting of LII Working Group (K. Martin and H. Pabani) - -Oct. 14/16 email exchange with B. Wycks following CAFII's delivery of input, requested by FSCO in Oct. 7/16 meeting, re optimal wording to use in FSCO communications re life insurance agent and insurer relationship -Oct. 7/16 meeting with CAFII reps, at FSCO's invitation, re FSCO initiatives around life agent and insurer compliance, particularly re E&O insurance (also attended by Richard Tillman, Allan Amos, Kelly Picard, and Abina Rogers of FSCO)	**-Q2 2018 in-person or teleconference meeting, if necessary, re FSCO's draft Treating Consumers Fairly (TCF) Guideline and CAFII response to it**	-see A. Monid above	**-Pending**
Andrea Chow, Senior Manager, Financial Services Regulatory Policy (joined FSCO in summer 2017; formerly with Ontario Ministry of Finance)	**-**November 6/17: get acquainted chat with B. Wycks during FSCO 2017 Life and Health Insurance Symposium, which she chaired	**-Q2 2018 in-person or teleconference meeting, if necessary, re FSCO's draft Treating Consumers Fairly (TCF) Guideline and CAFII response to it**	-see A. Monid above	**-Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Richard Tillman, Senior Manager, Insurance and Deposit Institutions Policy (currently seconded to FSRA Implementation Secretariat)	-Oct. 7/16 meeting with CAFII reps re life agent and insurer compliance	None at this time	-see A. Monid above	
Reena Vora, Manager, Market Regulation Branch, Licensing and Market Conduct Division	-December 8/16 with CAFII reps for feedback on draft questionnaire for life insurer examination visits (one pilot test visit planned in Q1 2017), as next phase in Life Insurance Product Suitability Review	None at this time	-Life insurer examination visits	
Financial Services Regulatory Authority of Ontario (FSRA) Board of Directors: Bryan Davies (Chair) **Cathy Mallove, Communications Officer, FSRA**	**-March 6/18 with three founding FSRA Board Members: Bryan Davies, Kathryn Bouey, Judith Robertson** **-March 6/18, immediately prior to CAFII meeting with three founding FSRA Board Members**	**-Bryan Davies to be guest speaker at CAFII Reception on June 5/18 (possibly accompanied by FSRA's founding CEO)** -June 5/18 CAFII Reception	**-FSRA's start-up; transition from FSCO into FSRA; FSRA's rule-making authority; FSRA's plans for regulating the life and health insurance industry**	-**Confirmed** **-Pending**
Ministry of Finance: -Sandy Roberts, Director, FSRA Implementation Secretariat (appointed Nov 2016)	-CAFII Year-End Reception on November 28/17 -congratulatory letter on appointment sent; no in-person contact to date. Was a no-show for June 29/17 CAFII stakeholder meeting with FSRA Implementation Secretariat; and April 5/17 CAFII 20th Anniversary Celebration	-None at this time (awaiting release of further information and/or Regulations for consultation re FSRA structure, governance, and operating model)	-Ontario Government's replacement of FSCO with a new Financial Services Regulatory Authority (FSRA) over next two years (2017 and 2018); and Regulations to implement FSRA -FSRA's regulation of life and health insurance sector.	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
-Stuart Wilkinson, Senior Manager, FSRA Implementation Secretariat (transferred from previous MOF role in Nov 2016)	-June 29/17 CAFII stakeholder meeting with FSRA Implementation Secretariat -CAFII 20th Anniversary Reception: April 5/17 (regular attendee at CAFII Receptions)	-See S. Roberts above		
-David McLean, Policy Advisor	-June 7/16 and April 12/16 informal conversations with B. Wycks at CAFII Receptions -July 30/15 life & health insurance sector roundtable -May 21/15 informal meeting: insurance sector round table	-See S. Roberts above		
Paul Braithwaite, Policy Advisor	-November 6/17: informal chat with B. Wycks during FSCO 2017 Life and Health Insurance Symposium, as both at same small group table -June 29/17 CAFII stakeholder meeting with FSRA Implementation Secretariat -September 12/17 second meeting of FSCO Life Insurance Industry Working Group (LII Working Group) of which Paul Braithwaite is an attendee for the MOF (K. Martin and H. Pabani)	-See S. Roberts above		

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Quebec				
AMF: Louis Morisset, CEO;	-AMF Rendez-Vous on November 13/17 in Montreal -AMF 2016 Rendez-Vous on November 14/16 in Montreal -Oct. 4/16 in Montreal: CAFII liaison lunch and Industry Issues Dialogue with AMF -Apr 8/14: CAFII liaison lunch and Industry Issues Dialogue with AMF in Montreal	**-CAFII/AMF Liaison Lunch and Industry Issues Dialogue on October 2/18**	-(i)Bill 141 and Bill 150 to modernize Quebec's financial services sector, including the Distribution Act (both released by Ministry of Finance in October 2017) -(iii)Distribution Guide template and implementation timelines -(iv)Update on AMF priorities -(v)Communicate CAFII issues -(vi)Maintain and strengthen relationship	**-Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Patrick Dery, Superintendent, Solvency (appointed CCIR Chair effective April 1/15)	-CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto -CAFII/AMF Liaison Lunch and Industry Issues Dialogue in Levis, Quebec on October 23/17 -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -Oct. 4/16 in Montreal: CAFII liaison lunch and Industry Issues Dialogue with AMF -Liaison lunch and industry issues dialogue on October 6/15 in Levis, Quebec	**-CAFII/AMF Liaison Lunch and Industry Issues Dialogue on October 2/18**	-see L. Morisset above	**-Pending**
Phillip Lebel, Director General of Legal Affairs	-CAFII/AMF Liaison Lunch and Industry Issues Dialogue in Levis, Quebec on October 23/17 -Oct. 4/16 in Montreal: CAFII liaison lunch and Industry Issues Dialogue with AMF	**-CAFII/AMF Liaison Lunch and Industry Issues Dialogue on October 2/18**	-see L. Morisset above	**-Pending**
Nathalie Sirois, Senior Director, Supervision of Insurers and Control of Right to Practise	-CAFII/AMF Liaison Lunch and Industry Issues Dialogue in Levis, Quebec on October 23/17 -Oct. 4/16 in Montreal: CAFII liaison lunch and Industry Issues Dialogue with AMF	**- CAFII/AMF Liaison Lunch and Industry Issues Dialogue on October 2/18**	-see L. Morisset above	**-Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Frédéric Pérodeau (became new Superintendent, Client Services and Distribution Oversight on January 22/18, succeeding Eric Stevenson; joined AMF in 2012 and was previously Senior Director, Investigations)	**-None to date**	**-May 2-4, 2018 during CLHIA Conference in Calgary (presenting)** **-CAFII/AMF Liaison Lunch and Industry Issues Dialogue on October 2/18**	-See L. Morisset above	**-Pending** **-Pending**
Louise Gauthier, Senior Director, Distribution Policies and Compensation (member of CCIR TIWG). Lead on AMF's Distribution Guide rewrite initiative.	**-February 21/18 CAFII liaison meeting with CCIR FTC Working Group re its proposed Draft Guidance on Conduct of Insurance Business and Fair Treatment of Customers** -AMF 2017 Rendez-Vous in Montreal on November 13/17 -CAFII/AMF Liaison Lunch and Industry Issues Dialogue in Levis, Quebec on October 23/17 -CAFII 20th Anniversary event: April 5/17 -L. Gauthier in attendance at Feb. 22/17 CAFII stakeholder meeting with CCIR TIWG -AMF 2016 Rendez-Vous on November 14/16 in Montreal -Oct. 4/16 in Montreal: CAFII liaison lunch and Industry Issues Dialogue with AMF	**-- CAFII/AMF Liaison Lunch and Industry Issues Dialogue on October 2/18**	-See L. Morisset above	**-Pending**

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Maryse Pineault, Senior Director, Distribution Framework	-AMF 2017 Rendez-Vous in Montreal on November 13/17 (hosted B. Wycks and M. Gill at special table for luncheon with Minister of Finance C. Leitao as guest speaker) -June 2/17 CAFII presentation to CISRO in Saskatoon -Dec 9/16 informal discussion with B. Wycks at CISRO LLQP Session in Toronto -AMF 2016 Rendez-Vous on November 14/16 in Montreal	-None at this time	-See L. Morisset above	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status March 23/18
Ministry of Finance: Carlos Leitao, Minister Richard Boivin, Assistant Deputy Minister, Financial Institution Policy and Corporate Law Guillaume Caudron, Chief of Staff Yann Nachabé, Policy Advisor	-early December 2017 phone call with K. Martin, which encouraged CAFII to submit its concerns about Bills 141 and 150 to National Assembly Committee on Public Finance; and offered a meeting for CAFII representatives with Ministry of Finance officials if CAFII could not secure a presentation opportunity before National Assembly Committee -Feb. 25/16 phone call between B. Wycks and Yann Nachabé, Policy Advisor, Ministry of Finance, resulting from CAFII request for April 2016 in-person follow-up meeting with Richard Boivin and Guillaume Caudron	**-in-person meeting with Ministry officials, if necessary/warranted – to highlight kudos and concerns in CAFII submission on Bills 141 and 150 -- in Q2 2018**	- Bill 141 and Bill 150 to modernize Quebec's financial services sector, including the Distribution Act (both released by Ministry of Finance in October 2017) -Ministry's direction on online distribution of insurance without involvement of an advisor	**-Pending**

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Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
New Brunswick				
Financial and Consumer Services Commission (Insurance Division): Angela Mazerolle, Superintendent of Insurance	**-**Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -May 4/16 dinner meeting with Atlantic Canada regulators in Halifax -Oct 1/14: Fredericton, NB	-liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 **(target: week of May 14-18/18)**	**-**refreshed "Seven Point Guide to The Creditor Insurance Regulatory Regime," to be presented by CAFII as an educational resource to counteract false impression that ISI is unregulated -implementation of further phases of online licensing system -legislative/regulatory change to support electronic beneficiary designations -other New Brunswick licensing issues	-Pending
David Weir, Deputy Superintendent of Insurance	-June 2/17 CAFII presentation to CISRO in Saskatoon -Dec 9/16 informal discussion with B. Wycks at CISRO LLQP Session in Toronto -May 4/16 dinner meeting with Atlantic Canada regulators in Halifax - April 11/16 informal discussion with B. Wycks, at CISRO LLQP Info Session **-** Feb. 19/16 re CAFII feedback on online insurance licensing system - Sept. 22/15 CISRO LLQP Info Session in Toronto (B. Wycks) -Oct 1/14: Fredericton, NB	-liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 **(target: week of May 14-18/18)**	**-**see A. Mazerolle above -timing of final recommendations on reforming licensing framework for other-than-life agents and brokers -CAFII feedback on New Brunswick online insurance licensing system	-Pending
Opportunities New Brunswick: Jay Reid, Investment Attraction Officer	-Jun 3/14: Toronto, with Adam Mitton of predecessor organization Invest New Brunswick	None at this time	-CAFII submission re: Insurance Act and regulatory process changes necessary to support business efficiency and further inbound investment and additional jobs in New Brunswick -Introduce CAFII and build relationship -Position CAFII as an information resource	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
Consumer Advocate for Insurance: Ronald Godin, Consumer Advocate	No contact	None at this time		
Nova Scotia				
Superintendent of Insurance: William Ngu, Acting Superintendent of Insurance	-May 4/16 dinner meeting with Atlantic Canada regulators in Halifax -Appointed June 2015; no previous CAFII contact	-liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 (**target: week of May 14-18/18)**	-refreshed "Seven Point Guide to The Creditor Insurance Regulatory Regime," to be presented by CAFII as an educational resource to counteract false impression that ISI is unregulated -Review of life and accident & sickness provisions of Insurance Act -legislative/regulatory change to support electronic beneficiary designations -Update on Superintendent's priorities -Communicate CAFII issues; build and strengthen relationship	-Pending
Jennifer Calder, Deputy Superintendent of Insurance	-CAFII 20th Anniversary event: April 5/17 -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR (participated by phone) -August 10/16 CAFII stakeholder meeting re CCIR travel health insurance Issues Paper (participated by teleconference) -May 4/16 dinner meeting with Atlantic Canada regulators in Halifax	-liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 **(target: week of May 14-18/18)**	-See W. Ngu above	-Pending

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
PEI				
Superintendent of Insurance: Robert Bradley, Superintendent	-CAFII 20th Anniversary event: April 5/17 -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -Oct 1/14: Fredericton, NB	**-**liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 **(target: week of May 14-18/18)**	-refreshed “Seven Point Guide to The Creditor Insurance Regulatory Regime,” to be presented by CAFII as an educational resource to counteract false impression that ISI is unregulated -Review of life and accident & sickness provisions of Insurance Act (on April 23/15, R. Bradley advised that this may get underway in late 2015) -legislative/regulatory change to support electronic beneficiary designations -Update on Superintendent’s priorities -Communicate CAFII issues -Maintain and strengthen relationship	-Pending
Newfoundland				
Superintendent of Insurance: John O’Neill, Superintendent Craig Whalen, Deputy Superintendent of Insurance	**-**N/A; appointed in October 2015 -Oct 1/14: Fredericton, NB -June 2/17 CAFII presentation to CISRO in Saskatoon	-liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 **(target: week of May 14-18/18)** - liaison meeting as part of CAFII tour of Atlantic Canada regulators and policy-makers, in Spring 2018 **(target: week of May 14-18/18)**	-refreshed “Seven Point Guide to The Creditor Insurance Regulatory Regime,” to be presented by CAFII as an educational resource to counteract false impression that ISI is unregulated -legislative/regulatory change to support electronic beneficiary designations -Update on Superintendent’s priorities -Communicate CAFII issues; build and strengthen relationship	**-**Pending -Pending

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
FEDERAL/NATIONAL				
CCIR:				
Tony Toy, Policy Manager **Martin Boyle, Policy Manager (left CCIR/FSCO employ at end of December 2017)** Sean Jacobs, Policy Manager **(left CCIR/FSCO employ in August 2017)**	-liaison lunch on November 17/17 -CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto (first meeting with CAFII)	**-liaison lunch in late April 2018, following CCIR Spring Meeting in Montreal**	-CCIR Annual Statement on Market Conduct -Framework for Cooperative Market Conduct Supervision -CCIR review of travel health insurance -Possible CCIR speakers/panelists at CAFII events -Update on CCIR 2017-20 Strategic Plan and related priorities -Communicate CAFII issues; and maintain and strengthen relationship -possible CAFII webinar(s) for CCIR audience	**-Pending**
Patrick Déry, Chair (Superintendent, Solvency, AMF**)**	-CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -Oct. 4/16 in Montreal: CAFII liaison lunch and Industry Issues Dialogue with AMF	None at this time	-CCIR review of travel health insurance -Update on CCIR 2017-20 Strategic Plan and related priorities -Communicate CAFII issues; maintain and strengthen relationship	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
Harry James, Chair, CCIR Travel Insurance Working Group (TIWG)	**January 29/18 meeting with Harry James and TIWG members re Travel Health Insurance Products Position Paper (released May 27/17) and proposed industry reforms -**CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto -May 10/17 teleconference with CAFII reps re CCIR TIWG Communications Plan for release of Travel Health Insurance Position Paper	-None at this time	-CCIR Travel Health Insurance Products Position Paper and CAFII/industry response to same	**-Confirmed**
Laurie Balfour, Chair, CCIR Insurance Core Principles Implementation Committee (ICPiC)	-November 23/17 CAFII Member-Exclusive Webinar On Year 2 Housekeeping Changes To CCIR Annual Statement On Market Conduct -CAFII liaison visit to Alberta Treasury Board & Finance, October 18/17 in Edmonton -CAFII 20th Anniversary event: April 5/17 -March 1/17 CCIR webinar presentation for CAFII members on CCIR expectations for insurer completion of Annual Statement on Market Conduct (presented by L. Balfour and M. Boyle) -Dec. 12/16 CAFII Stakeholder Dialogue with CCIR in Toronto -August 10/16 CAFII stakeholder meeting re CCIR travel health insurance Issues Paper (participated by teleconference) -May 19/16 CCIR ICPiC webinar presentation for CAFII members (L. Balfour and M. Boyle)	-None at this time	-Harmonized Annual Statement on Market Conduct -Framework for Co-operative Market Conduct Supervision in Canada -ICPiC work on IAIS' Insurance Core Principles	

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
CISRO: Ron Fullan, Chair (SK); G. Matier (BC); J. Abram (AB), W. Martinson (AB); D. Weir (NB)	**-February 21/18 with CCIR Fair Treatment of Consumers Working Group re CCIR Draft TCF Guidance** -**January 29/18 meeting with CCIR TIWG re Travel Health Insurance Products Position Paper** -December 6/17 CISRO LLQP Stakeholder Information Session At FSCO Office In Toronto -CAFII Stakeholder Meeting with CCIR on October 25/17 in Toronto (R. Fullan attends in capacity as CISRO Chair) -June 2/17 CAFII presentation to CISRO in Saskatoon **-**CAFII 20th Anniversary event: April 5/17	**-May 2-4, 2018, during CLHIA Conference in Calgary (presenting)**	-national, online licensing system for insurance and related harmonization issues -possible CISRO Strategic Plan and opportunity for stakeholders to provide input	**-Pending**
Financial Consumer Agency of Canada (FCAC): Lucie Tedesco, Commissioner	-May 1/15: B. Wycks made self-introduction and chatted with L. Tedesco, following her speech at CLHIA Conference	**-Q2 2018 in-person meeting or teleconference, if necessary, re comments on sales of creditor insurance in FCAC "Domestic Bank Retail Sales Practices Review"**	-FCAC consultation on its Proposed Supervision Framework and Publishing Principles for FCAC Decisions (released September 29/16 with November 14/16 deadline for submissions) of document expected). CAFII decided not to respond to this consultation, as out-of-scope	**-Pending**
Brigitte Goulard, Deputy Commissioner	-Jun 10/14: B. Goulard was speaker at CAFII event	**-see L. Tedesco above**		**-Pending**
Jane Rooney, Financial Literacy Leader	-Feb 10/15 (presentation at CAFII Annual Luncheon)	-None at this time		

Jurisdiction Regulator/Policy-Maker	Last Meeting /Contact	Proposed Meeting	Topics/Purpose	Status Oct 18/17
Jeremie Ryan, Director, Financial Literacy and Consumer Education Karen Morgan, Marketing Officer	-Feb. 10/15 (with J. Rooney for presentation at CAFII event) -Jan 9/14 (meeting with M. Gill and B. Wycks in Ottawa)	-None at this time -None at this time		

CAFII

411 Richmond Street E, Suite 200
Toronto, ON M5A 3S5

Balance Sheet
As at March 31, 2018

ASSETS	31-Mar 2018	28-Feb 2018	31-Dec 2017
Current Assets			
Bank Balance	$269,935	$173,406	$192,706
Investments	$0	$0	$0
Accounts Receivable	$95,859	$194,037	$0
Interest Receivable	$0	$0	$0
Prepaid Expenses	17,716	17,056	$26,577
Computer/Office Equipment	$8,014	$8,014	$8,014
Accumulated Depreciation -Comp/Equp	($3,753)	($3,659)	($3,469)
Intangible Assets-Trademarks	$0	$0	$0
Accumulated Amortization-Trademark	$0	$0	$0
Total Current Assets	**$387,771**	**$388,854**	**$223,827**
TOTAL ASSETS	**$387,771**	**$388,854**	**$223,827**
LIABILITIES			
Current Liabilities			
Accrued Liabilities	$20,651	$19,434	$35,953
Account Payable [B]	$10,301	$8,931	$7,427
Deferred Revenue	$185,690	$190,845	$0
Total Current liabilities	$216,641	$219,210	$43,380
TOTAL LIABILITIES	**$216,641**	**$219,210**	**$43,380**
UNRESTRICTED NET ASSETS			
Unrestricted Net Assets, beginning of year	$180,447	$180,447	$380,759
Excess of revenue over expenses	($9,317)	($10,803)	($200,312)
Total Unrestricted Net Assets	$171,130	$169,644	$180,447
Total Unrestricted Net Assets	**$171,130**	**$169,644**	**$180,447**
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	**$387,771**	**$388,854**	**$223,827**

Financial Reserves Targets as per 2017 Budget:	
Minimum 3 months (25%) of Annual Operating Expenses=	**$ 174,518**
Maximum 6 months (50%) of Annual Operating Expenses=	**$ 349,035**
Current Level of Financial Reserves (total unrestricted net assets):	**$171,130**
Current Level of Financials Reserve (%):	**25%**

CAFII

411 Richmond Street E, Suite 200
Toronto, ON M5A 3S5

Statement of Operations
As at March 31, 2018

	Current Month	Budget Mar-18	Variance to Monthly Budget	Current YTD	Budget '18 YTD	Variance Budget to YTD	Budget 2018
Revenue							
Membership Fees	$54,695	$50,699	$3,996	$164,085	152,096	$11,989	608,385
Interest Revenue	$0	$17	($17)	$0	51	($51)	200
TOTAL REVENUE	**$54,695**	**$50,716**	**$3,979**	**$164,085**	**152,147**	**11,938**	**608,585**
Expenses							
Management Fees	$39,169	$37,917	($1,252)	$124,756	$113,750	- 11,006	455,000
CAFII Legal Fees/Corporate Governan	$0	$1,250	$1,250	$0	$1,250	1,250	5,000
Audit Fees	$1,217	$1,217	$0	$3,651	$3,651	-	14,600
Insurance	$437	$458	$22	$1,310	$1,374	65	5,500
Website (incl translation)	$147	$1,166	$1,019	$850	$3,498	2,648	14,000
Website SEO and Enhancements	$0	$683	$683	$0	$2,049	2,049	14,220
Telephone/Fax/Internet	$586	$483	($103)	$1,231	$1,449	218	5,800
Postage/Courier	$311	$33	($278)	$357	99	- 258	400
Office Expenses	$172	$166	($6)	$377	498	121	2,000
Bank Charges	$0	$4	$4	$16	12	- 4	50
Miscellaneous Expenses	$0	$42	$42	$0	126	126	500
Amortization Expense	$0	$0	$0	$0	-	-	-
Depreciation Computer/Office Equipm	$95	$100	$5	$284	300	16	1,200
Board/EOC/AGM							
Annual Members Lunch	$0	$0	$0	$10,503	10,000	- 503	10,000
Board Hosting (External)	$0	$0	$0	$0	-	-	15,000
Board/EOC/Meeting Expenses	$1,217	$2,600	$1,383	$4,069	7,800	3,731	26,000
Industry Events	$0	$0	$0	$0	-	-	1,000
EOC Annual Appreciation Dinner	$0	$0	$0	$763	800	37	800
Sub Total Board/EOC/AGM	*1,217*	*2,600*	*1,383*	*15,335*	*18,600*	*3,265*	*52,800*
Provincial Regulatory Visits	$0	$0	$0	$0	-	-	12,000
Research/Studies	$2,917	$2,917	$0	$8,750	8,751	1	52,500
Regulatory Model(s)	$0	$0	$0	$1,957	-	- 1,957	27,000
Federal Financial Reform	$0	$0	$0	$0	-	-	500
Media Outreach	$6,943	$5,500	($1,443)	$14,475	12,900	- 1,575	30,000
Marketing Collateral	$0	$0	$0	$55	-	- 55	2,000
Tactical Communications Strategy	$0	$0	$0	$0	-	-	-
Media Relations, CAFII Consultant	$0	$0	$0	$0	-	-	-
Networking Events	$0	$0	$0	$0		-	
			$0			-	
Speaker fees & travel	$0	$0	$0	$0	-	-	2,000
Gifts	$0	$0	$0	$0	-	-	500
Networking Events	$0	$0	$0	$0	-	-	500
Sub Total Networking & Events	-	-	-	-	-	-	*3,000*
TOTAL EXPENSE	**53,209**	**54,536**	**1,327**	**173,402**	**168,307**	**- 5,095**	**698,070**
NET INCOME	1,486	- 3,820	5,306	- 9,317	- 16,160	6,843	- 89,485

Explanatory Notes:
1 - Amortization of office equipment based on 4 year straight line depreciation
2 - Management fees includes TO Corp, Mananging Matters and Executive Director
3- Website includes hosting cafii.com, Vimeo(videos) subscription and website improvements

CAFII

411 Richmond Street E, Suite 200
Toronto, ON M5A 3S5

Membership Fees

As At Mar 31, 2018

	Feb-18		Jul-18	
	To be billed	*Received*	*To be billed*	*Received*
BMO Bank of Montreal	$ 36,719.00	15-Mar-18	$ 36,719.00	
CIBC Insurance	$ 36,719.00		$ 36,719.00	
RBC Insurance	$ 36,719.00	12-Mar-18	$ 36,719.00	
ScotiaLife Financial	$ 36,719.00	28-Feb-18	$ 36,719.00	
TD Insurance	$ 36,719.00	27-Feb-18	$ 36,719.00	
Desjardins Financial Security Life Assurance Company	$ 27,539.50		$ 27,539.50	
AMEX Bank of Canada	$ 18,360.00	26-Mar-18	$ 18,359.00	
Assurant Solutions	$ 18,360.00	28-Mar-18	$ 18,359.00	
Canadian Premier Life Insurance Company	$ 18,360.00	6-Mar-18	$ 18,359.00	
Cumis Group Ltd/Co-operators Life Insurance Co.	$ 18,360.00	28-Feb-18	$ 18,359.00	
Manulife Financial	$ 22,000.00		$ 22,000.00	
Canada Life Asssurance (Waiting on Board Approval)				
Willis Towers Watson	$ 4,800.00	5-Mar-18		
RSM Canada Actuarial Services				
KPMG MSLP	$ 4,800.00			
Munich Reinsuranace Company Canada Branch (Life)	$ 4,800.00			
Optima Communications	$ 4,800.00	8-Mar-18		
RGA Life Reinsurance Company of Canada	$ 4,800.00	5-Mar-18		
The Canada Life Assurance Company	$ 4,800.00	12-Mar-18		
DGA Careers Inc.	$ 4,800.00	28-Feb-18		
AXA Assistance Canada	$ 4,800.00	26-Feb-18		
Torys LLP	$ 4,800.00	23-Feb-18		
OneMain Solutions Canada (Waiting on Board Approval)				
Feb Invoices	**$349,775**		**$306,571**	
July Invoices	**$306,571**			
Total Membership Fees	**$656,345**			
Total amount to realocate monthly Jan-Sept	**$ 54,695**			
Total amount to realocate monthly Oct-Dec	**$ 54,695**			

DRAFT
April 11, 2018

Financial Statements of

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

Year ended December 31, 2017

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 192,706	$ 322,192
Prepaid expenses	26,577	17,855
Short-term deposits	-	54,077
Interest receivable	-	109
Total for Current Assets	219,283	394,233
Capital assets (note 4)	4,544	428
	$ 223,827	$ 394,661
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 43,380	$ 13,902
Unrestricted net assets (note 2)	180,447	380,759
	$ 223,827	$ 394,661

The accompanying notes are an integral part of the financial statements.

On behalf of the Board:

________________________________ Director

________________________________ Director

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Statement of Operations and Changes in Unrestricted Net Assets

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Membership fees	$ 475,425	$ 435,750
Interest	126	231
	475,551	435,981
Expenses:		
Association operating	516,897	329,752
Research and education committee	17,807	1,356
Distribution and market conduct committee	11,011	10,395
Networking and events committee	70,581	41,895
Licensing efficiency issues committee	15,001	-
Media and advocacy strategy committee	44,566	30,816
	675,863	414,214
Excess of (expenses over revenues) revenues over expenses	(200,312)	21,767
Unrestricted net assets, beginning of year (note 2)	380,759	358,992
Unrestricted net assets, end of year	$ 180,447	$ 380,759

The accompanying notes are an integral part of the financial statements.

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of (expenses over revenue) revenue over expenses	$ (200,312)	$ 21,767
Amortization of capital assets	1,564	467
Change in non-cash operating working capital	20,865	(11,760)
Cash (used in) provided by operating activities	(177,883)	10,474
Investing activities:		
Purchase of capital assets	(5,680)	-
Cash (used in) investing activities	(5,680)	-
(Decrease) increase in cash position	(183,563)	10,474
Cash position, beginning of year	376,269	365,795
Cash position, end of year	$ 192,706	$ 376,269
Represented by:		
Cash	$ 192,706	$ 322,192
Short-term deposits	-	54,077
	$ 192,706	$ 376,269

The accompanying notes are an integral part of these financial statements.

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Notes to Financial Statements

Year ended December 31, 2017

The Canadian Association of Financial Institutions in Insurance ("CAFII") is a not-for-profit association incorporated under the Canada Not-for-profit Corporations Act on August 25, 2014. CAFII was originally incorporated under the Canada Corporations Act on October 29, 1997 and commenced operations on January 1, 1998. CAFII was established to provide an industry-based forum to represent a range of financial institutions in insurance in Canada and to work in partnership with regulators to create an efficient and effective regulatory framework that provides consumer choice in the purchase of insurance products and services. CAFII's members provide life, property and casualty, travel and credit insurance, reinsurance and other products and services through a wide variety of distribution systems. CAFII is exempt from income taxes under paragraph 149(1)(l) of the Income Tax Act (Canada).

1. Significant accounting policies:

(a) General:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Canadian Professional Accountants of Canada Handbook.

(b) Revenue recognition:

CAFII derives its revenue primarily through membership fees. Fees are recognized as revenue in the membership period (January 1, 2017 to December 31, 2017) to which they relate.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits which are highly liquid with original maturities of less than three months.

1. Significant accounting policies (continued):

(d) Capital assets:

Tangible capital assets are recorded at cost. When a tangible capital asset no longer contributes to CAFII's ability to provide services, its carrying amount is written down to its residual value.

Tangible capital assets consist of computer equipment and are amortized on a straight-line basis over five years.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. CAFII has not elected to carry any such financial instruments at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, CAFII determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount CAFII expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets. Actual results could differ from those estimates.

2. Unrestricted net assets:

It is the policy of CAFII's Board of Directors to maintain unrestricted net assets (financial reserves) within a target range of between 25% of total annual operating expenses and 50% of total annual operating expenses. Management intends to utilize unrestricted net assets on CAFII-mandated projects, as determined by the Board of Directors.

3. Financial instruments:

The carrying amounts of financial assets and liabilities approximate their fair values due to the short-term nature of these financial instruments.

4. Capital assets:

2017	Cost	Accumulated amortization	Net book value
Computer equipment	$ 8,014	$ 3,470	$ 4,544

2016	Cost	Accumulated amortization	Net book value
Computer equipment	$ 2,334	$ 1,906	$ 428

5. Financial risks and concentration of credit risk:

(a) Liquidity risk:

Liquidity risk is the risk that CAFII will be unable to fulfill its obligations on a timely basis or at a reasonable cost. CAFII manages its liquidity risk by monitoring its operating requirements. CAFII prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2016.

5. Financial risks and concentration of credit risk (continued):

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations, resulting in a financial loss. CAFII does not have any financial assets subject to credit risk.

BRITISH COLUMBIA

364717

March 19, 2018

Dear Stakeholder:

As you are aware, the Ministry of Finance is currently undertaking a broad review of the *Financial Institutions Act* (FIA) and the related *Credit Union Incorporation Act* (CUIA). The purpose of the review is to consider the regulatory tools British Columbia has to oversee credit unions, insurance companies and intermediaries, and trust companies, and whether changes to the legislative and regulatory framework are needed.

The Ministry released the initial public consultation paper for the FIA/CUIA review in 2015. More than 40 written submissions were received in response to the paper, including from the credit union system and individual credit unions, insurers and insurance sector and intermediary organizations, trust companies, public sector organizations, businesses, banking and other organizations, and individual British Columbians. Ministry staff also met with a number of stakeholders, including credit unions, insurance sector and intermediary organizations and associations, trust companies, individuals and others, to discuss their written submissions.

In 2016, the Ministry released a report which provided a high-level summary of the input provided by stakeholders.

The second consultation paper (attached) identifies proposed policy and legislative changes to the FIA/CUIA and also includes a number of recommendations related to the governance and structure of the provincial regulator (FICOM). The governance and structure of FICOM was raised as an issue by some stakeholders. A separate review of FICOM was undertaken in late 2017 to assist in developing recommendations to ensure that FICOM's governance and organizational structure is clear, appropriate and contributes to the overall goals and objectives of government.

The purpose of the second consultation paper is to seek input from stakeholders in the financial services sector and other interested parties. This feedback will be taken into account before legislative and regulatory changes are developed. Please note that the changes proposed in the paper do not represent government policy and are only intended to elicit discussion.

.../2

Ministry of Finance

Office of the Deputy Minister

Mailing Address:
PO Box 9417 Stn Prov Govt
Victoria BC V8W 9V1
www.gov.bc.ca/fin

Location Address:
Room 109
617 Government Street
Victoria BC

All materials related to the FIA/CUIA review, including this consultation paper, the initial consultation paper and stakeholder submissions, can be found here: http://www.fin.gov.bc.ca/pld/fiareview.htm.

We would like to receive feedback by **June 19, 2018**. Submissions and comments may be transmitted electronically to fiareview@gov.bc.ca.

Submissions and comments may also be mailed to:

FIA & CUIA Review
Policy & Legislation Division
Ministry of Finance
PO Box 9470 Stn Prov Govt
Victoria BC V8W 9V8

Please note that this is a public consultation process and, unless confidentiality is specifically requested, comments and submissions may be summarized or attributed in a public report, and may also be disclosed to other interested parties or made publicly available on the Ministry of Finance website at http://www.gov.bc.ca/fin/.

If certain comments should not be posted publicly or shared with other parties, please clearly indicate that in the submission or covering letter. However, please note that all submissions received are subject to the *Freedom of Information and Protection of Privacy Act* and, even where confidentiality is requested, this legislation may require the Ministry to make information available to those requesting such access.

Ministry staff will be reviewing the submissions and may follow up with stakeholders for further information or details as needed. In addition, should you wish to meet with Ministry of Finance staff to discuss the contents of your written comments or submission, please indicate that when submitting your written comments and provide the appropriate contact information.

Thank you for your participation in this important review.

Sincerely,

L Wanamaker

Lori Wanamaker
Deputy Minister

Financial Institutions Act & *Credit Union Incorporation Act* Review

Preliminary Recommendations

BRITISH COLUMBIA | Ministry of Finance

March 2018

FINANCIAL INSTITUTIONS ACT & CREDIT UNION INCORPORATION ACT REVIEW

SECOND PUBLIC CONSULTATION PAPER

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INTRODUCTION

The Ministry of Finance is currently undertaking a broad review of the *Financial Institutions Act* (FIA) and *Credit Union Incorporation Act* (CUIA). The FIA provides the regulatory framework for credit unions, insurance companies and intermediaries, and trust companies, and the CUIA provides the framework for incorporation and corporate governance of credit unions.

The purpose of the FIA/CUIA review is to consider the regulatory tools BC has to oversee credit unions, insurers and intermediaries, and trust companies, and whether changes to the legislative and regulatory framework are needed. To ensure that the regulatory framework continues to be effective, efficient and modern, both the FIA and the CUIA require that a review of the legislation be initiated every ten years.

It should also be noted that, regardless of the statutory requirement that a review of the FIA and CUIA be initiated every ten years, the Ministry is committed to ensuring that the legislative and regulatory framework remains current and will review the framework more frequently as necessary.

Process to Date

The Ministry released an initial public consultation paper in 2015. The purpose of that paper was to seek input from stakeholders and other interested parties for consideration as part of the review.

Submissions were received from the credit union system and individual credit unions, insurance sector and intermediary organizations, trust companies, public sector organizations, businesses, banking and other organizations, and individuals. After the submission period ended, Ministry staff met with a number of these stakeholders to discuss their submissions.

A public report on the stakeholder input received in response to the initial public consultation paper was released in 2016. The report and stakeholder submissions are posted on the Ministry of Finance website (http://www.fin.gov.bc.ca/pld/fiareview.htm).

In addition to the broad review of the FIA and CUIA, a review of the governance and structure of FICOM was undertaken in late 2017 to assist in providing recommendations to ensure that its governance and organizational structure is clear, appropriate and contributes to the overall goals and objectives of government.

Purpose of the Preliminary Recommendations Paper and Next Steps

This paper represents the next stage of the consultation process; it sets out policy recommendations, including proposals related to the governance and structure of FICOM, and provides an opportunity for stakeholders to review the proposed changes.

The recommendations do not represent government policy; rather, the paper is intended to elicit discussion.

Feedback from stakeholders on this paper's proposed changes will help guide government as it considers legislative changes to the FIA and CUIA. After consultation and analysis, Ministry staff will prepare specific policy proposals for the consideration of government. Ultimately, any proposed changes to the FIA and CUIA would be subject to consideration and approval by the Minister of Finance and Cabinet, and approval of the Legislature of British Columbia.

How to Provide Input

Submissions and comments must be received by June 19, 2018 and may be transmitted electronically to fiareview@gov.bc.ca.

Submissions and comments may also be mailed to:

FIA & CUIA Review
Policy & Legislation Division
Ministry of Finance
PO Box 9470 Stn Prov Govt
Victoria BC V8W 9V8

Public Nature of Consultation Process

Please note that this is a public consultation process and, unless confidentiality is specifically requested, comments and submissions may be summarized or attributed in a public report, and may also be disclosed to other interested parties or made publicly available on the Ministry of Finance website at http://www.gov.bc.ca/fin/.

If you prefer that certain comments not be posted publicly or shared with other parties, please clearly indicate this in your submission or covering letter. However, please note that all submissions received are subject to the *Freedom of Information and Protection of Privacy Act* and, even where confidentiality is requested, this legislation may require the Ministry to make information available to those requesting such access.

BACKGROUND/CONTEXT

The FIA provides the regulatory framework for credit unions, insurance companies and intermediaries, and trust companies, and the related CUIA provides the framework for incorporation and corporate governance of credit unions.[1]

Rationale for Regulating the Financial Services Sector

Financial sector stability and consumer protection are important public policy objectives for government. Although there are other sectors that represent greater proportions of gross domestic product (GDP) and employment, governments dedicate significant time and resources to regulation of the financial services sector because issues in the sector can have disproportionately large impacts on the economy and society in general.

An effective regulatory framework helps to ensure that British Columbians continue to benefit from a financial services sector that is strong, stable, and inspires public confidence and trust. Regulation of financial institutions and intermediaries should be balanced, so that it is both effective and efficient, and does not place an undue burden on financial institutions, stifle innovation, or create barriers to new institutions.

Financial sector regulation in BC has proven effective, and BC's financial sector remained stable and strong even through the global financial crisis. Credit unions, insurers and insurance intermediaries, and trust companies continue to make significant contributions to BC's economy and to communities throughout the province.

Although much has changed since the previous legislative review, government remains committed to providing an effective and balanced regulatory framework which protects the interests of depositors, policyholders, beneficiaries, members and the public, while ensuring the financial services sector is able to innovate, take reasonable risks, and compete effectively.

Financial Institutions Commission

The Financial Institutions Commission (Commission), along with the Superintendent of Financial Institutions (Superintendent), is responsible for regulating and supervising financial institutions in BC—credit unions, insurance companies and intermediaries, and trust companies—to determine whether they are in sound financial condition and complying with their governing laws (i.e., the FIA and CUIA) and supervisory standards.

[1] Not all provisions governing the insurance industry are contained in the FIA. The *Insurance Act* provides part of the consumer protection regulatory framework for the insurance sector. It was last reviewed and updated in 2009.

The Commission is established under the FIA and its members are appointed by the Lieutenant Governor in Council (LGIC). The Commission must comply with policy directions issued by the Minister of Finance with respect to the exercise of its powers and performance of its duties. The Superintendent is appointed by the LGIC, after consultation with the Commission Chair, and the Commission provides oversight and direction to the Superintendent.

The Commission may delegate most of its powers and duties to the Superintendent, with the exception of major regulatory decisions such as consent to incorporation, amalgamation, etc., and, in practice, the Superintendent undertakes the day-to-day regulatory functions (and may in turn delegate certain powers and duties to staff).

While the acronym "FICOM" is used to refer both to the Commission itself and to the organization headed by the Superintendent which supports the Commission, for the purposes of this paper a reference to FICOM is a reference to the Commission, as it is the Commission that has the statutory authority for the regulation of financial institutions in BC.[2, 3]

[2] The Superintendent also holds certain powers under the FIA that are separate and apart from those held by the Commission.

[3] In a few cases when discussing issues related to specific powers and duties that may not be delegated by the Commission, "the Commission" will be used instead of "FICOM".

Objectives of the Legislative and Regulatory Framework

The primary goal or objective of the FIA and CUIA regulatory framework for financial institutions and their intermediaries is:

- ❖ To maintain stability and confidence in the financial services sector by reducing the risk of failures and providing consumer protection.

There are also a number of important complementary and supporting objectives:

- ➢ To create an environment where the financial services sector, and the entities within it (i.e., financial institutions and intermediaries), can continue to grow and prosper.
  - – For example, does the proposed change help to reduce red tape and unnecessary regulations that hinder economic development?
- ➢ To promote sound risk management and appropriate/responsible risk-taking.
  - – For example, does the proposed change help to foster good governance and a comprehensive risk management process in regulated institutions?
- ➢ To enable early detection and timely intervention and resolution of issues.
  - – Does the proposed change help to ensure that the legislation provides the regulator with an adequate range of supervisory tools so that problems can be detected early, and intervention made in a timely matter to resolve issues?
- ➢ To reflect international standards, while respecting the particular needs and circumstances of BC's financial sector and taking into account the nature, structure, size, scope and complexity of institutions.
  - – Does the proposed change take into account international standards and best practices, while also considering significant differences in the size and complexity of organizations to ensure the approach is appropriate for all entities in BC's financial sector?
  - – Do structural and ownership differences among financial institutions (e.g., cooperative or mutual organizations) necessitate different approaches?
- ➢ To foster member engagement in cooperative and mutual financial institutions.
  - – Does the proposed change help to encourage member involvement and engagement and provide members with the information they need about issues that impact them?

DISCUSSION OF KEY RECOMMENDATIONS

The remainder of this paper sets out a summary of the preliminary recommendations being made in respect of the FIA/CUIA review.

As in the initial consultation paper, the issues are grouped into four main sections: a general section which contains the issues that likely impact all financial service sectors (i.e., credit unions, insurers and insurance intermediaries, and trust companies) and includes proposals related to the governance and structure of FICOM; as well as separate sections for each of the credit union, insurance and trust sectors which contain the issues that primarily, or exclusively, apply to that sector.

For each issue, recommendations have been set out and are followed by a high level rationale for that recommendation. Please note that the issues and recommendations have been numbered for ease of reading and discussion and do not reflect any sort of ranking of the issues.

OVERALL FRAMEWORK ISSUES

Governance and Structure of FICOM

Recommendation #1
Establish FICOM as a Crown agency.

While not raised as an issue in the initial public consultation paper, issues related to the governance and structure of FICOM were raised by a number of stakeholders during the consultation period, particularly in the credit union sector.

Under this proposal, FICOM would be established as a Crown agency. FICOM would be authorized to operate as an independent, self-funded government agency, accountable to the provincial legislature through the Minister of Finance. This proposal aligns with international standards for financial sector regulators.

Recommendation #2
Expand the mandate of the Commission to exercise certain powers and duties related to mortgage brokers and pension plans.

The Superintendent serves in several official capacities, including Superintendent of Financial Institutions, Superintendent of Pensions, Registrar of Mortgage Brokers and CEO of the Credit Union Deposit Insurance Corporation (CUDIC) under the corresponding legislation.

Currently the Commission exercises powers and carries out duties assigned to it under the FIA and the CUIA relating to the regulation and supervision of provincially authorized insurance companies, trust companies and credit unions. Through the exercise of FIA and CUIA powers, the Commission makes major regulatory decisions regarding incorporations, business authorizations, amalgamations, liquidations and windups. Under the current framework, the Commission does not have any oversight of mortgage brokers or pensions.

Under this proposal the mandate of the Commission would be expanded to include mortgage brokers and pension plans. In order for the Commission to take on this expanded mandate, a Commission structure that reflects best practices and includes expertise from the regulated sectors will be required. Public sector board governance guidelines would also apply.

Recommendation #3
The Commission will appoint the CEO and statutory decision makers of FICOM.

Under this proposal the CEO and statutory decision makers (i.e., Superintendent of Financial Institutions, Superintendent of Pensions, and Registrar of Mortgage Brokers) will be appointed by the Commission and will be accountable to the Commission. Structural changes to the Commission, including the requirement that the Commission have sector-specific expertise, will ensure that the Commission has the capacity to effectively oversee the operations and strategic direction of the regulatory agency and to oversee the statutory decision makers.[4]

Recommendation #4
CUDIC will continue to be administered by FICOM and members of the Commission will continue to serve as the CUDIC board.

Under this proposal, no changes would be made to the structure of CUDIC, which would continue to be administered by FICOM. CUDIC was merged with FICOM in 1990 to allow expertise to be pooled; that pooling of expertise continues to be relevant and important today.

Regulatory Powers and Guidelines

Recommendation #5
Provide FICOM with the authority to issue enforceable guidelines/rules. Guidelines/rules will require public consultation and Ministerial approval.

International standards have increasingly focused on regulators having the appropriate tools to review and evaluate financial institutions and the ability to intervene on a timely basis to address problems at an early stage. Rules issued by financial sector regulators are increasingly being relied upon around the world as an important tool due to their flexibility and their ability to be adopted and amended in a timely manner (in comparison with legislation and regulations).

Currently FICOM can, and does, issue guidelines. The guidelines do not replace legislative or regulatory requirements, but rather reflect what is in the legislation, clarify supervisory

[4] The Commission itself is also a statutory decision maker.

expectations, and inform supervisory assessments. The FIA grants authority to the Insurance Council of British Columbia (Insurance Council) to make legally enforceable requirements or standards in the form of Council rules (e.g., rules respecting licensing, supervision, education and conduct). Similarly, the *Securities Act* provides the British Columbia Securities Commission (BCSC) with the authority to make legally enforceable rules for some purposes (e.g., regulating trading in securities or exchange contracts). In both cases, the entity has been delegated rule-making authority. The rules they make are not issued for the purposes of interpreting the legislation, but instead impose legally binding requirements. In part because they are substantive rules having the same enforceability as regulations, each proposed rule must be published for public comment and the Minister of Finance can either consent to or reject it.

Under this proposal, FICOM would be provided with rule-making authority. All rules would be subject to public consultation and Ministerial approval. The legislation would set out the specific matters on which FICOM may make rules.

Recommendation #6

Consistent with the rule-making authority described in Recommendation #5, require industry/public consultations and Ministerial approval of the deposit insurance assessment methodology.

Under the FIA, FICOM is authorized to assess each credit union a contribution to the deposit insurance fund. FICOM sets a target size for the deposit insurance fund and determines the annual contribution each credit union is required to make to the fund. For credit unions, the methodology for the calculation of deposit insurance premiums/contributions is an important issue and was raised a number of times during the initial consultation phase of the FIA/CUIA review.

Under this proposal, FICOM would be provided with the authority to make rules respecting the determination of annual premiums for credit unions, subject to consultation and Ministerial approval. This approach is consistent with the federal framework for bank deposit insurance assessments. The deposit fund target size, including the timelines for achieving the target, would continue to be determined independently by FICOM.

Recommendation #7

Continue to apply federal capital standards to BC insurance companies but provide FICOM with: (1) the discretion to disapply some requirements; and (2) the authority to issue rules to modify, where appropriate, capital requirements for BC insurance companies.

Most insurance companies in BC are federally-incorporated. The federal regulator has traditionally led the development of solvency standards for insurers and generally provincial regulators have harmonized their solvency standards with federal standards so that all insurers are subject to similar requirements regardless of where they are incorporated. Under the FIA, the capital requirements for insurance companies are based on the guidelines issued by the federal regulator (Office of the Superintendent of Financial Institutions [OSFI]).

Under this proposal, FICOM would have the discretion to disapply specific requirements where appropriate and would also have rule-making authority to apply alternative requirements for BC insurance companies. This would allow FICOM to tailor requirements to risks that may be unique to BC. All rules would be subject to industry/public consultation and Ministerial approval.

Market Discipline

Recommendation #8

Authorize FICOM to collect and publish certain financial and risk information.

Enhancing public disclosure requirements would help bring BC's legislative framework up-to-date with global standards. This proposal would also align BC requirements with federal requirements (and Alberta requirements for insurers) and would provide consistency in reporting to help customers and investors compare financial institutions across jurisdictions.

Under this proposed change, the specific information that could be collected and published by FICOM would be set out in regulation. The intent would be to allow FICOM to publish: (1) financial statements and auditors' reports, which financial institutions are already required to make publically available; (2) additional financial and risk information, such as that required by OSFI, Alberta, and Quebec; and/or (3) aggregate financial and risk information that does not identify distinct financial institutions. As with any regulation, the specific items that FICOM would have the authority to disclose would be subject to Ministerial and Cabinet approvals. Financial institutions would only be obligated to supply information to the regulator and would not be responsible for making such information publically available.

Further analysis would be necessary to determine specific information that may be of value to consumers and investors. Consideration would be given to the size and complexity of financial institutions to ensure small institutions are not overburdened. Attention would also be paid to ensure that increased disclosure requirements do not undermine cooperation with the regulator and confidence in financial institutions. As well, increased disclosure requirements must not result in customer information being revealed. There would be no change to the current requirement for FICOM to maintain strict confidentiality of all other information it receives from financial institutions.

Recommendation #9

Require financial institutions to make their public disclosures (i.e., financial statements and auditor's reports) available online.

Under this proposal, BC-incorporated financial institutions would continue to be required to keep a copy of their required public disclosures at each branch or office location, and would also be required to make these documents available on their public websites.

This proposal reflects changes in technology and modernizes the legislation. Consumers and investors would benefit from faster and more convenient access to information. Most, if not all, financial institutions already maintain public websites and as such, an online disclosure requirement should not be overly burdensome for financial institutions.

Recommendation #10

Provide FICOM with clear authority to share information with the existing national insurance reporting database and/or the proposed new national market conduct database.

In 2005, insurance regulators in Quebec and Ontario contracted a private company to develop a joint insurance complaint reporting system to reduce duplication and harmonize regulatory reporting. The system has since been expanded nationwide.[5] BC is the only province that has not joined the system because it is currently ambiguous whether the FIA allows BC to join.

Insurance companies operate in multiple jurisdictions. The ability of a regulator to collect and share relevant market conduct information (e.g., aggregate complaint data) with other supervisors and authorities is an important component of a proactive risk-based market conduct

[5] More recently, the Canadian Council of Insurance Regulators (CCIR) has been working to replace the national complaint reporting system with a new national market conduct database, which will be administered by Quebec's Autorité des marchés financiers (AMF).

regulatory regime. BC's participation in an integrated national database would help regulators in identifying and assessing issues in the insurance marketplace.

Under this proposal, information sharing would be handled by FICOM to avoid placing a burden on small institutions.

Out of Province Business

Recommendation #11

Clarify that the FIA regulatory requirements (e.g., business authorization, solvency, market conduct) do not apply to federal credit unions incorporated under the *Bank Act*.

Clarification of the FIA's definition of "credit union" to exclude credit unions that are regulated as banks under the *Bank Act* is warranted to keep the FIA up-to-date with federal legislative changes.

Recommendation #12

Make amendments to the framework for cross-border operation of credit unions to:

(a) Maintain/update the reciprocal framework for cross-border operation of credit unions (branch operations) so it is available if any other province establishes an operational reciprocal framework.

(b) Provide FICOM and CUDIC more guidance for the exercise of their discretion in whether to approve BC credit unions intending to open extraprovincial branches.

(c) Specify that under the reciprocal framework, an extraprovincial credit union must have deposit insurance from either home or host regulator and allow regulations to apply other aspects of the FIA to extraprovincial credit unions operating in the province.

In 2004, the FIA was amended to permit retail credit unions to operate extraprovincially on a reciprocal basis. BC is currently the only province that has implemented a functioning legislative framework for extraprovincial credit unions. As no other jurisdiction has a reciprocal framework that is operational, no extraprovincial credit union can operate in BC and no BC credit unions can operate in other provinces. With the new *Bank Act* provisions allowing credit unions to incorporate/continue federally, credit unions now have the option of operating extraprovincially under the federal legislation.

However, it is not clear whether the federal framework will ultimately meet credit union needs. Therefore, it appears warranted to leave the reciprocal framework in place.

The proposed amendments could allow for a more carefully tailored regulatory approach based on assessment of the specific regulatory risks of cross-border operation of credit unions. Similar to the Ontario framework, regulations could be adopted if and when another jurisdiction decides to implement a framework for cross-border operation of credit unions.

Under this proposal, FICOM and CUDIC approvals will continue to be required both for BC credit unions operating in other provinces and for other credit unions operating in BC, but the legislation will provide direction and criteria that FICOM and CUDIC will need to consider in making their decision.

Recommendation #13

Prescribe additional business activities that a credit union may carry on outside the province without the approval of FICOM or CUDIC.

The review examined the framework for out-of-province incidental business activities and considered whether additional activities not already permitted under the FIA should be allowed without approval from FICOM or CUDIC.

Some credit unions recommended that the FIA be amended to remove approval requirements for extraprovincial business activities. However, extraprovincial business activities can give rise to exceptional risks, especially in light of limited provincial jurisdiction to regulate activity outside the province. Requiring FICOM approval may be excessive for certain low risk activities but other activities (such as opening branches in other jurisdictions) clearly raise regulatory and other risks. It also appears warranted to require CUDIC approval for out-of-province deposit taking activities that are captured under the CUDIC guarantee. As such, the recommendation is to continue to require FICOM/CUDIC approval of these activities but to allow for further regulatory exemptions to be established for specific kinds of low-risk out-of-province business activity.

This approach would provide some flexibility to allow credit unions to undertake other business activities outside BC, provided they do not raise significant regulatory risks and/or activity that FICOM would not have sufficient tools to properly oversee.

Recommendation #14

Maintain the current general prohibition on the purchase of insurance outside of BC.

The FIA already provides a framework for licensed agents to place risk with unauthorized insurers where insurance is not otherwise available, and BC also has a flexible regulatory framework for self-insurance: captive insurers and reciprocal exchanges are permitted as regulated entities that organizations can use to reduce insurance costs and/or provide better claims management.

The current approach appears to be working well and broad exemptions could undermine the insurance market and consumer protection.

Winding Up of Insurers and Credit Unions

Recommendation #15

Make amendments to more effectively address credit unions facing solvency issues. Specifically:

(a) Amend the legislation to provide authority for FICOM or the Minister of Finance to establish bridge credit unions.

(b) Enhance CUDIC's role in dealing with credit unions facing solvency issues.

International standards highlight the importance of an effective resolution scheme to any banking regime. Amending the FIA or CUIA to provide the Minister of Finance or FICOM with the ability to establish a bridge credit union would be consistent with the federal framework under the *Canada Deposit Insurance Corporation Act* and would likely lead to better outcomes for members of a troubled credit union.

Enhancing CUDIC's role in dealing with credit unions facing solvency issues would be consistent with the federal framework and would enhance clarity. Further analysis and consideration would be given to designating CUDIC as a resolution authority, with similar tools as are available to the federal deposit insurance corporation.

Recommendation #16
Allow FICOM to apply to the court for an order that an insurance company be wound up if sufficient cause has been shown.

FICOM requires sufficient powers to take action in the event there is an imminent risk to the viability of an insurer. Amending the FIA to clearly outline the procedures for taking control of a troubled insurer or winding up an insurance company will help facilitate the orderly resolution of problems.

Maintaining the status quo would be inconsistent with international standards that highlight the importance of an effective resolution scheme to any framework for financial institutions.

Under this proposal, consideration will be given to requiring FICOM to apply to the court for permission to intervene (similar to those rules in place in Alberta and Saskatchewan, where the legislation specifies under what conditions the regulator can intervene). Consideration would also be given to setting out what actions can be taken by the intervening regulator, as in Quebec.

Financial Literacy

Recommendation #17
Do not amend the legislation to require financial institutions to make investments in financial literacy.

Financial organizations already have an incentive to foster financial literacy, as greater knowledge of available financial products and services generally leads to more consumption of those products and services. Furthermore, financial organizations already actively contribute to financial literacy through a wide variety of initiatives and provided many examples of such initiatives in their submissions to the FIA review. The variety and scope of existing financial literacy initiatives demonstrates that a specific requirement for financial organizations to invest in financial literacy initiatives is not required.

Recommendation #18
Establish a cross-ministry working group to coordinate government's financial literacy efforts.

Several submissions to the FIA review encouraged government to take on a greater role in contributing to and fostering financial literacy. Given the complexity of financial products and services, government intervention may help to ensure better consumer understanding and protection. A number of initiatives have already been undertaken. For example, the Ministry of Education has embedded financial literacy education instruction throughout the recently adopted K-9 provincial curriculum and updates for grades 10-12 are being developed. The BCSC has a number of programs focusing on financial education and literacy.

Within government, financial literacy objectives reach broadly across several different ministries/organizations in support of a wide range of policy objectives. A coordinated cross-government approach is therefore desirable.

Recommendation #19

If necessary, clarify that financial institutions have the authority to report suspicions of financial abuse to a designated agency under the *Adult Guardianship Act* (AGA).

Financial institutions may make use of the existing provision under the *Adult Guardianship Act* (AGA), which allows reporting of suspected abuse to a designated agency.[6] Ministry staff will work with financial institutions to ensure that industry is familiar with their authority to report suspicions of financial abuse under the AGA.

While many stakeholders supported a change to allow financial institutions to be able to report suspected financial abuse to next of kin (as now allowed under federal legislation), serious concerns were raised by the Public Guardian and Trustee and the Council to Reduce Elder Abuse, who noted that often, the next-of-kin is the individual perpetrating the abuse. By maintaining the status quo, financial institutions will continue to be able to report suspected financial abuse to the designated agencies referred to in the AGA.

Recommendation #20

Support, where appropriate, Emergency Management BC in developing consumer-friendly communication materials that outline the government's Disaster Financial Assistance program.

A number of submissions, particularly from the insurance sector, suggested that government should better communicate government policies regarding catastrophic risk and disaster preparedness. However, detailed information on disaster preparedness and the province's

[6] Currently, designated agencies include the five regional health authorities, Community Living BC, and Providence Health Care Society.

Disaster Financial Assistance (DFA) program is already available from Emergency Management BC.

Emergency Management BC is considering producing consumer-friendly material (rather than detailed information bulletins) that describe the DFA program, which could lead to better awareness and understanding of the DFA program and the importance of obtaining earthquake and overland flood insurance.

Fines

Recommendation #21
Increase the maximum fines for offences under the FIA and CUIA.

While not raised as an issue in the initial public consultation paper, the fines available under the FIA have not been reviewed since the legislation was first brought into force in 1989. Consideration is only being given to the monetary penalties imposed under section 253 of the FIA. The legislative and regulatory framework for administrative penalties was developed relatively recently and does not form part of this recommendation.

Monetary penalties are intended to enhance compliance with legislative requirements and, where those requirements are not met, fines give authorities a way to penalize offenders and encourage future compliance. Monetary penalties need to be sufficiently high to encourage compliance; if monetary penalties are too low, individuals and corporations may willingly pay them rather than adjust their behaviour, viewing the fines as a cost of doing business.

CREDIT UNION SECTOR

Deposit Insurance

Recommendation #22
Continue to provide unlimited deposit insurance to credit union members.

Deposit insurance contributes significantly to consumer confidence and market stability and is an important component of the financial system.

International regulatory organizations caution against unlimited deposit insurance because of the potential incentive for increased risk-taking by financial institutions (i.e., financial institutions may lack incentive to guard against risk when they are protected from its consequences by unlimited deposit insurance). The Basel Committee on Banking Supervision and International Association of Deposit Insurers released a set of core principles which address all aspects of deposit insurance.[7] They recommend that deposit insurance adequately cover a large majority of depositors and that the level of coverage be limited but credible. They also recommend that jurisdictions with unlimited deposit insurance transition to limited coverage as soon as their circumstances permit, with careful planning of the transition due to the importance of deposit insurance in maintaining public confidence. Worldwide, jurisdictions have generally reintroduced limits on coverage only where financial market and general economic stability have been achieved and the change is unlikely to impact public confidence in financial institutions.

However, there are arguments for BC to continue with unlimited coverage for credit unions at this time. This will allow BC credit unions to remain competitive with other western provinces (which offer unlimited coverage). Most importantly, government must carefully consider that simultaneously imposing multiple changes to the credit union system could negatively impact credit union liquidity.

In light of recommendations 24 and 28, (to modernize capital and liquidity standards using a framework based on Basel III), government is not considering moving to limited deposit insurance at this time. Any future reconsideration of deposit insurance coverage would require further review by the Ministry of Finance at that time and would also include consultation with affected stakeholders, FICOM and other interested members of the public.

[7] Basel Committee on Banking Supervision and International Association of Deposit Insurers, *Core Principles for Effective Deposit Insurance Systems*, June 2009, http://www.bis.org/publ/bcbs156.pdf.

Recommendation #23

Make changes to the scope of deposit insurance coverage by excluding or limiting coverage for certain products.

Under this proposal, coverage could be excluded or limited for the following products:

Foreign currency (exclude from coverage): The founding purpose of deposit insurance centers on institutional failure. Foreign currency deposits bear market risk (like stocks, bonds, and mutual funds) that deposit insurance is not intended to protect against. Although Alberta, Manitoba, and Saskatchewan do insure foreign currency deposits, the federal government, Ontario, Quebec and the Atlantic provinces do not (although the federal government is consulting on this issue).

Term deposits (limit coverage of term deposits to those with a length to maturity of five years or less): Term deposits beyond five years can be seen as an investment product rather than a deposit product. While some provinces provide coverage for deposits of any length to maturity, Quebec, New Brunswick, Prince Edward Island and Newfoundland match federal deposit insurance and only provide coverage for term deposits up to five years.

Interbank deposits (eliminate or limit coverage): Large interbank deposits raise serious risks for liquidity in times of financial stress.

Non-equity shares (exclude coverage but provide a transition period to convert existing shares to deposits): It appears that credit unions no longer offer these shares, but a transition period is necessary to allow existing non-equity shares to be wound up.

Capital Requirements

Recommendation #24

Adopt a Basel III-like capital framework and guidance/rules-based approach for capital standards, applicable to all provincial credit unions, with modifications to recognize the cooperative nature of credit unions and size differences among credit unions.

All new rules would be subject to consultation and Ministerial approval.

The credit union system in BC has grown significantly since the current (Basel I-based) capital requirements were introduced. Growth, consolidation and increased interconnectivity in the sector have resulted in greater complexity of operations and a greater concentration of assets into a few large credit unions. While credit unions in BC delivered strong financial results and remained stable during the 2008 financial crisis and in subsequent years, credit unions are operating in an environment with increasingly complex risks. Failure to benchmark the latest standards in BC could reduce confidence in the regulatory oversight of credit unions and in the credit union system itself.

Adopting the Basel III capital framework, with modifications to accommodate the unique characteristics of the BC credit union system, would be consistent with federal regulation, and with the approaches in Quebec, Saskatchewan and the recommendations made in Ontario's recent review of the *Credit Unions and Caisses Populaires Act.*

Moving to a guidance/rules-based approach for credit union capital and liquidity standards would mean that FICOM could issue enforceable guidelines, subject to public consultation and Ministerial approval, with respect to capital and liquidity requirements. This approach would make FICOM more consistent with its provincial regulatory counterparts and also allow FICOM to be more flexible and reactive to emerging industry concerns (e.g., development of alternative sources of capital, changes to leverage ratios, treatment of member equity). Furthermore, modernizing capital requirements would result in the elimination of some of the specific impediments that credit unions have expressed concern about (e.g., the commercial cap, the treatment of residential property held through trusts).

A capital regime based on the Basel III framework will take significant time to fully implement and will also require a lengthy transition time.

Recommendation #25

Adopt the credit union system's hybrid proposal for high ratio mortgages at the same time that new capital requirements are adopted.

The credit union system submission recommended that BC change its rules on high-ratio mortgages. Currently, BC applies a risk weighting of 0.35 for mortgages with a loan-to-value ratio (LTV) of up to 75 percent. For loans above the 75 percent threshold, the risk-weighting (for the entire amount of the loan) is 0.75. Therefore there is a significant capital penalty for loans with an LTV above 75 percent. However, unlike banks, credit unions are not prohibited from issuing uninsured high-ratio mortgages (i.e., those with an LTV ratio above 80 percent).

The credit union system has proposed a hybrid model where uninsured mortgages between 75-80 percent LTV are risk weighted at 0.35 (as opposed to the current 0.75), uninsured mortgages between 80-85 percent LTV are risk weighted at 0.75 (which is the same as they are currently risk weighted), and mortgages higher than 85 percent LTV must be insured.

This proposal accommodates the markets that are served by certain credit unions by allowing the few credit unions that provide uninsured mortgages with a higher than 80 percent LTV ratio to continue to do so (provided they do not have a ratio greater than 85 percent).

However, there are concerns with implementing this proposal before a new, more risk-sensitive capital framework is in place, particularly in light of current economic conditions (rapidly increasing real estate prices, high consumer debt loads) and the possibility of a correction in the future.

Recommendation #26
Continue to allow 50 percent of system capital to count towards individual credit unions' capital requirements, but remove CUDIC funds from the definition of system capital.

While including components of system capital may not be entirely consistent with international standards/Basel III, prohibiting the use of system capital as a component of individual credit unions' capital bases would fail to recognize the cooperative support structure under which Central 1 and Stabilization Central manage the risks to the credit union system and provide assistance to credit unions in financial difficulty.

The inclusion of CUDIC's retained earnings in system capital, however, is problematic because the purpose of deposit insurance is to protect individual depositors, not credit unions. Furthermore, capital is intended to represent an ownership over resources, and unlike Central 1 or Stabilization Central, CUDIC is a government-owned corporation.

Recommendation #27
The redemption rights for investment, patronage and membership will be amended to better match Basel III standards and continue to treat these shares as tier 1 capital.

Under Basel III, BC credit union membership shares may not be considered tier 1 capital as they may not have sufficient permanency, given that the CUIA requires credit unions to redeem membership shares when a member withdraws their membership and authorizes credit unions to redeem other equity (investment) shares by a resolution of directors.

While the Basel Committee intended to allow cooperative shares with a high degree of permanence and the ability to absorb losses to qualify as tier 1 capital, it did not provide many details about how this would work.[8] The World Council of Credit Unions recommends regulators follow the approach taken by the European Union, which would treat cooperative shares as tier 1 capital if they are not redeemable or have significant restrictions on their redemption, can absorb losses on a going-concern basis, and meet other similar requirements (such as being accounted for as "equity").

[8] World Council of Credit Unions, Inc., *Credit Union Shares as Regulatory Capital Under Basel III*, August 2012.

Amending the redemption rights for investment, patronage and membership shares to better match Basel III standards would allow credit unions to continue to treat these shares as highest quality (tier 1) equity as BC moves towards a more modern capital regime based on the Basel III framework.

Liquidity Requirements

Recommendation #28
Adopt Basel III-like liquidity framework and guidance/rules-based approach for liquidity standards. **All new rules would be subject to consultation and Ministerial approval.**

A move from prescriptive to more principles-based liquidity regulation (like Basel III) would be in keeping with national and international best practices.

While Basel III requirements could be implemented by regulation, a guidance/rules-based approach is recommended because prescribed quantitative liquidity requirements are inflexible and cannot be adjusted in a timely fashion to mitigate risk and emerging concerns. A guidance/rules-based approach for credit union liquidity standards would permit FICOM to be more consistent with its provincial regulatory counterparts and be more flexible and reactive to emerging concerns. Furthermore, a guidance/rules-based approach would ensure sufficient flexibility to tailor standards to credit unions of different size and complexity.

Recommendation #29
Allow credit unions to hold less than 8 percent statutory liquidity with the approval of FICOM (if and when Basel III-like liquidity standards are adopted, as set out in Recommendation #28).

If Basel III-like targets are adopted, as set out in Recommendation #28, BC credit unions' liquidity will be managed in accordance with international standards. Canadian banks and other international financial institutions that are subject to this framework are not subject to an additional requirement to hold a prescribed percentage of deposits as statutory liquidity.

However, Basel III-like standards have not previously been applied in the BC credit union context and until they have stood the test of time as an appropriate liquidity backstop, it may be prudent to maintain some features of the current regulatory framework, keeping in mind that some BC credit unions have asked for greater scope to set their own liquidity policies. The recommendation is therefore to allow credit unions the option of either following the prescriptive

8 percent requirement or preparing and filing their own liquidity policy with FICOM for approval.

Recommendation #30
Allow credit unions to hold their liquidity outside of the Mandatory Liquidity Pool (MLP) with FICOM approval.

Credit unions currently have the option to continue under federal jurisdiction, in which case they would not be required to hold their liquidity in the MLP. Risks created by making the MLP optional (which may ultimately lead to a smaller pool) can be mitigated by requiring credit unions to submit their proposals to manage their own liquidity to FICOM for approval before leaving the MLP. In addition, to acknowledge the benefit of pooled liquidity and recognize Central 1's compliance with FICOM's risk guidelines, deposits held at Central 1 could be treated more favourably than liquid assets held elsewhere, which may provide an incentive for the credit union system to collectively maintain a sizable liquidity pool.

Consumer Protection

Recommendation #31
Expressly authorize the credit union system to adopt a consumer code of conduct. If the credit union system does not adopt a code of conduct within a reasonable period of time, FICOM may establish a code of conduct for credit unions, with prior public consultation and Ministerial approval.

This proposal would allow the credit union sector to adopt a consumer code of conduct that would address both corporate culture (e.g., fair treatment of consumers) and specific consumer protection issues (e.g., it could require notification of branch closures, mandatory government cheque cashing obligations, annual reporting on consumer and member complaints received by the credit union). The adoption and future amendment of the code would require FICOM approval. FICOM would also have authority to monitor credit union compliance with the code.

While the credit union sector generally does not present major consumer protection concerns, two factors might support some increased attention on consumer protection issues: growth in credit unions, both in membership and business lines; and developments in international/national standards that increasingly focus on market conduct. Moving proactively in this area may be prudent to ensure the framework continues to be effective and maintains public confidence.

The establishment of a set of expectations for fair conduct in the credit union sector would be consistent with Saskatchewan, where the central credit union has adopted and requires adherence to a Market Code Handbook, and with Quebec, where the regulator has issued a set of guidelines that elaborate on a legislative requirement for credit unions to use sound commercial practices. It would also generally be consistent with the federal government's intention to establish a set of market conduct provisions within the *Bank Act*.

Recommendation #32

Require credit unions to have in place internal complaint resolution procedures; any complaints not resolved could be taken by the consumer to an ombudservice administered by Stabilization Central.

Notwithstanding the lack of concerns raised about consumer protection, the growth of credit unions along with developments in international/national standards suggest a proactive approach to consumer protection is warranted.

This proposal would provide a formal dispute resolution process to which FICOM and government could direct consumer complaints. An ombudservice could also help address concerns members have as owners, namely issues related to a credit union's organizational or corporate practices (e.g., annual general meeting processes, election and voting practices, board of directors' decisions).

Recommendation #33

Expressly authorize credit unions to use trade names, including regional trade names; provide regulation-making authority to prescribe notification and other requirements.

Under this proposal, the CUIA would expressly permit the use of multiple trade names by a credit union, including regional trade names. Regulations would prescribe requirements for credit unions using them. Where multiple/regional trade names are used, credit unions would be required to clearly identify the relationship to the credit union (e.g., by using specific wording such as "a division of"). Regulations could also require specific notifications to members of credit unions where multiple/regional trade names are used, to help ensure they are aware of their rights (voting, etc.).

This proposal would expressly provide credit unions with flexibility in branding, helping them to compete in the highly competitive financial sector and to retain goodwill after a merger or acquisition.

Credit Union Governance

Recommendation #34

Make the following changes for member proposals:

(a) Adopt member proposal provisions, consistent with other Canadian jurisdictions, to allow a single member to bring forward any matter for discussion at an annual meeting.

(b) Increase thresholds for requisitioning of special meetings and members' special resolutions.

Under this proposal, the CUIA would be amended to adopt member proposal provisions whereby a single member can bring forward "any matter that they propose to raise at an annual meeting." Under these provisions, management would be required to circulate a copy of the proposals to all members prior to the annual general meeting and to allow time for discussion of the proposals at the meeting.

However, if the proposal involves something more than the discussion of a matter at a meeting, such as a members' special resolution or the election of directors, a higher threshold of 1 to 5 percent of members (depending on credit union size) would be required, unless the credit union bylaws provide for a lower threshold. Specifically, the proposal would set the threshold at 5 percent for the first 6,000 members, plus 1 percent of additional members. This same threshold would be required for the extra-ordinary event (and cost) of requisitioning a special meeting of members. Additional restrictions could be adopted, such as a minimum membership period and a prohibition on proposals used to secure publicity.

For smaller credit unions (6,000 members or fewer), this proposal would maintain the status quo (5 percent of members needed to bring forward binding resolutions or requisition special meetings). For larger credit unions, the number of members required would increase from the current level (300), with the exact threshold varying by the size of the credit union (i.e., 1 percent of members or roughly 5,000 members at the largest credit unions). This would effectively set a threshold ranging from 5 percent for very small credit unions to 1 percent for very large credit unions.

This change would respond to the concern of credit unions that the current 300 member threshold does not appropriately reflect the growth in credit union membership.

Recommendation #35

Authorize FICOM to issue binding corporate governance rules, with prior public consultation and Ministerial approval.

Under this proposal, legislation would authorize FICOM to supplement the statutory framework with rules on corporate governance, such as board responsibilities for director elections, supervision of management and enterprise risk management. Further directions on voting processes for the election of directors or more clarity around endorsements of nominees could be provided in FICOM rules.

Clear authority to issue binding corporate governance rules would confirm regulatory/public interest in good corporate governance. Compared to legislative requirements, FICOM would have more flexibility to keep the standards up to date to reflect changes in the environment or in business practices and to allow it to respond to emerging risks. Requiring FICOM to conduct public consultations and to receive Ministerial approval prior to establishing rules would help assure credit unions that any new rules are appropriately balanced; for example, that proportionate rules apply to smaller credit unions.

Recommendation #36

Require credit unions to obtain prior FICOM approval for prescribed types of major transactions and establish criteria that FICOM must take into account.

Currently, FICOM approval is needed only for transactions that involve corporate structural changes (e.g., mergers or continuances) or that raise concerns about conflicts involving transactions with related parties.

This proposal envisions that the FIA would require credit unions, including central credit unions, to obtain FICOM approval for certain prescribed transactions. For example, regulations could require prior FICOM approval of any business acquisition or investment above 1 percent of a credit union's assets and/or $100 million.

A new regulation-making authority could also be adopted to allow government to set out criteria that FICOM may or must take into account before consenting to all or specific types of major transactions (e.g., that FICOM should consider whether, or be satisfied that, appropriate member input is sought on a type of transaction).

These changes would address FICOM's concern that it does not have appropriate oversight over certain major transactions and that its current broad discretion leaves it unclear about the key criteria that should be considered when approving or rejecting major transactions. Setting out clear criteria would also make the process more transparent for credit unions.

Recommendation #37
Make common bonds optional.

For some BC credit unions that are no longer effectively limited by a geographic or other bond, the common bond requirement is seen as an outdated practice that does not reflect their current business. The credit union system submission recommended that the legislation be amended to allow, but no longer require, a credit union to have a common bond, reflecting rules in some other provinces and the new reality of online banking and increased mobility of members.

Under this proposal, credit unions could amend their constitution to remove the common bond, requiring both member and FICOM approval. Therefore, FICOM could seek assurance at the time of proposed elimination of the bond that a sound risk governance framework is in place to demonstrate that the credit union has the capacity to take on risks outside of its current region or demographic.

Recommendation #38
Make technical changes to credit union governance rules.

Specific technical changes include the following:

(a) Allow a credit union to alter any part of its constitution by special resolution and with FICOM approval;

(b) Allow unincorporated associations (e.g., local Toastmaster Clubs), to be members of credit unions;

(c) Allow credit unions to issue shares in series, with rules and rights similar to business corporate law;

(d) Allow a credit union member to be able to vote individually as well as on behalf of a business wherein they are sole proprietor;

(e) Eliminate signature requirement for credit union members requisitioning of special meetings and special resolutions;

(f) Require credit union directors to appoint all senior officers (including president, vice president, the secretary, the treasurer or the general manager of the corporation); and

(g) Expand the authority of financial institution's investment and lending committees to review all risks (credit, operational, etc.).

The technical changes listed above respond to some of the requests made by credit unions (e.g., allowing unincorporated entities to be members of credit unions) and generally modernize the governance framework for credit unions.

Central Credit Unions

Recommendation #39
Direct FICOM and Stabilization Central to develop a Memorandum of Understanding (MOU) delineating their respective roles and setting out the circumstances in which FICOM will delegate supervisory authority to Stabilization Central.

Credit unions have concerns that there is uncertainty over the role of Stabilization Central and that Stabilization Central is underutilized. If the responsibilities and role of Stabilization Central were better defined, FICOM could make better use of Stabilization Central and its resources.

While credit unions recommended an enhancement of Stabilization Central's statutory powers, including the transfer to Stabilization Central of many of those powers currently exercised by FICOM and even CUDIC, credit unions are a significant and growing component of the financial services sector and external oversight is important. A move to greater self-regulation, with a corresponding reduction in the external oversight of credit unions by an independent regulator, may raise public policy concerns in light of the significant importance of deposit-taking institutions to the economy.

Regulators and industry self-regulatory bodies must work together to function effectively and an MOU would provide the starting point for an effective partnership between FICOM and Stabilization Central.

Recommendation #40
Continue to provide Central 1 with the broad business powers currently set out in the CUIA but amend the legislation to clarify that credit unions, including central credit unions, must obtain prior FICOM approval for prescribed types of major transactions.

The CUIA currently provides substantial flexibility for Central 1, allowing it to adapt to changes in the credit union system provided its functions meet the test of being incidental or conducive to the sound operation of its members or to the attainment of the purposes of its members.

Prior to January 2017, Central 1 was jointly regulated by BC (FICOM) and federal (OSFI) regulators, and, in addition to the FIA and CUIA, was subject to provisions in the federal *Cooperative Credit Associations Act* (CCAA) and numerous OSFI guidelines. In January 2017, FICOM became the sole prudential regulator of Central 1 and, accordingly, the sole prudential regulator of the primary payments and clearing provider for Canadian credit unions (outside Quebec).

The rules in the CUIA and FIA were not developed in contemplation of FICOM regulating a central credit union whose role has expanded beyond the traditional business of a provincial central credit union. As well, the FIA was developed prior to Central 1 having an expanded role as the credit union system's payments and clearing provider and supporting credit unions outside the province. Under this proposal, Central 1 would need to obtain prior FICOM approval for major transactions, such as major business acquisitions and taking on the functions of another province's central. FICOM's current broad discretion with respect to approving major transactions leaves it unclear about the key criteria that should be considered when making decisions. Setting out clear criteria for the approval of major transactions would help to provide transparency about the process.

Recommendation #41

Set out a legislative framework for the designation of provincial financial institutions as Domestic Systemically Important Financial Institution (D-SIFIs) and enable FICOM to issue enforceable guidelines applicable to D-SIFIs, as appropriate.

The Basel Committee noted that regulatory authorities should establish a methodology for assessing the degree to which financial institutions are systemically important in a domestic context.[9] Central 1, which has been designated as a D-SIFI by FICOM, has expressed concern about the lack of a legislative framework for regulating D-SIFIs.

Under this approach, the authority for FICOM to designate a D-SIFI would be set out in the FIA, along with the qualifying criteria and requirements. The qualifying criteria and requirements would be similar to those recommended by the Basel Committee, but adapted to the credit union system.

In light of OSFI ceasing its oversight of Central 1 in 2017, FICOM would also be provided the authority to issue enforceable guidance to Central 1 (or any D-SIFI) to clarify requirements and update standards, as needed, to reflect current market conditions, emerging risks and evolving regulatory practice. FICOM-issued guidelines would be subject to consultation and Ministerial oversight.

[9] Basel Committee on Banking Supervision, *A framework for dealing with domestic systemically important banks*, October 2012.

Technology

Recommendation #42
Adopt reforms to member communication and AGM notice requirements to allow notices to be sent electronically, and amend the legislation to use technologically neutral language.

Under this proposal, the requirement to mail notices would be eliminated and instead credit unions would be permitted to provide notice to members by email (if a member has provided an email address) and by notice in newspapers or on the credit union website. The approach would be optional for each credit union and the credit union's rules would have to be amended, with member support, prior to any change.

Credit unions undertake business in one of the most competitive sectors in Canada, and outdated rules in financial institutions legislation should not impede their ability to compete. Older framework rules, particularly the requirement to deliver AGM notices by mail, impose both environmental impacts and financial costs, and are inconsistent with member and consumer needs and expectations. Furthermore, modern corporation laws, including the *Business Corporations Act* and the new *Societies Act*, provide entities significant flexibility in communicating with members.

The credit union system recommended the legislation be re-written in technologically neutral language, which would be consistent with the approach established under the *Electronic Transactions Act* where a document that must be provided in writing to another person may be provided electronically if the recipient consents.

Recommendation #43
Provide FICOM with the authority to issue binding rules on records storage, with prior public consultation and Ministerial approval.

Currently, there is some concern that the regulator may experience problems accessing records of credit unions and other financial institutions, particularly in the event of a credit union failure, which could undermine deposit insurance protection and market confidence.

Adopting a guidance/rules-based approach to record storage is preferred to amending legislation to prohibit or restrict specific practices, as it will provide more flexibility and responsiveness as business conditions change over time.

INSURANCE SECTOR

Insurance Retailing and Licensing Exemptions

Recommendation #44
Expand the restricted licensing regime currently applied to travel agencies to other incidental insurance sales, similar to the approach used in Alberta, Saskatchewan and Manitoba.

Insurance products are generally sold by licensed agents who provide advice and help consumers to understand the products they are purchasing. However, the FIA provides a number of exemptions from the requirement that insurance be sold by a licensed agent. These exemptions generally relate to insurance that covers a good or service the consumer is acquiring from the seller (e.g., product warranties for electronics and appliances, credit insurance sold incidentally to the arranging of credit by a financial institution).

Many of the products sold by exempt sellers, especially travel insurance and credit insurance, have received significant negative press coverage in recent years. As well, the products sold by exempt sellers have increased in complexity and coverage amounts.

Under this proposal, certain entities would be required to obtain a restricted licence that would allow the entities to sell insurance where it is sold incidentally to their ordinary business (e.g., motor vehicle warranty insurance, credit insurance). This licence would be a corporate licence issued to the business entity, which would be responsible for the insurance activities of its employees. This model is already in place for travel agencies selling travel insurance in BC and is also the model used by Alberta, Saskatchewan and Manitoba for the sale of credit insurance, travel insurance, funeral insurance, etc.

A restricted licensing regime would allow for oversight and enforcement related to incidental sales of insurance, which is important as these insurance products increase in complexity and value. This option would also allow specific requirements to be adopted if necessary, such as the requirement for education for persons selling certain insurance products.

Recommendation #45

Provide FICOM with the authority to issue guidelines requiring insurers to provide more direct oversight of exempt sellers and/or sellers under a restricted licensing regime.

Exempt sellers of insurance products are not necessarily accountable to regulatory bodies and are also generally not under the direct oversight of the insurer. One way of increasing oversight of exempt sellers is to increase the accountability of the insurer whose product they sell, for example by requiring insurers to provide training or guidance to exempt sellers.

Under this proposal, the legislation would authorize FICOM to issue enforceable guidelines that set out how insurers must oversee exempt sellers and/or sellers under a restricted licensing regime. The guidelines would be subject to public consultations and ministerial approval.

Recommendation #46

Maintain the current regulatory oversight of the insurance activities of travel agents.

The Insurance Council suggested that regulatory requirements could be streamlined by allowing the insurance activities of travel agents (and funeral directors) to be regulated by their principal regulator, Consumer Protection BC. However, travel insurance is available through a number of entities, not just travel agents. Having Consumer Protection BC regulate the sale of the travel insurance by travel agencies, but not the sale of travel insurance sold by other entities, may result in confusion for consumers.

Recommendation #47

Place restrictions on the sale of insurance products sold on a post-claims underwriting basis by exempt sellers and/or sellers under a restricted licensing regime.

Insurance sold on a post-claims underwriting basis means that eligibility for insurance coverage is determined after a claim is made. It is commonly used for credit insurance products sold by exempt sellers and is conducive to quick enrolment (which benefits consumers by reducing transaction time and inconvenience), but leads to enrolment of some consumers who are not actually eligible for coverage.

Implementation of this proposal would place restrictions on the sale of insurance products sold on a post-claims underwriting basis, without actually prohibiting their sale entirely. This proposal balances necessity of access to insurance and the risk of consumers finding out they are ineligible for insurance sold on a post-claims underwriting basis after they need it.

Restrictions could include some or all of the following:

- Require education of salespersons so they are better able to advise the consumer about the meaning and importance of health questions and disclosure;
- Require specific point-of-sale disclosures or specific, standardized wording of health questions to ensure consumers are able to understand their obligations; and/or
- Prohibit the denial of claims based on any innocent misrepresentation in respect of credit insurance sold under a licensing exemption (that is, other than by a licensed agent).

Consumer Protection

Recommendation #48
Require insurers to treat consumer fairly; delegate authority to FICOM to develop a code of conduct for insurers and to develop rules based on the code.

The establishment of a code of conduct for insurers would be consistent with international standards and would parallel the establishment of a code of market conduct for the BC credit union sector (as described in recommendation 31). This model allows specific guidance to evolve along with emerging issues in a more dynamic way than legislation typically permits.

Because insurance companies often operate in multiple jurisdictions, consistency is important. Ideally the Canadian Council of Insurance Regulators (CCIR) would develop a national code of conduct for insurers that FICOM could adopt. Otherwise, FICOM could look to existing national industry codes/standards as much as possible to avoid inconsistencies with other jurisdictions. Both the code and any accompanying rules would be subject to ministerial approval and public consultation.

The code and any accompanying rules would apply only to insurers. The Insurance Council of BC would continue to administer the existing Code of Conduct for agents and brokers in BC.

Recommendation #49
Do not require mutual insurers to have membership in an ombudservice.

No issues or consumer complaints have arisen that would appear to justify eliminating the ombudservice exemption provided to mutual insurers (which stems from their cooperative nature). Mutual insurers can continue to voluntarily offer their policyholders access to an independent ombudservice, as Mutual Fire Insurance of BC currently does.

Recommendation #50
Do not require insurance agents/brokers to have membership in an ombudservice.

The CCIR recently undertook research on a potential nationwide dispute resolution mechanism for disputes between licensees (agents/brokers) and consumers that would be shared across jurisdictions. This research has indicated there are not enough cases to warrant a separate body. The CCIR concluded that errors and omissions insurance should continue to be relied upon (where applicable) to compensate consumers in the event of a loss.

In the absence of an ombudservice, consumers could continue to seek a resolution via the legal system, including the new Civil Resolution Tribunal (currently for disputes involving amounts under $5,000). In BC, insurance licensees are required to have errors and omissions insurance, helping ensure compensation is available to those consumers who pursue legal remedies. In addition, consumers can continue to file complaints against agents/brokers with the Insurance Council of BC.

Protection of Confidential Information

Recommendation #51
Provide privilege for the self-assessment programs of financial institutions (insurance companies, credit unions, trust companies).

Risk-based regulatory models rely on companies implementing a self-assessment system that identifies risk and reports compliance to the regulator. To regulate effectively, regulators need adequate information from regulated entities.

Concerns have been raised that confidential information provided to regulators under the FIA may not be adequately protected. This may impact the quality and timeliness of disclosure and, consequently, the ability of the regulator to protect the public interest.

Under this proposal, the FIA would be amended to include a provision protecting self-assessment documents prepared by financial institutions (i.e., insurance companies, credit unions, trust companies) from disclosure. These documents would also no longer be accessible under the *Freedom of Information and Protection of Privacy Act* (FOIPPA). However, the legislation would make clear that credit union members and mutual insurer policyholders are still able to access information about their respective financial institutions so they are able to exercise their rights as owners.

This proposal would make BC consistent with the approaches in Alberta, Saskatchewan and Manitoba, which all provide privilege for the self-assessment programs of insurance companies. This proposal is also consistent with recommendations made by the CCIR.

Recommendation #52
Allow FICOM to withhold information under the *Freedom of Information and Protection of Privacy Act* (FOIPPA) when it is provided by other regulators in confidence.

The financial institutions sector in BC is comprised of local and national companies, which means that FICOM must cooperate with other regulators such as the federal regulator in order to oversee them. Currently, other regulators are reluctant to share information about financial institutions with FICOM because information protected in their jurisdiction may be released in BC subsequent to a freedom of information request made under FOIPPA.

This proposed change would be consistent with the approaches taken federally, in Alberta and in Saskatchewan and would facilitate FICOM sharing information with, and receiving information from, other provincial and federal regulators.

Regulation of Insurance Intermediaries

Recommendation #53
Continue to have all Insurance Council members appointed by the LGIC.

While a change to a combined elected/appointed model is strongly supported by industry, the Insurance Council, as currently structured, has proven to be an effective and balanced regulator of the sector. No concerns about the competency of the members or a lack of focus on consumer protection have been raised. Concerns raised about insurance agent conduct appear to be addressed effectively and efficiently, and at the same time, industry participants seem to feel the Insurance Council regulation is appropriately balanced and not unfairly burdensome.

Moreover, the current approach is consistent with legislative reforms made in 2016 with respect to the structure of the Real Estate Council to ensure appropriate protection of the public.

Recommendation #54

Expand the number of Insurance Council members appointed by the LGIC from eleven to thirteen by adding two additional independent agent representatives.

Under this proposal, the number of Insurance Council members from the each of the independent general and life insurance brokers and agents would be increased from two to three, while the other categories of representatives would not change.

Increasing the number of representatives of independent insurance agents would promote effective and representative regulation of insurance intermediaries.

Recommendation #55

Implement technical changes to Insurance Council tools and powers as identified by Council and Ministry of Finance staff.

Under this proposal, a number of largely technical changes to the tools and powers of the Insurance Council would be made. Proposed changes include:

(a) Giving a hearing committee the authority to decide a matter, not just prepare a report to Council;

(b) Increasing maximum fines that may be imposed by the Insurance Council from $10,000 for individuals and $20,000 for corporations to $25,000 for individuals and $50,000 for corporations and partnerships;

(c) Allowing Council to assess investigation costs even where no other disciplinary action is warranted (any such investigative costs order would remain subject to appeal to the Financial Services Tribunal);

(d) Clarifying that Council may publish its decisions on its website or other websites; and

(e) Replacing the current provision on Council member remuneration (currently based on a specific LGIC order) with a provision linking remuneration to Treasury Board policies (consistent with other government boards).

While the Insurance Council has operated successfully with the current sets of tools and no major concerns have been raised, adopting these generally minor changes will enhance consumer protection and Insurance Council effectiveness. These proposed changes are consistent with tools and powers available to other self-regulatory bodies.

Recommendation #56

Maintain the current framework for special brokers.

Special brokers in BC are licensed and regulated by the Insurance Council and must also abide by government regulations requiring additional reporting to FICOM. This review considered whether to require special brokers to obtain a separate licence from FICOM, similar to the requirement in several other provinces for these brokers to be licensed directly by the financial institutions regulator or government.

However, in BC the risks associated with special brokers are already addressed in several ways. To ensure the agent's capacity, the Insurance Council requires prior notice to Council before an agent undertakes this type of business. The FIA prohibits special brokers from directly or indirectly soliciting residents for this insurance business and requires quarterly reporting to FICOM.

Technology

Recommendation #57

Draw on the CCIR's recommendations to put in place a flexible legal framework that enables insurers to offer their products online while protecting consumers.

Many consumers, particularly younger, tech-savvy consumers, use online information and sales to save time, have more control of the process, research different options, etc. For some consumers, the ability to read about a policy and coverage quickly and efficiently online is preferable to traditional purchases where the consumer has to rely primarily on the information an agent provides.

Insurers, and many insurance agents and brokers, want to be able to respond to consumer preferences, provide information and solicit insurance business using new technology. It is likely that increased consumer comfort with online sales, along with competition and cost pressures, will eventually lead to increased use of the internet by insurers and their customers.

Under this proposal, the recommendations made by the CCIR in relation to electronic commerce would be used to develop a flexible legal framework that expressly enables insurers to offer products online while protecting consumers.[10] For example, online insurance providers could be required to ensure consumers purchasing an insurance product make informed decisions by:

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[10] Canadian Council of Insurance Regulators (CCIR), *Electronic Commerce in Insurance Products*, http://www.ccir-ccrra.org/en/init/Elec_Commerce/ECC_position_paper_2013_EN_final.pdf, May 2013.

providing them with the information needed, in a timely and comprehensive way; providing them with access to a suitable level of advice, taking into account, among other factors, the complexity of the product; and making consumers aware of the importance of obtaining advice.[11]

Recommendation #58
Do not prohibit the promotion of insurance on credit union websites.

It is not clear that concerns addressed by the current prohibition on credit unions and insurance agencies sharing the same premises (i.e., coercive tied selling and sharing of confidential information) are relevant to web-based insurance promotions. Practically, credit union involvement in insurance has been significantly reduced in recent years.

Long-term Disability Plans

Recommendation #59
Pending further consultation, require employee long-term disability (LTD) plans to be insured, with exemptions for certain employers with low risk of insolvency.

Employee benefit plans are exempted from regulation under the FIA (employee benefit plans generally fall within the province's definition of insurance and, but for the exemption, would be subject to regulation under the FIA). No concerns have been raised about this exemption in respect of uninsured short-term benefits such as health and dental benefits or short-term illness/sick pay. However, because of the enormous financial hardship for individuals that can result from the loss of LTD coverage, concerns have been raised about the current exemption in the context of LTD coverage.

Uninsured employer LTD plans may not be available to support claimants in times of corporate financial stress or insolvency. Confusion on the part of the employee can arise, especially where an "administrative services only" (ASO) arrangement is in place (an ASO arrangement is where an insurance company has been contracted to administer the program, but the employer retains the underlying risk). Employees dealing with a licensed insurer for any claims may be surprised

[11] The Government of Quebec recently introduced legislation proposing extensive reforms to its financial services sector legislation. This proposed legislation includes new provisions aimed at addressing online sale of insurance by insurance companies and distributors. For example, see sections 59-68 of the proposed new *Insurers Act*, as enacted by s. 3 of Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions*.

after the company's failure to learn that they do not have a claim against the insurer, but only against the failed company.

Under the proposed amendment, employers that choose to offer LTD benefit plans would be required to do so using an authorized insurance company rather than retaining the underlying risk themselves.[12]

While employers are currently required to disclose in writing if benefits are not insured and the plan sponsor is not subject to insurance regulation, in practice, many employees likely continue to be uninformed or confused about who is responsible for their LTD benefits.

This proposal is consistent with federal law and with recent changes in Ontario (not yet in force). Ministry staff will conduct further consultation with the business community and labour unions to better understand the use of self-insurance and ASO plans in the private sector and in negotiated labour agreements.

Rebating

Recommendation #60
Cap rebates at <u>the lesser of</u> 25 percent of the initial year's commission and 25 percent of the initial year's premium.

In 2004, the FIA was amended to allow rebating but capped the amount that may be rebated to 25 percent of the premium. Government agreed to monitor the impact of the new rebating rule on the industry to determine whether changes are required.

The proposed amendment is intended to refine the current compromise position by making an adjustment to account for the differing commissions earned by life insurance sellers and property and casualty insurance sellers (who typically earn less than 25 percent of the premium as a commission). The goal is to bring the legislation into greater alignment with the original intent of the cap.

[12] The Insurer Exemption Regulation currently includes in the definition of "employer" groups of employers, unions and groups of unions, and entities formed by an employer to provide benefits to employees.

Recommendation #61

Continue to allow insurance licensees to make referral payments but require them to disclose the amount of any referral payment.

Current regulatory trends in the financial sector favour enhanced transparency for consumers. Enhancing referral commission disclosure requirements would be consistent with other changes recently planned/implemented for BC's financial sector framework, including requirements governing the disclosure provided by mortgage sellers and mutual fund dealers.

Regulation of Reciprocal Exchanges, Mutual Insurers, and Societies

Recommendation #62

Enhance the regulatory framework for reciprocal exchanges.

While no specific concerns have been raised about the operation of reciprocal exchanges in BC, the more limited regulatory requirements and tools available to FICOM to oversee these entities could pose some risk to insured persons and the public. FICOM believes the regulatory framework for reciprocals should be more closely aligned with the more robust frameworks in other provinces (Alberta, Saskatchewan, Manitoba and Ontario).

This proposal will require further consultation with industry to determine the best framework for reciprocal exchanges in BC.

Recommendation #63

Maintain the current framework for regulating mutual insurers (i.e., do not establish a demutualization framework).

Across Canada, the biggest legislative reform issue for mutual insurers is demutualization. Both Ontario and the federal government have adopted legislation to allow mutual insurers to demutualize (i.e., become a regular insurance corporation that is owned on a business corporate law rather than cooperative law basis). However, no mutual insurers in BC have expressed an interest in demutualization.

Recommendation #64
Eliminate the “deemed business authorization” category for societies and apply the full insurance company framework to these entities.

Since 1990 the FIA has included a broad prohibition on any society obtaining a business authorization to conduct insurance business. A few existing societies (already licensed under previous legislation) were deemed to have a business authorization under the FIA. These societies are referred to as “deemed business authorization societies” and are subject to certain provisions of the FIA. Some other societies offering limited types of coverage that had been exempted from legislation prior to 1990 were provided with an exemption in 1990 and are referred to as grandfathered societies (grandfathered societies are exempt from the FIA entirely). While it appears that many grandfathered societies that offered insurance prior to 1990 still offer limited accident and sickness benefits to members of their organizations (e.g., sports organizations offering limited dental care and business trade organizations offering limited accident and sickness coverage to employees of member companies), no concerns have been raised with the government or the regulator about the operation of these entities.

With respect to “deemed business authorization societies”, FICOM has recommended eliminating this category and applying the full framework to the few societies in this category (i.e., Pacific Blue Cross and federally-regulated fraternal associations). The proposed change would enhance regulation of key insurance entities and would help maintain public confidence in them. Further consultation with affected entities will be required to assess whether there will be any major impacts from the changes and whether/what exemptions may be required.

TRUST SECTOR

Provincial Authorization/Regulation of Trust Corporations

Recommendation #65
Do not make changes to the FIA pertaining to authorization or filing for trust corporations.

This review examined the possibility of eliminating the authorization requirement on the basis that (trust-only) trust corporations do not carry the same types of risks as deposit-taking institutions. However, it was concluded that authorization plays an important role as the authorization requirement is the only way BC can ensure that only qualified trust corporations operate in the province. Authorization also provides a useful mechanism for enforcing the FIA's consumer protection provisions.

Unincorporated Trust Business

Recommendation #66
Do not amend the FIA to regulate unincorporated trust business (by individuals or other unincorporated entities).

Some stakeholders have expressed concern that vulnerable adults and others need to be protected from unincorporated trust services businesses that have no insurance, oversight, or trained staff. However, other than certain professionals (e.g., lawyers, who are trained and insured) and businesses offering employee health benefit trusts, there appear to be few or no such businesses in operation in BC. Government is not aware of any consumers who were harmed by an unregulated individual or other entity offering trust services to the public.

Furthermore, the risks associated with unregulated trust business are already mitigated by several mechanisms. All trustees (including trust businesses) must abide by the *Trustee Act* and the common law in respect of their duties as trustees. Even in the absence of a prohibition on unincorporated trust business, beneficiaries will continue to have access to civil remedies in the case of financial abuse or if a trustee fails to perform their duties to the high standard required by trust law. Finally, the criminal law will continue to apply where a consumer is defrauded or financially abused by an individual or other entity offering (or claiming to offer) trust services.

Maintaining the status quo (i.e., not regulating unincorporated trust businesses) is consistent with all other Canadian jurisdictions.

Self-dealing

Recommendation #67
Do not introduce new regulation of self-dealing by trust companies but broaden section 93(1) of the FIA to enhance consumer protection.

As part of this review, a concern was raised about potential conflicts of interest and lack of provincial oversight in relation to trust companies that are subsidiaries of deposit-taking financial institutions. Specifically–in the case of trust assets associated with registered plans held in deposit accounts–whether the use of the trust assets for the benefit, at times exclusive, of the financial institution that owns the subsidiary acting as trustee means, or creates the appearance, that the fiduciary's trust obligation is not being met. While the enforcement of general trust law is not the role of the FIA, the issue examined was whether there should be additional regulatory oversight to deal with potential conflicts of interest (and in particular, self-dealing, which refers to transactions not made at arm's length).

Enhancing regulation of self-dealing might be achieved by either prohibiting self-dealing or by mitigating its impact on consumers, as is done in some other jurisdictions including the United States. However, an attempt to regulate self-dealing would have many complex implications given that this is an area of the law that overlaps with securities regulation, trust law, and banking regulation (and may, in fact, be more appropriately addressed by one of these regimes). Regulating self-dealing may also impact federally-regulated financial institutions in ways that potentially overstep provincial jurisdiction.

An ancillary issue was raised during the analysis of this topic. Section 93(1) of the FIA provides authority for FICOM to prohibit the use of a contract between a financial institution and its customers (or an application/advertisement relating to a contract) if it is unfair, misleading, or deceptive. The references in the provision to "contracts", applications and advertisement may not encompass all materials in use by financial institutions. For example, an issue that has arisen is whether section 93(1) applies to explanatory material provided by financial institutions (e.g., brochures). Broadening the wording of s. 93(1) would help clarify that the provision applies to all aspects of a consumer transaction, including, where applicable, a trust instrument and materials provided to consumers for informational purposes.

Capital Requirements

Recommendation #68
Do not change capital requirements for trust companies.

The 0.5 percent capital requirement for provincial trust-only trust companies has been in place since the adoption of the FIA in 1990.

Although a risk-based capital regime for BC trust companies was considered, the activity of BC trust companies is largely trust services (versus riskier activities such as lending), so no change is being proposed at this time.

GLOSSARY

"Basel" refers to the Basel Committee on Banking Supervision, the primary international standard setter for the prudential regulation of banks. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide to enhance financial stability. It has international membership, including from Canada, the United States and the European Union. It has developed a series of standards (Basel I in 1988, Basel II in 2004, and Basel III in 2010-11).

"Canadian Council of Insurance Regulators" is an inter-jurisdictional association of insurance regulators. The mandate of the CCIR is to facilitate and promote an efficient and effective insurance regulatory system in Canada to serve the public interest.

"Central 1 Credit Union" is the primary liquidity manager, payments processor, and trade association for credit unions in BC and Ontario. Central 1's key legislated role is as the BC credit union system's liquidity provider, and all BC credit unions are required to be members of and hold statutory liquidity with Central 1.

"Commission" is the Financial Institutions Commission (also referred to as FICOM). It has statutory authority for the regulation of financial institutions in BC. It is established under the FIA and its members are appointed by the Lieutenant Governor in Council.

"CUDIC" is the Credit Union Deposit Insurance Corporation, a statutory corporation of the BC government administered by FICOM. CUDIC is responsible for administering and operating a deposit insurance fund and guarantees all deposits and non-equity shares of BC credit unions.

"CUIA" is the *Credit Union Incorporation Act*, the BC legislation that provides the framework for incorporation and corporate governance of credit unions.

"D-SIFI" is a domestic systemically important financial institution. D-SIFIs are financial institutions whose disorderly failure could cause significant disruption to the wider financial system and economic activity.

"FIA" is the *Financial Institutions Act*, the BC legislation that provides the regulatory framework for credit unions, insurance companies and intermediaries, and trust companies.

"FICOM" is the Financial Institutions Commission appointed by the Lieutenant Governor in Council which has statutory authority for the regulation of financial institutions in BC. (While FICOM is also used to refer to the organization headed by the Superintendent which supports the Commission, for purposes of this paper "FICOM" is a reference to the Commission itself.)

"Financial institution" means a credit union, insurance company, or trust company.

“**Insurance Council of British Columbia**” is the regulatory body responsible for licensing and discipline of insurance agents (life and general), insurance salespersons, insurance adjusters, and restricted travel insurance agents.

“**MLP**” is the Mandatory Liquidity Pool held by Central 1 Credit Union. All BC-incorporated credit unions are required to hold liquidity in the MLP. Some Ontario credit unions also hold liquidity in the MLP.

“**OSFI**” is the Office of the Superintendent of Financial Institutions, the Canadian federal regulator of financial institutions subject to federal oversight.

“**Stabilization Central Credit Union**” is a central credit union whose role is to identify and assist credit unions facing governance, operational or financial challenges, and to manage a stabilization fund that can be used to help credit unions experiencing difficulties meet supervisory expectations. BC credit unions are required to be members of Stabilization Central.

“**Superintendent**” is the Superintendent of Financial Institutions. The Financial Institutions Commission may delegate most of its powers and duties to the Superintendent, who undertakes the day-to-day regulation and supervision of financial institutions in BC.

Draft 2018 FSCO Statement of Priorities

Message from the Chair and Chief Executive Officer

Every day, people and companies that provide financial services make a meaningful impact on the lives of Ontarians.

Financial services consumers – including retirees receiving a pension, new parents buying life insurance, first-time homebuyers shopping for a mortgage, and drivers looking to renew their vehicle insurance – all want to feel their interests are being protected as they make important decisions.

For the past two decades, the Financial Services Commission of Ontario (FSCO) has provided regulatory oversight of financial services and pension plans – working to ensure the nearly 94,000 entities we regulate are following the law. We undertake our activities with consumers and pension plan beneficiaries in mind, because we know Ontarians count on our regulated sectors to help protect their assets, manage risk, and enhance their financial security.

As we look ahead, we recognize the need not only to protect the public, but also to empower them. We see the growing need to nurture healthy innovation in the marketplace, and the ongoing importance of promoting consistent approaches to regulation on both a provincial and national level.

At the same time, we have identified goals and activities that align with the vision for the new regulator being created – the Financial Services Regulatory Authority (FSRA). The Ontario government has made significant progress towards implementing FSRA, and FSCO will continue to support those efforts. Until FSRA is operational, FSCO remains the financial services regulator in Ontario, and we will continue to deliver on our mandate to protect consumers and enhance public confidence in the sectors we regulate.

None of this would be possible without the commitment and efforts of our talented staff. Their creativity and drive have helped us achieve positive results that make a difference for all Ontario stakeholders. We are proud of the accomplishments of this organization and look forward to the year ahead.

Ian McSweeney

Chair, Financial Services Commission of Ontario

Chair, Financial Services Tribunal

Brian Mills

Chief Executive Officer and

Superintendent of Financial Services,

Financial Services Commission of Ontario

About FSCO

FSCO’s legislative mandate is to provide regulatory services that protect the public interest and enhance public confidence in the sectors it regulates.

Using a risk-based approach to enforce legislation, FSCO regulates the insurance sector (including service providers who invoice auto insurers for statutory accident benefit claims); pension plans; credit unions and caisses populaires; the mortgage brokering sector; co-operative corporations; and loan and trust companies in Ontario.

FSCO's approach to fulfilling its legislated regulatory responsibilities is outlined in greater detail in its Regulatory Framework. Accountable to the Minister of Finance, FSCO also seeks approval for its projects and direction through the Agency Business Plan and reports back on its core activities through its Annual Report.

FSCO Priorities

Section 11 of the Financial Services Commission of Ontario Act, 1997 [New Window] (FSCO Act), requires that FSCO publish a statement each year setting out its proposed priorities and the reasons for adopting these priorities.

FSCO’s mission is to continue to be an effective regulator that protects the public interest while supporting a dynamic financial services marketplace.

Building on last year’s key themes of treating consumers fairly and enabling innovation, FSCO is embarking on a new strategic plan in 2018-19 with overarching goals and associated outcomes aimed at empowering consumers, fostering innovation and providing leadership on the national stage. The 2018 Statement of Priorities provides a brief overview of FSCO’s areas of focus in the coming year.

1. Create greater consumer awareness and understanding of their rights and responsibilities and how to protect themselves

FSCO is committed to protecting consumers in the sectors it regulates. We recognize one of the most effective ways to do this is to equip consumers with the tools they need to protect themselves. In 2018-19, FSCO will continue to invest in public education initiatives, such as national Fraud Prevention Month and Financial Literacy Month, to help empower consumers and pension plan members to make informed financial decisions. These efforts will include actively seeking relevant partnerships to broaden our reach, as well as improving consumer-facing tools and information.

In addition, FSCO will continue to work with industry stakeholders to strengthen their understanding of FSCO’s expectations regarding statutory compliance and the fair treatment of consumers. For example, FSCO will hold public consultations in 2018 in advance of the release of a new Superintendent’s guideline establishing a common understanding of what it means to treat financial services consumers fairly. The guideline will align with international best practices and strengthen confidence in the sectors through measurable and demonstrable outcomes for the consumer.

2. Be proactive with respect to industry transformation and new technologies

Technology continues to evolve and advance at a rapid pace. FSCO recognizes the need for regulators to be more adaptable and agile to foster innovation in the marketplace. Over the coming year, FSCO will work to re-assess and re-align our processes to find ways to be more responsive to innovation in our regulated sectors. We will also equip and empower staff to develop regulatory solutions and use innovative supervisory approaches to better support new technologies and business models while remaining focused on our consumer protection mandate.

As more financial technology (fintech) businesses seek to operate in Ontario, and as consumer demand for innovative financial services continues to rise, FSCO is responding to the need to support them as they navigate and comply with the Ontario's financial services legislation. Drawing on our past experience, we will also work closely with the government and other partners to support Ontario's broader fintech strategy, helping encourage innovation while ensuring consumer protection.

3. Achieve a higher degree of harmonization, supervisory cooperation, and jurisdictional participation

In today's global environment, financial services are interconnected, crossing jurisdictional and sectoral boundaries. It is critical that regulators throughout Canada work together and coordinate efforts. Greater cooperation leads to the identification of emerging risks, sharing of best practices, and a more consistent level of protection for consumers across jurisdictions. In addition, greater regulatory harmonization can result in reduced regulatory burden, and supports market competition, new entrants and greater innovation, which ultimately benefits the consumer and the economy.

FSCO demonstrates its commitment to regulatory coordination and communication through its leadership engagement and active participation in the following inter-jurisdictional associations of financial services regulators:

•Canadian Council of Insurance Regulators (CCIR)

•Canadian Association of Pension Supervisory Authorities (CAPSA)

•Mortgage Broker Regulator's Council of Canada (MBRCC)

•Canadian Insurance Services Regulatory Organization (CISRO)

•Joint Forum of Financial Market Regulators

•Canadian Automobile Insurance Rate Regulators (CARR)

•General Insurance Statistical Agency (GISA)

FSCO will strengthen collaborative relationships with other regulators and provide leadership in the delivery of strategic national policy initiatives.

For example, FSCO will work with other CCIR members to coordinate simultaneous thematic and insurer-specific reviews across jurisdictions, to ensure that insurance customers are being treated fairly throughout the country. These reviews will capitalize on information from the Annual Statement on Market Conduct introduced last year to identify areas of potential risk requiring attention.

4. Support the implementation of the Financial Services Regulatory Authority of Ontario

In the fall of 2016, the provincial government passed legislation to create and establish the initial parameters of the Financial Services Regulatory Authority (FSRA) – a new, independent and flexible regulator with a stronger focus on protecting consumers, investors and pension plan beneficiaries.

At this time, no date has been set for the implementation of FSRA. As such, FSCO remains the financial services regulator in Ontario, and we continue to deliver on our mandate and serve the public interest.

FSCO's chosen priorities for 2018-19 are consistent with the vision for the new organization, and all operational decisions made this year will consider the potential impact on the implementation of FSRA. As it progresses, FSCO will continue to work with the Ministry of Finance and the FSRA board to support a seamless experience for our regulated sectors, while maintaining a focus on consumer protection.

About the Financial Services Tribunal

The Financial Services Tribunal (FST or Tribunal) is an independent, expert decision-making body that, at the request of affected persons, holds hearings and appeals from decisions and proposed decisions of the Ontario Superintendent of the Financial Services and of the Deposit Insurance Corporation of Ontario (DICO).

The FST has exclusive jurisdiction to exercise the powers conferred upon it under the FSCO Act and other Ontario statutes.

FST Priorities

Maintain a pool of qualified members to adjudicate hearings

The Tribunal will continue to work with the Ministry of Finance and the Public Appointments Secretariat to ensure the appointment of additional qualified members sufficient to meet the Tribunal's expected caseload. The FST will continue to provide adequate training (internal and external resources) to ensure Tribunal members have the appropriate education and expertise to hear Tribunal matters to which they are assigned.

Dialogue with members of the legal profession

The FST will continue its dialogue with members of the legal profession through its Legal Advisory Committee to address matters related to its hearing rules, practices and procedures. The Tribunal will continue to receive an annual report from the committee chair.

Update Tribunal rules, practices and procedures

The Tribunal will review rules, practices and procedures as required to reflect changes to its mandate and other legislated change. The Tribunal will review and revise performance standards as needed to ensure available resources deliver adjudicative services effectively and efficiently.

Transition to the FST Act

In 2017, the government passed the Financial Services Tribunal Act, 2017 (the “FST Act”), which, upon proclamation, will remove the FST from the FSCO Act and continue it as an independent Tribunal with respect to proceedings arising out of Superintendent regulatory enforcement under the FSCO Act/FSRA Act.

In 2018-19, the Tribunal will continue to work with the Ministry of Finance to ensure a smooth and efficient transition of its mandate from the FSCO Act to the FST Act.

Send us your comments

FSCO invites interested parties to make written submissions regarding FSCO's Draft 2018 Statement of Priorities.

Interested parties may send submissions by May 8, 2018, to:

Chief Executive Officer and

Superintendent of Financial Services

Financial Services Commission of Ontario

5160 Yonge Street, Box 85

Toronto ON M2N 6L9

Fax: (416) 590-7070

Email: priorities@fsco.gov.on.ca

To request a paper copy, please call (416) 250-7250 or toll-free: 1-800-668-0128.

FSCO's 2018 Statement of Priorities will be submitted to the Minister of Finance in June 2018 and will be published in The Ontario Gazette shortly thereafter.

CONSULTATION DRAFT - CONFIDENTIAL

Superintendent's Guideline No. 01/17: Treating Financial Services Consumers Fairly

Introduction

The Superintendent of Financial Services ("Superintendent") is issuing this Guideline to inform all those licensed or registered by the Financial Services Commission of Ontario (FSCO) in the insurance, credit union/caisse populaire, loan and trust and mortgage brokering ("the financial services") sectors of its expectations regarding the fair treatment of financial services consumers and members of credit unions/caisse populaires and Ontario farm mutuals.

For the purposes of this Guideline, consumers and members of credit unions/caisse populaires and Ontario farm mutuals will be referred to collectively as "financial services consumers" or "consumers"; and those FSCO-licensed/registered individuals and entities in the financial services sectors to which this Guideline applies will be referred to as "licensees".

The 2008 financial crisis demonstrated how risks to the stability of the financial system as a whole can arise not only through failings in financial and capital management, but also as a result of poor conduct of business practices and unfair treatment of financial services consumers. This experience and others that followed have also demonstrated a lack of confidence by financial services consumers that many of those providing financial services will act in their best interest and treat them fairly.

FSCO expects that licensees are already treating financial services consumers fairly and in fact, FSCO already looks for this during its monitoring and oversight activities. There is, however, a need to further clarify FSCO's expectations as part of its statutory mandate to protect the public interest and enhance public confidence in FSCO's regulated sectors.

Purpose

The purpose of this Guideline is to ensure there is a common understanding between FSCO and licensees as to what it means to treat financial services consumers fairly. The Guideline provides direction for the conduct of financial services business in a way that allows licensees to demonstrate to consumers that they meet the Superintendent's expectations. It seeks to strengthen public trust and consumer confidence in the financial services sectors regulated by FSCO.

Much of what FSCO expects is already contained in existing legislation or is part of accepted industry best practices. However, treating financial services consumers fairly is not just about the law; it is also about an ethical way of doing business, and a culture that places consumers at the centre of all business decisions.

It is about putting the interests of the consumer first, and considering what financial services consumers expect or need at every stage the product life-cycle, right from the moment a product is envisioned, all the way through to the end or fulfillment of a business contract. Treating consumers fairly is focused on achieving clearly articulated, measurable and demonstrable outcomes for the financial services consumer.

Responsibility to treat financial services consumers fairly throughout the product life-cycle

The Superintendent's expectations apply to all licensees, whether they have a direct interface with the consumer or not, and whether or not they are involved in all stages of the product life-cycle. This includes licensees designing a financial services product, and those distributing or selling products to financial services consumers.

Licensees that are not directly selling products to, or advising financial services consumers themselves, still need to consider the Superintendent's expectations and the impact of their conduct of business on the financial services consumer. These licensees may have a role in designing products and defining their target market; providing promotional material to licensees that will sell and provide advice on financial products, or to the financial services consumers themselves; and post-sale service where they acquire an ongoing contractual relationship.

Licensees who are involved in sales and distribution, on the other hand, will generally be responsible for providing information at the point of sale, for the appropriate advice, and for the suitability of the sale of the financial product. Sometimes these licensees play just an advisory or intermediary role between the designer / manufacturer / provider of the financial product or service and the end-consumer. In this Guideline we will sometimes refer to these licensees as "intermediaries".

Regardless of the stage of the product life-cycle that the licensee is involved with, where more than one licensee is involved in the design, marketing, distribution and post-sale servicing of a financial product or service, the Superintendent expects treating consumers fairly to be a shared responsibility of all those involved.

Finally, licensees are accountable/responsible for ensuring that the Superintendent's treating consumers fairly expectations are known to, and complied with by their non-licensed employees, third party contractors, and intermediaries acting on their behalf.

Application of proportionality when implementing the Guideline

The Superintendent's expectations apply to all licensees including individuals, sole proprietorships, partnerships and corporations. Given that the nature and activities of licensees to whom this Guideline applies are so diverse, ranging from large institutions offering highly complex products, to individuals giving advice on the suitability of a product, FSCO believes it is neither possible nor desirable to specify exactly what it expects from every licensee against detailed or prescriptive rules. Implementation of this Guideline is not a "one size fits all" approach and may differ based on the licensee's size, ownership structure, risk profile, nature and complexity of operations, as well as the sector and markets where it operates.

For example, the policies, record-keeping and analysis that would be expected from a licensee that is an individual or a sole proprietor in order to document fair treatment of consumers may not be as extensive, but FSCO still expects these licensees to have appropriate internal controls in place to ensure and demonstrate the licensee has met the principles of the fair treatment of financial services consumers. In other words, FSCO's proportionality principle recognizes nature, scale and complexity of the licensee, giving room for tailored solutions to achieve the desired objectives contained in the Superintendent's expectations.

This Guideline is also not intended to be an exhaustive list of practices. Rather, it provides some guidance and examples of what FSCO expects to see, as part of its consumer protection mandate, during compliance examinations and other touchpoints such as questionnaires and attestations.

The Superintendent expects licensees will consider the spirit of this Guideline and proportionally adapt it to all of their business activities. The Guideline uses "must" when a statutory requirement is in place for all licensees; and "should" where a licensee is expected by FSCO to consider a particular action to comply with a Principle, without necessarily implying that there is only one prescribed course of action. Notwithstanding the above, licensees are responsible for knowing what are their legal obligations.

The Superintendent's Expectations for Treating Financial Services Consumers Fairly

1. **FSCO expects that treating financial consumers fairly is a core component of the licensees' business governance and culture.**

- A treating consumers fairly culture should be driven from the senior levels of an organization ("tone from the top"). It is the responsibility of the licensee, its owners, partners, officers, board of directors and/or senior management to build this culture.
- Licensees should design, implement, communicate and monitor compliance with a code of conduct, and/or policies and procedures that reinforce a fair treatment of consumers' culture. Policies should also be made publicly available, especially those relating to how financial services consumers can file a complaint.
- Policies and procedures that promote treating consumers fairly should be incorporated into any outsourcing contract or arrangement with intermediaries and third party contractors.
- All licensees should comply with the code of conduct and treating consumers fairly policies and procedures of their organization.
- The expectation to establish a treating consumers fairly culture applies to all licensees, regardless of their size. Licensees who are individuals, sole proprietorships, and partnerships should align their business decisions and priorities with treating consumers fairly outcomes in a manner proportionate to

the size and complexity of their business. For example, these licensees should subject their day-to-day business and all decisions that have an impact on financial services consumers to scrutiny in terms of whether or not they support their fair treatment.

- Licensees should have appropriate mechanisms in place that are reasonably designed to measure compliance with treating consumers fairly policies (e.g. conducting consumer satisfaction surveys).

2. FSCO expects licensees to act with due skill, care and diligence when dealing with consumers, and when designing products.

- Licensees involved in sales, service and advice to consumers must meet the required statutory proficiency qualifications, and act with the due skill, care and diligence appropriate for the product involved and the personal circumstances and financial needs of the consumer.

- Licensees involved in the design and governance of products should have regard to the needs of their target market. This may also require choosing the most appropriate distribution methods tailored to the target market, and having an established process to identify/mitigate risks that a product may pose to particular consumers (e.g., stress-testing; monitoring of products post-launch to ensure they meet the needs of the initial target market).

- All licensees should regularly deliver and/or participate in training programs on ethics and integrity, specifically related to their own code of conduct or standards.

3. FSCO expects licensees to promote products and services in a manner that is clear, fair and not misleading or false.

- Licensees must comply with the legal requirements to provide consumers only with information that is accurate, clear and not misleading or false, including any diagrams or projections.
- Although the level of product information that should be made available to consumers will depend on the type, complexity and specific legal requirements of each product, financial services consumers should always be provided with information that:
    - is easy to understand (plain language used wherever possible);
    - is clear regarding any risks, exclusions or limitations of a product;
    - does not hide, diminish or obscure important statements or warnings, but rather makes sure that important information is prominently displayed.
- Where there is no statutory standardized format for disclosure, industry best practices should be adopted. Licensees should consider when the information

may be most useful to the financial services consumer during their decision-making process.

- Financial services consumers should receive clear information about their rights and obligations (e.g., the right to file a complaint or to cancel a product or service, and any responsibilities to disclose material changes), including whom they could contact.
- Controls should be in place so that licensees providing advice, or engaged in soliciting, sales and/or the provision of services, are familiar with and have access to the target market for which the product was developed.
- Licensees involved in developing marketing material should obtain the approval of the product manufacturer, as necessary, and engage the services of a third party to conduct independent reviews of promotional or advertising materials and other communications intended for consumers to ensure clarity, plain language and compliance.
- If financial products and services are offered digitally, the same levels of transparency and disclosure should be applied as with traditional means, including access to a licensed intermediary who is qualified to provide advice.

4. FSCO expects licensees to recommend products that are suitable, taking into account the consumer's disclosed personal circumstances and financial condition.

- The licensee and the financial services consumer should have a common understanding of the nature of products or services to be provided, i.e., determine whether the consumer wants to purchase a specific product, or if they are seeking professional advice and/or a product recommendation. This understanding should be documented.
- Licensees should follow a three-step process to ensure the product offered is in the best interest of the consumer, having regard for the consumer's needs and circumstances:

1. Get to know your client by using methods such as fact-finding.

The information collected may differ depending on the type of product and legal requirements, but generally, information about the consumer's financial knowledge and experience; needs; life-stage priorities and circumstances; ability to afford the product; and risk appetite should be collected, and there should be a written record of the discussion. .

2. Understand the products fully- how they work, their limitations, exclusions and material risks.

3. Conduct a thorough needs analysis to understand, based on the facts and information obtained from the consumer, what are the consumer's objectives and needs.

Licensees should only provide a recommendation/advice after completing the process above. The recommendation or advice should be documented and reflect the linkage between fact-finding, needs assessment and product. The financial services consumer should be able to understand why the recommendation was made.

- Licensees who do not interface with consumers but have responsibility for the financial product should review the sales files of those working on their behalf in order to monitor the quality and suitability of the advice given to financial services consumers related to that product. Remedial actions, including a report to the Superintendent, should be taken if the delivery of advice was unsuitable.
- In order to promote suitable advice, licensees should promote/provide continuous training programs and monitor mandatory education (as required) requirements to make sure their employees and intermediaries acting on their behalf are aware of market trends, economic conditions, product innovations, and changes to the law.
- In cases where advice would normally be expected but the consumer chooses not to accept the advice, written acknowledgment of the consumer's decision to decline the advice should be documented.

5. **FSCO expects licensees to disclose and manage any potential or actual conflicts of interest.**

- Licensees must comply with legal requirements to disclose and manage any potential or actual conflicts of interest. Actual or perceived conflicts of interest are best managed by avoidance.
- Some examples of situations where conflicts of interest may arise include:
    - Payment or acceptance of an incentive, commission, or any non-monetary benefit for the sales of financial services or products.
    - Making a financial gain or avoiding a financial loss at the expense of the consumer.
    - Inability to act in the best interest of one consumer without adversely affecting the interest of another.
    - Any relationship that may be perceived to potentially affect the independence of advice given.
- Licensees may manage conflicts of interest in different ways, depending on the circumstances. For example, some conflicts may be managed by disclosure, or by providing the consumer with information about the number of companies the licensee represents. If there is a situation where a conflict cannot be managed

satisfactorily, licensees should consider declining to provide the service and/or product.

- Licensees should develop, implement, monitor and communicate a conflict of interest management policy to all officers, directors, employees, intermediaries acting on their behalf, and third party contractors.
- Licensees should develop incentives that take into account the fair treatment of consumers, rather than incentives oriented only towards the sale of specific products, or based solely on sales volumes.
- Licensees should conduct audits to assess potential for product and commission biases.

6. FSCO expects licensees to provide continuing service and keep consumers appropriately informed, through to the point at which all obligations to the financial services consumer have been satisfied, including claims handling, and the diligent provision of benefits.

- Licensees must comply with legal requirements to keep a written record of their claims-handling procedures, including all steps from the claim being raised to its settlement.
- Licensees should provide consumers with timely information and easy access to the means of making a claim, applying for benefits, or accessing dispute resolution mechanisms.

- The licensee should take all reasonable steps to disclose information to the consumer regarding any contractual changes during the life of the financial services or product, and any further information relevant to the financial services consumer. For example, if there are corporate or legislative changes that may affect the consumer, these should be communicated in a timely manner.

- Financial services consumers should be informed of what their obligations are post-sale and throughout the product life cycle (e.g., inform the licensee if their life circumstances change).
- Where there are changes in terms and conditions, the financial services consumer should be notified of their rights and obligations; their consent should be obtained as needed.
- Licensees should provide ongoing service and/or information to financial services consumers when they switch between products or cancel a contract early.

7. FSCO expects licensees to have policies and procedures in place to handle complaints in a timely and fair manner.

- A complaint is an expression of dissatisfaction about the product or services provided. FSCO considers complaints as a key indicator of how a licensee's business is conducted, and implements an approach where consumers are encouraged to make complaints directly to industry as a first step.

- Licensees must comply with legal requirements to have clear, transparent and accessible policies and procedures in place to review and resolve consumer complaints in a timely and fair manner, including a system for record keeping for each complaint, and the measures taken for its resolution. Where a complaint cannot be resolved, licensees should provide the complainant with a final position letter that includes options for seeking further redress.
- Licensees should monitor complaints-handling processes and outcomes to ensure their ongoing effectiveness.

- Licensees should analyse complaint data to identify individual or systemic issues that are adversely affecting consumers and take corrective actions, as necessary.

8. **FSCO expects licensees to protect the private information of financial services consumers and inform them of any breach.**

- Licensees must comply with the Personal Information Protection and Electronic Documents Act, including any legal requirements to obtain consent prior to accessing or using personal information of a consumer (e.g. pulling a credit report).
- Licensees should have policies and procedures for the protection and use of personal and financial data. This includes creating safeguards to prevent the misuse or inappropriate communication of any personal information in their records, and providing a safe online environment for financial services consumers.
- Licensees should notify financial services consumers in a timely manner of any breach in confidentiality.
- Licensees should establish and comply with policies and processes that help prevent cybercrime, and consider steps to take if a cyber-attack takes place.

Contact

Should you have any inquiries regarding this guideline, please contact the contact centre.

Brian Mills
Chief Executive Officer and
Superintendent of Financial Services
XX, 2018

cafii acifa
The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

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March 7, 2017

Ms. Louise Gauthier
Chair, CCIR Fair Treatment of Consumers (FTC) Working Group
c/o CCIR Secretariat
5160 Yonge St., Box 85
Toronto, ON M2N 6LN

Re: CCIR's Draft "Guidance: Conduct of Insurance Business and Fair Treatment of Customers"

Dear Ms. Gauthier:

The Canadian Association of Financial Institutions in Insurance (CAFII) thanks the CCIR for the productive dialogue which occurred in our February 21/18 meeting with you, other CCIR FTC Working Group members, and representatives from CISRO; and for the invitation to provide written input on the initial draft of the "Guidance: Conduct of Business and Fair Treatment of Customers."

We have kept our comments mainly to high-level observations at this time, based on our understanding from the CCIR Secretariat that – given the short turnaround time to provide feedback by March 7 – you are looking for stakeholders largely to provide "fatal flaw" feedback.

However, in the interests of supporting clear and accurate communication, we have also provided some housekeeping/wording feedback on the Draft Guidance in Appendix A to this letter, to help improve the document's clarity and enhance reader understanding.

<u>Positives about the Draft "Guidance: Conduct of Insurance Business and Fair Treatment of Customers"</u>

- CCIR has engaged CISRO as an unofficial partner at the table; and the two bodies are working collaboratively on the Guidance.

- It is an important initiative for protecting consumers and furthering the industry's understanding of regulators' expectations.

- It is principles-based and not prescriptive. CAFII supports this approach because it provides insurers and distributors with the latitude needed to determine what needs to be put in place to meet the expected FTC outcomes. However, the principles-based approach should be consistent throughout the document via use of words such as "expects" and "should" as opposed to "must" and "shall." In instances where use of "must" or "shall" is necessary, specific reference should be made to the applicable legislation/regulation(s) which warrants their use and the fact that statutory provisions take precedence over the CCIR Guidance in such situations.

- It constitutes a good first draft. However, it will be important to ensure that the final draft is clear, easily understandable, and of high quality given the importance of this initiative.

<u>Concerns about the Draft "Guidance: Conduct of Insurance Business and Fair Treatment of Customers"</u>

- It gives rise to the potential for inconsistencies and a lack of coherence and alignment with provincial/territorial-specific FTC guidance and regulations. More specifically, the document does not define the position of the CCIR's Guidance within the Canadian framework for co-operative market conduct supervision or what is expected of the industry if there are inconsistencies.

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It will be critically important, as per the Preamble, that all provinces/territories which develop their own FTC guidance based upon the CCIR's Guidance ensure strong alignment with it. We are concerned that without such alignment, the industry will be subject to additional and unnecessary compliance obligations and expenses, the costs of which will ultimately be borne by consumers.

- The International Association of Insurance Supervisors (IAIS) has always observed that implementation of its Insurance Core Principles (ICPs) will depend upon the particular circumstances of each jurisdiction. So while the Draft Guidance is based upon IAIS' ICP 19, it does not appear to reference the regulations, requirements, or conditions in Canada or address/account for particular circumstances in our country. This could give rise to concerns in circumstances not contemplated by ICP 19: e.g. alternate distribution of insurance in Canada, notably with respect to products that have been specifically designed and tailored to meet the needs of particular consumer segments.

- Given that the intent is to have this Guidance finalized and promulgated in the Fall of 2018, there is the potential that there will be insufficient time to complete a project of this magnitude and significance in a thorough manner. The aggressive timeline may therefore have a negative impact upon the quality and usefulness of the Guidance.

Reiteration of Feedback Provided in February 21/18 Meeting

- One word should be added to the opening sentence of the Preamble to make it more precise and accurate, as follows: *In Canada, the conduct of business framework in insurance is **largely** the exclusive authority of the provinces and territories.* That small edit will allow the sentence to reflect the fact that with respect to Authorized Insurance Activities, bank distributors of Authorized Insurance Products are also subject to federal regulation under the Bank Act and the Insurance Business (Banks and Bank Holding Companies) Regulations.

- To signal that the Guidance is as relevant to group insurance as it is to individual insurance, the term "Policyholder" should be changed to "Policy/Certificate Holder" (in Disclosure to Policyholder, page 21).

- The word "Examination" holds a somewhat negative connotation when associated with Claims and Complaints; and therefore its use is not warranted. Ron Fullan suggested that the terms "Claims Handling and Settlement" and "Complaints Handling and Dispute Resolution" could be used instead. CAFII supports his recommendations (global application of those changes required in numerous places on pages 22, 23, and 17).

Conclusion

CAFII thanks the CCIR for the opportunity to provide input for your consideration in refining the Draft Guidance for its expected release in April for a public consultation period of 45 to 60 days. Should you require further information from CAFII or wish to meet with representatives of our Association at any time, please contact Brendan Wycks, our Co-Executive Director, at brendan.wycks@cafii.com or 647-218-8243.

Sincerely,

Peter Thorn
Board Secretary and Chair, Executive Operations Committee

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Appendix A

CAFII-Proposed Housekeeping Edits To Improve Clarity Of Language And Understanding Of CCIR's Draft "Guidance: Conduct of Insurance Business and Fair Treatment of Customers"

Page 6

- establish and implement policies and procedures on fair treatment of customer**s**, as integral parts of their business culture;

- take into account **a** customer's disclosed circumstances when that customer~~s~~ receive**s** advice before concluding insurance contracts;

Page 10

- have effective systems and controls in place and communicate clear strategies for selecting, appointing and managing ~~arrangements~~ **intermediaries** as part of their overall distribution plan;

Page 11

- report**ing** to the regulator recurring issues relevant to the regulator's assessment of the concerned intermediaries.

Page 12

Title: Customer~~s~~ outcomes and expectations

This section outlines the customer~~s'~~ outcomes that CCIR expects to be achieved by insurers and intermediaries, as the case may be, and ~~enunciates~~ **provides** CCIR's expectations ~~to~~ **for** achiev**ing**~~e~~ those outcomes.

CCIR expects ~~that~~ fair treatment of customers **to** be a core component of **the** governance and corporate culture of insurers and distribution firms.

Incorporating a fair treatment of ~~customer's~~ **customer**s culture requires . . .

Page 16

CCIR expects that distribution strategies are tailored to the product, take into account the interests of the target consumer groups and result in consistent consumer protections independent~~ly~~ of the distribution model chosen.

Page 17

The information provided is sufficient to enable customers **to** understand~~ing~~ the characteristics of the product they are buying and help them understand whether and how it may meet their needs. To this end, the level of information required will tend to vary according~~ly~~ to the knowledge and experience of the typical customer for the products in question and the product's overall complexity.

- make ~~available~~ the information on their policies and procedures on claims and complaints **handling** publicly **available**.

Page 21

CCIR expects that policyholders are provided information **which** allow**s**~~ing~~ them to make informed decisions throughout the lifetime of their contracts.

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Page 22

- Mechanisms are in place to review claims disputes within the insurer to promote fair ~~play~~ **treatment** and objectivity in the decisions.

Page 23

- Establish policies and procedures to deal ~~in a fair manner~~ with complaints which they receive **in a fair manner**.. . . .

Page 24

The protection of personal information is a key issue for insurers and intermediaries. The sustainability of their operations depends, among other~~s~~ **things,** on public confidence in this regard. . . .

- Demonstrating that privacy protection is part of the organization's culture and strategy, through measures such as training ~~to~~ **of** employees that promotes . . .

Appendix B

ABOUT CAFII

The Canadian Association of Financial Institutions in Insurance (CAFII) is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. CAFII was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. CAFII 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.

CAFII is currently the only Canadian Association with members involved in all major lines of personal insurance. CAFII's full members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players American Express, Assurant Solutions, Canadian Premier Life Insurance Company, and The CUMIS Group Ltd. In addition, CAFII has 12 Associates that support the role of financial institutions in insurance.

CAFII 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 its members' common ground.

CAFII's diverse membership enables our Association to take a broad view of the regulatory regime governing the insurance marketplace. CAFII works with government and regulators (primarily provincial) 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.

CCIR | CCRRA

Canadian Council of Insurance Regulators | Conseil canadien des responsables de la réglementation d'assurance

GUIDANCE
CONDUCT OF INSURANCE BUSINESS AND FAIR TREATMENT OF CUSTOMERS

TABLE OF CONTENTS

Preamble

In Canada, the conduct of business in insurance is the exclusive authority of the provinces and territories. Each jurisdiction has its own regulatory approach for the conduct of business, based on its unique culture, traditions and legal regime.

However, despite these differences, regulators within each jurisdiction have a common set of expectations pertaining to the conduct of business to ensure the fair treatment of customers. With respect to these expectations, jurisdictions that already have or plan to develop a framework based on this guidance, shall ensure coherence with the latter.

This guidance sets out the Canadian Council of Insurance Regulators ("CCIR") members' vision, including their expectations, relating to conduct of insurance business and fair treatment of customers.

The CCIR provides this guidance to support insurers and intermediaries in achieving fair treatment of customers, strengthen public trust and consumer confidence in the Canadian insurance sector, minimize the risk of insurers and intermediaries following business models that are unsustainable or pose reputational risk and support a sound and resilient insurance sector. The guidance is based on Insurance Core Principles of the International Association of Insurance Supervisors ("IAIS").[1]

Expectations for the conduct of insurance business may differ depending on the nature of the customer with whom industry participants interact, the type of insurance provided and the distribution strategy.

The guidance provides insurers and distribution firms with the necessary latitude to determine the requisite strategies, policies, processes, procedures and controls that apply to the offer of insurance products and services to customers, in order to facilitate achieving such results and to apply them based on the nature, size and complexity of their activities.

Supervision of the Conduct of Business of Insurance

Through the CCIR, all jurisdictions have a framework for information sharing and cooperative market conduct supervision to address conduct of business issues arising across jurisdictions (Framework for Cooperative Market Conduct Supervision).

In assessing conduct of business in insurance, regulatory authorities consider industry-wide as well as insurer/intermediary-specific activities against these customer outcomes. Effective assessment of the quality of conduct of business in insurance requires, to a large extent, supervisory consideration of strategies, policies, processes, procedures and controls that apply to the offer of insurance products and services to customers, which are more easily assessed through supervision of insurers and intermediaries. Thus, regulatory authorities monitor whether such policies and procedures are adhered to.

1 International Association of Insurance Supervisors, Insurance Core Principles, ICP 19 updated November 2017

Effective assessment of the quality of conduct of business of insurers and intermediaries also requires supervisory considerations of the customer outcomes that are being achieved industry-wide as well as firm-specific.

Scope

In order to promote the fair treatment of customers to insurance industry participants, this guidance applies to insurers and intermediaries. It does not apply to insurers only engaged in reinsurance. For the purpose hereof, use of “intermediaries” refers to individuals (agents and representatives) or distribution firms[2] authorized[3] to distribute insurance products and services.

The insurer is responsible for fair treatment of customers throughout the life-cycle of the insurance product, as it is the insurer that is the ultimate risk carrier. In the provision of products and services, insurers should, upon first contact with customers, make a commitment to them and hold it throughout the life-cycle of the product.

Intermediaries typically play a significant role in insurance distribution, but may also be involved in other areas. Their interactions with both customers and insurers give them a key role, and their conduct in performing the services in which they are involved is critical in building and justifying public trust and confidence in the insurance sector.

Where more than one party is involved in the design, marketing, distribution and policy servicing of insurance products, treating customers fairly in respect of the relevant services is a responsibility that is shared amongst involved insurers and intermediaries.

Some distribution firms do not have direct contact with the customer but act with other intermediaries to place business with insurers (such as wholesale intermediaries). Even though they do not necessarily deal directly with the purchaser of insurance, they perform a function in the chain of soliciting, negotiating or selling insurance and are therefore considered intermediaries.

Some distribution firms have a specific role of compliance and supervision over other firms and insurers outsource to them some functions, activities or processes. They hold at least one direct brokerage contract with insurance companies and are called “agent firms”.

Distribution firms may deal with any number of insurers either directly or through any number of agent firms. They should collaborate with insurers and agent firms, as the case may be, in order to achieve fair treatment of customers.

As individuals, agents and representatives must respect their regulatory obligations, codes of conduct/ethics of insurers and distribution firms. They must maintain an appropriate level of professional knowledge and experience, integrity and competence and collaborate with insurers and distribution firms with which they work to achieve fair treatment of customers.

2 As the case may be, the term «distribution firm» includes sole proprietorships.

3 In Canada, intermediaries that are subject to licensing and supervision may vary from jurisdiction to jurisdiction. This guidance applies to all intermediaries that are authorized to do business within any jurisdiction.

Conduct of Business[4]

In the field of insurance, conduct of business encompasses industry-wide as well as insurer/intermediary specific activities with customers.

Sound conduct of business includes treating customers fairly throughout the life-cycle of the insurance product. This cycle begins with product design and runs until all obligations under the contract are fulfilled.

In their conduct of the business of insurance, insurers and intermediaries are expected to:

- act with due skill, care and diligence when dealing with customers;
- maintain good and sound relationships between themselves and with the regulatory authorities;
- establish and implement policies and procedures on fair treatment of customer, as integral parts of their business culture;
- act in compliance with the laws, regulations and guidelines to which they are subject;
- promote products and services in a clear, fair and not misleading manner;
- provide customers with timely, clear and adequate pre-contractual and contractual information;
- take into account customer's disclosed circumstances when customers receive advice before concluding insurance contracts;
- avoid or properly manage any potential conflicts of interest, before concluding an insurance contract;
- handle complaints in a timely and fair manner;
- have and utilize appropriate policies and procedures for the protection and use of customer information; and
- have contractual arrangements between each other, that ensure fair treatment of customers.

Moreover, insurers are expected to:

- take into account the interests of different types of consumers when developing and distributing insurance products;
- service policies appropriately throughout the life-cycle of the product;
- disclose information on any contractual changes occurring during the lifecycle of the contract to the policyholder;
- disclose further relevant information depending on the type of insurance product to the policyholder; and

4 Where an insurer or a distribution firm are part of an insurance group, the application of appropriate policies and procedures on conduct of business should be consistent across the group, recognizing local specificities, and should result in fair treatment of customers on a group-wide basis.

- handle claims in a timely and fair manner.

Although ongoing policy servicing is traditionally seen as primarily the responsibility of the insurer, intermediaries are often involved, particularly where there is an ongoing relationship between the customer and the intermediary. In such a case, the insurer remains ultimately responsible for servicing policies throughout their life-cycle, and ensuring that intermediaries have appropriate policies and procedures in place in respect of the policy servicing activities performed on the insurer's behalf.

Fair Treatment of Customers

Fair treatment of customers encompasses concepts such as ethical behavior, acting in good faith and the prohibition of abusive practices.

Ensuring fair treatment of customers encompasses achieving outcomes such as:

- developing, marketing and selling products in a way that pays due regard to the interests of customers;
- providing customers with accurate, clear, non-misleading and sufficient information before, during and after the point of sale, which will allow them to make informed decisions;
- minimizing the risk of sales which are not appropriate to the customers' needs;
- ensuring that any advice given is of a high quality;
- dealing with customer claims, complaints and disputes in a fair and timely manner; and
- protecting the privacy of customer information.

Corporate Culture

Corporate culture refers to the common values (e.g., ethics and integrity) and standards that define an organization and influence the mindset, conduct and actions of its entire staff as well as all aspects of decision-making, from strategic decisions to those made by customer-facing employees on a daily basis.

Establishing a customer-centric culture creates an environment that fosters consumer confidence and long-term customer relationships, rather than focusing on short-term financial goals that could cause serious harm to customers and damage the organization's reputation to the point of having an adverse impact on profitability.

A corporate culture that seeks to achieve meaningful results, particularly regarding the fair treatment of customers, should help meet the following objectives:

- The organization understands the importance of placing clients at the center of its concerns: strategic decisions, daily conduct and results clearly demonstrate that customers and market integrity are real priorities for the organization.
- All levels of the organization embrace the corporate culture and recognize the risks that could hinder the achievement of expected results regarding the fair treatment of customers as well as the means to mitigate such risks.
- The organization understands the importance of reporting the achievement of expected results throughout the organization and to market participants, using indicators in terms of fair treatment of customers that are measured, monitored and driven by a cycle of continuous improvement.

Relationships between Insurers and Intermediaries

In managing their relationships with intermediaries, insurers are expected to:

- have effective systems and controls in place and communicate clear strategies for selecting, appointing and managing arrangements as part of their overall distribution plan;
- conduct due diligence in the selection of intermediaries to ensure that they are authorized and have the appropriate knowledge and ability to conduct insurance business and, for distribution firms, have appropriate governance policies and procedures with respect to fair treatment of customers;
- have written agreements in place to clearly define the conditions, scope and limits of contracted services, clarify roles and promote the fair treatment of customers. Such agreements would include, where relevant, respective responsibilities on matters such as:
    - product development;
    - product promotion;
    - the provision of pre-contractual and point of sale information to customers;
    - post-sale policy servicing;
    - claims notification and handling;
    - complaints notification and handling;
    - management information and other documentation required by the insurer;
    - remedial measures; and
    - any other matters related to the relationship with customers.
- manage contracts, once in place, to ensure that intermediaries continue to be authorized and remain suitable to do business with them and are in compliance with their contract conditions;
- be satisfied that the involved intermediaries are providing information to customers in such a manner that will assist them in making an informed decision; and
- analyze complaints concerning intermediaries in respect of products distributed by intermediaries on their behalf, to enable them to assess the complete customer experience and identify any issues to be addressed.

Relationships with Regulatory Authorities

With regard to regulatory authorities, insurers and distribution firms are expected to:

- make available their strategies, policies and procedures dealing with the fair treatment of customers; and
- implement the necessary mechanisms to promptly advise regulatory authorities if they are likely to sustain serious harm due to a major operational incident that could jeopardize the interests or rights of customers and the organization's reputation.

Moreover, insurers are expected to communicate and report to the regulatory authorities any intermediaries with which they have transacted and may be unsuitable or not duly authorized, all of which would have the undesirable result of impairing fair treatment of customers.

This may include:

- identifying whether particular intermediaries or particular matters are subject to regular or frequent complaints; and
- report to the regulator recurring issues relevant to the regulator's assessment of the concerned intermediaries.

Customers outcomes and expectations

This section outlines the customers' outcomes that CCIR expects to be achieved by insurers and intermediaries, as the case may be, and enunciates CCIR's expectations to achieve those outcomes.

Governance and Corporate Culture

CCIR expects that fair treatment of customers be a core component of governance and corporate culture of insurers and distribution firms.

Incorporating a fair treatment of customer's culture requires the involvement of all the organization's levels and processes, from strategic planning to decision-making and governance structures to operations.

<u>Expectations to achieve this outcome (insurers and distribution firms)</u>

- Overall responsibility for fair treatment of customers is at the level of the board and senior management, who design, implement and monitor adherence to policies and procedures aimed at ensuring that customers are treated fairly.
- Management information includes the most useful information and indicators to allow the board and senior management to:
    - assess the organization's performance with respect to fair treatment of customers;
    - react, in a timely manner, to changes or risks likely to have a negative impact on the organization's customers; and
    - demonstrate that fair treatment of customers is part of the organization's corporate culture.
- Mechanisms and controls are established to identify and deal with any departure from the organization's strategies, policies and procedures, any conflicts of interest or any other situation likely to interfere with fair treatment of customers.
- Appropriate measures are taken to ensure that their employees and others meet high standards of ethics and integrity, beginning at recruitment.
- Relevant staff is trained to deliver appropriate outcomes in terms of fair treatment of customers.
- Remuneration, reward strategies and evaluation of performance are taken into account when determining the contribution made to achieving outcomes in terms of fair treatment of customers.

Conflicts of Interest

> CCIR expects that any potential or actual conflicts of interest be avoided or properly managed and not affect the fair treatment of customers.

In their dealings either with each other or with customers, insurers and intermediaries may encounter conflicts of interest. As intermediaries interact with both customers and insurers, they may be more likely to encounter potential or actual conflicts of interests. Where conflicting interests compete with duties of care owed to customers, they may create risks that insurers, intermediaries or any person acting on their behalf will not act to support the fair treatment of customers.

Examples of Conflicts of interest that may arise:

- from compensation structures, performance targets or performance management criteria that are insufficiently linked to customer outcomes;
- from inducements offered to an insurer or intermediary or any person acting on its behalf, incentivizing that firm/person to adopt a particular course of action; and
- where the intermediary or insurer owes a duty to two or more customers in respect of the same or related matters or, has interest in the outcome of a service or a transaction carried out on behalf of a customer or, has significant influence over the customer's decision.

These situations may encourage behaviors that result in unsuitable sales, have a detrimental impact on the quality of the service provided or otherwise breach the insurer's or intermediary's duty of care towards the customer. They also may affect the independence of advice given by intermediaries.

<u>Expectations to achieve this outcome (insurers and intermediaries)</u>

- Take all reasonable steps to identify and avoid or manage conflicts of interest, and communicate these through appropriate policies and procedures.
- Ensure that the disclosure of conflicts of interest is used appropriately and does not put an unreasonable onus on the customer, especially if the customer does not fully appreciate the conflict or its implications.
- Where conflicts of interest cannot be managed satisfactorily, this results in the insurer or intermediary declining to act.

Outsourcing

> CCIR expects that any functions outsourced to third parties do not hinder the quality of services or jeopardize the insurer's or distribution firm's ability to achieve fair treatment of customers.

Outsourcing is defined as delegating to a service provider, over a defined period, the performance and management of a function, activity or process that is or could be undertaken by the insurer or distribution firm itself.

When tasks of an insurer or a distribution firm are delegated to a third party, the third party must carry out these tasks in compliance with the laws, regulations and guidelines applicable to the insurer's or intermediary's activities.

Expectations to achieve this outcome (insurers and distribution firms)

- Retain full and ultimate responsibility for those outsourced functions and, consequently, monitor them accordingly.
- Only deal with third parties whose policies, procedures and processes are expected to result in fair customer outcomes.
- Maintain appropriate controls over outsourced functions.
- Develop outsourcing agreements that do not hinder the quality of services or jeopardize their ability to fulfill fair treatment of customers-related obligations.
- Ensure that the firms to which they outsource processes have adequate policies and procedures in place for the protection and use of private customers' information records.

Expectations to achieve this outcome (insurers)

- Supervise and monitor functions outsourced to agent firms.
- If any of the claims handling or complaints processes are outsourced in part or in full, maintain close oversight and ultimate responsibility for the provision of fair and transparent claims handling and complaints resolution.

Design of Insurance Product

CCIR expects that the design of a new insurance product or significant adaptations made to an existing product take into account the interests of the target consumers' group.

With the development of complex products, sometimes high-risk or difficult to understand, any weakness in the design or the related disclosure documents can increase the likelihood of inappropriate choices from consumers.

<u>Expectations to achieve this outcome (insurers)</u>

- Development of products includes the use of adequate information to assess the needs of different consumer groups.
- Product development (including a product originating from a third party administrator) provides for a thorough assessment of the main characteristics of a new product and of the related disclosure documents by every appropriate department of the insurer.
- Policies, procedures and controls put in place enable the insurer to:
    - offer a product that delivers the reasonably expected benefits;
    - target the consumers for whose needs the product is likely to be appropriate, while preventing or limiting, access by consumers for whom the product is likely to be inappropriate;
    - assess the risks resulting from the product by considering, among other things, changes associated with the environment or stemming from the insurer's policies that could harm customers; and
    - monitor a product after its launch to ensure it still meets the needs of target customers and, as the case may be, take the necessary remedial action.
- Provide relevant information and training to intermediaries to ensure that they understand the target market, such as information related to the target market itself, as well as the characteristics of the product.
- Retain oversight of, and remain accountable for, the development of its products whenever product development is undertaken by distribution firms on its behalf.

<u>Expectations to achieve this outcome (intermediaries)</u>

- Provide information to the insurer on the types of customers to whom the product is sold and whether the product meets the needs of the target market, in order to enable the insurer to assess whether its target market is appropriate and to revise the product, when needed.
- When undertaking product development on behalf of an insurer, take customers' interests into account in performing this work.

Distribution Strategies

> CCIR expects that distribution strategies are tailored to the product, take into account the interests of the target consumer groups and result in consistent consumer protections independently of the distribution model chosen.

Insurers are accountable for distribution strategies and are ultimately responsible for all aspects of oversight of the distribution of their products, regardless of the distribution model.

Distribution models have evolved and CCIR expects this evolutionary process to continue, particularly considering the rapid pace of change brought on by technological developments in the financial services sector.

However, regardless of the distribution model and medium used, insurers must ensure that consumers are treated fairly. Adequate protection is of paramount importance.

<u>Expectations to achieve this outcome (insurers)</u>

- Development of distribution strategies includes the use of adequate information to assess the needs of different consumer groups.
- Policies, procedures and controls put into place ensure that distribution methods are appropriate for the product, particularly in light of the legislation in force and whether or not advice should be provided.
- Assess the performance of the various methods of distribution used, particularly in terms of fair treatment of customers and, if necessary, take the necessary remedial action.

<u>Expectations to achieve this outcome (intermediaries)</u>

- Provide information to the insurer, particularly in terms of fair treatment of customers in order to enable the insurer to revise its distribution strategy, when needed.

Disclosure to Customer

> CCIR expects that a customer is given appropriate information in order to make an informed decision before entering into a contract.

Insurers and intermediaries ensure that customers are appropriately informed about a product, before and at the point of sale, to enable them to make an informed decision about the proposed product.

The information provided is sufficient to enable customers understanding the characteristics of the product they are buying and help them understand whether and how it may meet their needs. To this end, the level of information required will tend to vary accordingly to the knowledge and experience of a typical customer for the product in question and the product's overall complexity.

Whatever distribution model and medium used to make the disclosure, insurers and intermediaries ensure they provide an equivalent level of protection to customers.

Expectations to achieve this outcome (insurers and intermediaries)

In particular, CCIR expects the disclosure to customers to:

- be up to date and provided in a way that is clear, fair and not misleading, using plain language wherever possible;
- be prepared in written format, on paper or another durable and accessible medium;
- focus on the quality rather than the quantity of information;
- identify the insurer and provide its contact information;
- include information on key features of particular significance to the conclusion or performance of the insurance contract, including any adverse effect on the benefit payable under that contract;
- clearly identify the rights and obligations of the customer, including the rights to cancel, to claim benefits and to complain; and
- make available the information on their policies and procedures on claims and complaints publicly.

Expectations to achieve this outcome (intermediaries)

- The types of business for which they are authorized.
- The services provided, including whether they offer products from a full range of insurers, from a limited range or from an exclusive insurer.
- Their relationship with the insurers with whom they contract.

Product Promotion

CCIR expects that product promotional material is accurate, clear, not misleading and consistent with the result reasonably expected to be achieved by the customer of this product.

The insurer is responsible for providing promotional material that is accurate, clear and not misleading not only to customers but also to intermediaries who may rely on such information. To this end, the insurer ensures that advertising material regarding its products is reviewed independently prior to being disseminated. Any promotional material designed by intermediaries follows the same principles.

If an insurer or intermediary becomes aware that the promotional material is not accurate and clear or is misleading, it informs the party responsible for designing the material, whether insurer or intermediary, and has the material withdrawn. In cases where the insurer or intermediary knows that customers are relying on any materially inaccurate or misleading information, they notify such customers and correct the information as soon as reasonably practicable.

<u>Expectations to achieve this outcome (insurers and intermediaries)</u>

To promote products in a fair manner, the information provided:

- is easily understandable;
- is consistent with the coverage offered;
- accurately identifies the product provider;
- states prominently the basis for any claimed benefits and any significant limitations; and
- does not hide, diminish or obscure important statements or warnings.

Advice

> CCIR expects that, when advice is given, customers receive relevant advice before concluding the contract, taking into account the customer's disclosed circumstances.

Advice goes beyond the provision of product information and relates specifically to the provision of a personalized recommendation on a product in relation to the disclosed needs of the customer.

Insurers and intermediaries are committed to delivery of high quality advice, communicated in a clear and accurate manner that is comprehensible to the customer. Minimizing the risk of inappropriate sales is a core priority. Independent of the distribution model or the medium used, it is made clear to the customer whether advice is provided or not.

<u>Expectations to achieve this outcome (insurers and intermediaries)</u>

- Insurers and intermediaries seek the information from their customers that is appropriate for assessing their insurance demands and needs, before giving advice. This information may differ depending on the type of product and may, for example, include information on the customer's:
    - financial knowledge and experience;
    - needs, priorities and circumstances;
    - ability to afford the product; and
    - risk profile.
- The basis on which a recommendation is made is explained and documented, particularly in the case of complex products and products with an investment element. Where advice is provided, this is communicated to the customer in written format, on paper or in a durable and accessible medium, and a record kept in a "client file".
- Insurers and intermediaries review the "client files" of those under their responsibility to exercise control after the fact on the quality of the advice given, take any necessary remedial measures with respect to the delivery of advice and, if applicable, are in a position to examine fairly any complaints submitted to them.
- In cases where advice is not required by law but would normally be expected and may be waived by the customer, the insurer or intermediary retains an acknowledgment by the customer to this effect.

- In order to ensure the delivery of quality advice, insurers and intermediaries establish continuous training programs that allow the persons giving advice to maintain an appropriate level of knowledge about :
    - their industry segment;
    - the characteristics and risks of the products and services and their related documentation; and
    - the applicable legal and regulatory requirements.

Disclosure to Policyholder

CCIR expects that policyholders are provided information allowing them to make informed decisions throughout the lifetime of their contracts.

CCIR expects that the disclosure processes established by insurers allow policyholders to determine whether the product continues to suit their needs and expectations and as the case may be, remind them in a timely manner of options that can be exercised from time to time.

Where there are changes in terms and conditions, the insurer notifies the policyholder of their rights and obligations regarding such changes and obtains the policyholder's consent as appropriate.

<u>Expectations to achieve this outcome (insurers)</u>

The system includes the disclosure of information:

- on the insurer:
    - any change in the name of the insurer, its legal form or the address of its head office and any other offices as appropriate;
    - any acquisition by another insurer resulting in organizational changes as far as the policyholder is concerned; and
    - where applicable, information on a portfolio transfer (including policyholders' rights in this regard).
- on terms and conditions:
    - evidence of cover (including policy inclusions and exclusions) promptly after inception of a policy; and
    - changes in policy terms and conditions or amendments to the legislation applicable to the policy.
- in the case of switching between products or early cancellation of a policy.

Claims Examination and Settlement

CCIR expects claims to be examined diligently and fairly settled, using a simple and accessible procedure.

The claims examination and settlement processes are key indicators for assessing an insurer's performance regarding the fair treatment of customers. Sometimes, intermediaries serve as an initial contact for claimants, which may be in the common interest of the policyholder, intermediary and insurer.

<u>Expectations to achieve this outcome (insurers)</u>

- Maintain written documentation on their claims handling procedures, which include all steps from the claim being made up to and including settlement. Such documentation may include expected timeframes for these steps, which might be extended in exceptional cases.
- Claimants are informed about procedures, formalities and common timeframes for claims settlement.
- Claimants are given information about the status of their claim in a timely and fair manner.
- Claim-determinative factors such as depreciations, discounting or negligence are illustrated and explained in comprehensive language to claimants. The same applies when claims are denied in whole or in part.
- Dispute resolution procedures follow a balanced and impartial approach, bearing in mind the legitimate interests of all parties involved. Procedures avoid being overly complicated, such as having burdensome paperwork requirements.
- Mechanisms are in place to review claims disputes within the insurer to promote fair play and objectivity in the decisions.

Complaints Examination and Dispute Resolution

CCIR expects complaints to be examined diligently and fairly, using a simple and accessible procedure.

The complaint examination and dispute resolution processes are key indicators for assessing an organization's performance regarding the fair treatment of customers.

A complaint can be defined as an expression of dissatisfaction about the service or product provided by an insurer or intermediary. It may involve, but is differentiated from, a claim (unless in dispute) and does not include a pure request for information.

<u>Expectations to achieve this outcome (insurers and intermediaries)</u>

- Establish policies and procedures to deal in a fair manner with complaints which they receive. These include keeping a record of each complaint and the measures taken for its resolution.
- Respond to complaints without unnecessary delay; complainants are kept informed about the handling of their complaints.
- Analyze the complaints they receive to identify trends and recurring risks. Analysis of what leads to individual complaints can help them to identify and enable them to correct, common root causes.

Protection of Personal Information

CCIR expects protection of confidentiality of personal information policies and procedures adopted by insurers or intermediaries to reflect best practices in this area and ensure compliance with legislation relating to privacy protection.

Theft, loss or inappropriate use of personal information obtained from customers represents a risk to customers and a threat to the reputation of organizations.

The protection of personal information is a key issue for insurers and intermediaries. The sustainability of their operations depends, among others, on public confidence in this regard. Customers expect their information to remain confidential and be handled accordingly.

<u>Expectations to achieve this outcome (insurers and intermediaries)</u>

- Provide their customers with a level of comfort regarding the security of their personal information.
- Have sufficient safeguards in place to protect the privacy of personal information on customers.
- Have appropriate policies and procedures in place. Examples of areas that might be covered include:
  - ensuring that the board and senior management are aware of the challenges relating to protecting the privacy of customers' personal information;
  - demonstrating that privacy protection is part of the organization's culture and strategy, through measures such as training to employees that promotes awareness of internal and external requirements on this subject; and
  - implementing internal control mechanisms that support the objectives of protecting the privacy of personal information on customers and assess the risks associated with potential failure to protect the privacy of personal information.

Glossary

Authorized	Includes licensing registration or exemption. In Canada, intermediaries that are subject to licensing and supervision can vary from jurisdiction to jurisdiction. This guidance applies to all intermediaries that are authorized to do business within any jurisdiction.
Consumers	All actual and potential customers for insurance products.
Customer	Policyholder or prospective policyholder with whom an insurer or insurance intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy.
Intermediary	As the case may be, individuals (agents and representatives) or distribution firms.
Organizations	As the case may be, insurers and/or distribution firms.

Financial Consumer Agency of Canada | Agence de la consommation en matière financière du Canada

Financial Consumer Agency of Canada

Domestic Bank Retail Sales Practices Review

March 20, 2018

Canada

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Domestic Bank Retail Sales Practices Review

Executive summary

This report presents the findings and conclusions of the Financial Consumer Agency of Canada's (FCAC's) review of the domestic retail sales practices of Canada's six largest banks (Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and Toronto–Dominion Bank), which are subject to federal consumer protection legislation overseen by FCAC.

This review focused on retail banking sales practices to identify and evaluate risks to consumers. FCAC examined the drivers of sales practices risk, assessed the effectiveness of the controls put in place by banks to mitigate these risks and recommended ways to more effectively reduce them.

Risks associated with sales practices include the potential for breaching market conduct obligations and mis-selling. Market conduct risk refers to the potential for breaching the legislative obligations, voluntary codes of conduct and public commitments that are overseen by FCAC.

FCAC defines "mis-selling" as the sale of financial products or services that are unsuitable for the consumer; sales that are made without taking reasonable account of the consumer's financial goals, needs and circumstances; and sales where consumers are provided with incomplete, unclear or misleading information. This definition of mis-selling is informed by research conducted by the U.K. Financial Conduct Authority, the Central Bank of Ireland, the G20/OECD Task Force on Financial Consumer Protection and the World Bank.

FCAC's review found that retail banking culture encourages employees to sell products and services, and rewards them for sales success. This sharp focus on sales can increase the risk of mis-selling and breaching market conduct obligations. The controls banks have put in place to monitor, identify and mitigate these risks are insufficient.

FCAC did not find widespread mis-selling during its review. Consumers carry out millions of successful transactions every day without incident and banks and their employees generally strive to comply with market conduct obligations.

Banks are in the process of enhancing their oversight and management of sales practices risk. The findings in this report reflect the status of the risks and controls at the time of the review.

This report does not address alleged breaches of market conduct obligations. These allegations are being investigated on a separate track and FCAC will take enforcement action where appropriate as outlined in its Compliance Framework.

This report was provided to the Minister of Finance to inform policy development in the context of FCAC's mandate to monitor and evaluate trends and emerging issues that may have an impact on consumers of financial products and services.

Key findings

FCAC's review resulted in five key findings:

1. **Retail banking culture is predominantly focused on selling products and services, increasing the risk that consumers' interests are not always given the appropriate priority.**

   The focus on sales has been facilitated by technological innovation, which has made banking more convenient for consumers and enabled banks to transform branches into "stores" dedicated to providing advice and selling products. This shift increases the risk banks will place sales ahead of their customers' interests.

2. **Performance management programs—including financial and non-financial incentives, sales targets and scorecards—may increase the risk of mis-selling and breaching market conduct obligations.**

   Bank performance management programs play a significant role in shaping the way bank employees behave toward consumers. Employees believe strong sales results provide more opportunity to earn incentives and rewards.

3. **Certain products, business practices and distribution channels present higher sales practices risk.**

   The system of incentives and rewards is more developed than the controls to mitigate sales practices risk for mobile mortgage specialists, cross-selling, creditor insurance products and third-party sellers.

4. **Governance frameworks do not manage sales practices risk effectively.**

   Banks generally have robust corporate governance practices. However, measures to reduce the risks associated with mis-selling and breaching of market conduct obligations should be improved.

5. **Controls to mitigate the risks associated with sales practices are underdeveloped.**

   Controls to mitigate sales practices risk have not kept pace with the changing retail banking model. There are opportunities for areas such as compliance, risk management, audit and human resources to improve the oversight of sales practices.

Conclusions

During the course of the review, FCAC identified several measures that would strengthen financial consumer protection:

Enhancements to banks' management of sales practices risk

To improve the management of sales practices risk, FCAC recommends that banks:

- prioritize financial consumer protection, fairness and product suitability
- establish a formal sales practices governance framework that clearly defines roles and responsibilities to ensure all elements of sales practices risk are effectively managed, including the effective monitoring and reporting of mis-selling and market conduct obligations
- improve their oversight, management and reporting of consumer complaints

- ensure financial and non-financial incentives motivate employees to work in the interest of consumers
- ensure internal controls adequately address sales practices risk, particularly for the practices, products and channels that pose a greater risk of mis-selling and of breaching market conduct obligations
- ensure human resources and second and third lines of defence—including compliance, risk management and audit—are adequately resourced to improve the oversight of sales practices risk

Enhancements to FCAC

FCAC will implement a modernized supervision framework that will allow it to proactively ensure banks have implemented the appropriate frameworks, policies, procedures and processes to effectively mitigate the risk of mis-selling and breaching market conduct obligations. It is also increasing its resources to buttress its supervisory and enforcement functions.

FCAC will enhance its consumer education materials to raise consumer awareness about financial products and services as well as to inform consumers of their rights and responsibilities and the importance of asking the right questions. These efforts will help consumers make informed financial decisions and potentially avoid some of the risks discussed in this report.

Background

Banks are businesses subject to federal consumer protection legislation overseen by the Financial Consumer Agency of Canada (FCAC). Following the 2007–08 global financial crisis, international regulators and rule-making authorities developed guidance focused on bank culture. Sound risk cultures, reinforced by a robust "tone from the top," are now widely considered to be critical controls in mitigating sales practices risk.

Despite the increased focus on achieving the right culture, internationally, some banks have insufficient governance frameworks and controls in place to monitor, identify and mitigate sales practices risk. An important example came in September 2016 when the U.S. Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Los Angeles City Attorney fined Wells Fargo $185 million for engaging in improper sales practices. In an effort to reach sales targets, bank employees opened more than three million fraudulent credit card and bank accounts. In the five years before the fine, Wells Fargo terminated over 5,000 employees for violating the bank's code of conduct.

In November 2016, Canadian media reported allegations that a bank was signing up new customers without obtaining their express consent. Following its investigation, FCAC issued a notice to all banks reminding them that the express consent of consumers is to be obtained for all sales of new products and services in a manner that is clear, simple and not misleading. Banks were also reminded of their obligations to provide consumers with the required disclosure. FCAC issued a consumer alert informing consumers that banks were required to obtain their express consent before issuing new credit cards.

On February 3, 2017, FCAC sent a letter to the industry to reinforce and clarify its expectations regarding express consent. Subsequently, in March 2017, FCAC published compliance bulletin *B-5 Consent for new products or services* to reiterate its expectations.[1]

In late-February and March 2017, media reports alleged that Canadian banks were using high-pressure tactics and questionable practices to sell a broad range of products and services, citing information received from current and former bank employees. Subsequently, FCAC announced it would conduct an industry review of the business practices related to the sale of products and services by federally regulated financial institutions. FCAC conducted its review from May 2017 through to the end of November 2017, concurrently but separately from a review undertaken by the Office of the Superintendent of Financial Institutions.

Review approach

Objective

FCAC examined the drivers of sales practices risk, including banks' sales targets and incentive programs. It also evaluated the governance frameworks and controls put in place by banks to mitigate this risk.

The review focused on two categories of sales practices risk: the potential for breaches of market conduct obligations and mis-selling. FCAC defines mis-selling as sales of financial products or services that are unsuitable for the consumer; sales that are made without taking reasonable account of the consumer's financial goals, needs and circumstances; and sales where consumers are provided with incomplete, unclear or misleading information.

Methodology and scope

The review examined retail banking distribution channels where there is interaction between consumers and bank employees or third-party contractors, whether in person or over the phone. These included the branch channel, the call centre channel, specialist channels[2] and the third-party sellers' channel.

FCAC reviewed more than 4,500 complaints to gain a better understanding of the issues consumers experience when acquiring bank products and services.[3] Over 100,000 pages of bank documents were examined, including those related to training, performance and sales management, compliance, risk management and internal audit. These documents helped identify the drivers of sales practices risk and assess the controls and governance frameworks established to mitigate such risks.

Between May and November 2017, FCAC interviewed more than 400 employees of the six largest banks, including board chairs and directors, senior management, middle management and front-line customer service representatives. In addition, it interviewed over 200 employees in 30 branches. The interviews

[1] FCAC compliance bulletins are intended to guide banks' actions by describing how the Agency views the requirements of legislation, regulations and codes of conduct or public commitments.

[2] Specialist channels include mobile mortgage specialists and investment specialists. Employees in specialist channels usually concentrate on one type of product, such as mortgages or investments, but may also sell other complementary products such as creditor insurance or guaranteed investment certificates.

[3] The complaints included those reported to FCAC by 16 banks and direct consumer complaints to FCAC. The complaints reviewed date from April 2015 to May 2017.

helped FCAC validate and challenge information obtained during the document review. The interviews also helped inform the assessment of bank sales culture and how it shapes banks' sales practices.

Findings

The review focused on retail banking sales practices to identify and evaluate risks to consumers. FCAC examined the drivers of sales practices risk, assessed the effectiveness of the controls put in place by banks to mitigate these risks and recommended ways to more effectively reduce them. FCAC did not find widespread mis-selling during its review.

Banks are in the process of improving their management of sales practices risk. The findings in this report reflect the status of the risks and controls at the time of the review.

FCAC's review resulted in five key findings:

1. Retail banking culture is predominantly focused on selling products and services, increasing the risk that consumers' interests are not always given the appropriate priority.
2. Performance management programs—including financial and non-financial incentives, sales targets and scorecards—may increase the risk of mis-selling and breaching market conduct obligations.
3. Certain products, business practices and distribution channels present higher sales practices risk.
4. Governance frameworks do not manage sales practices risk effectively.
5. Controls to mitigate the risks associated with sales practices are underdeveloped.

1. Sales culture

Retail banking culture is predominantly focused on selling products and services, increasing the risk that consumers' interests are not always given the appropriate priority.

Culture can be defined as the collection of values and beliefs that reflects the underlying mindset of an organization. FCAC found that retail banking culture is focused on selling products and services. While retail banking places value on customer service and community engagement, their retail culture is increasingly sales oriented for reasons explored in this review. Consequently, this may give rise to banks placing their sales interests and targets ahead of their customers' interests.

Technological advances over the last 20 years have led to important changes in the behaviours of financial consumers and the sales practices of banks. Consumers now largely prefer to transact online and use mobile applications and automated teller machines (ATMs). Yet despite the increased prevalence of digital sales, the main conduits for driving sales growth and increasing market share continue to be the branch channels, call centres and specialist channels. Today, consumers primarily interact with bank employees when they acquire new products, seek advice, make inquiries, file complaints and conduct more complex financial transactions. Technology has also made it possible for banks to target product and service offerings to individual customers based on the data they compile about them.

As a result, branch and call centre channels have shifted their focus from processing transactions to selling products and services, providing financial advice and sales-related customer service. Today, most branch employees are either directly involved in selling financial products and services to consumers or have a responsibility to identify sales opportunities and refer consumers to branch employees who are dedicated to sales. Increasingly, call centre employees are required to sell banking products and services in addition to their role of providing customer service.

In recent years, banks have developed specialist channels that play an increasingly important role in the sale of financial services and products to consumers. Employees in specialist channels typically concentrate on one product, such as mortgages or investments, and operate outside the branch environment. Banks also engage the services of third parties to market and sell specific products, such as credit cards. Third-party arrangements are popular as they allow banks to reach consumers in places where they would not typically bank, such as airport kiosks and sporting events.

The shift away from in-person transaction/service models has changed the culture of retail banking. FCAC found that banks expect front-line, customer-facing roles in branches, call centres and specialist channels to sell products and services to consumers. Some employees informed FCAC that they attribute significant importance to "winning," defined as closing a big sale or replacing the business of a competitor.

Employees who do not meet their sales targets receive coaching, additional training and other forms of support. In general, banks do not terminate employees who fail to reach sales targets. However, front-line employees who stay on and move up tend to be those who thrive in a workplace culture focused on sales.

Furthermore, the lack of transparency about sales targets and commissions makes it difficult for consumers to determine in whose interest bank employees are acting when one product is recommended over another.

More recently, banks' focus has started to shift from sales results to customer satisfaction and loyalty measures. For example, some banks have complemented sales-volume targets with activity-based targets that reward employees for performing activities that promote long-term relationships with consumers, such as offering financial plans. They have also expanded their use of customer satisfaction surveys to motivate employees to provide good service. These new measures are welcome and may motivate employees to gain a greater understanding of consumer needs and financial goals.

Nonetheless, the movement toward more customer-centric sales practices continues to be intended primarily to help employees identify sales opportunities and to promote long-term relationships with consumers that may lead to additional sales down the road. It is too early to assess whether the increased focus on customer satisfaction and loyalty will sufficiently mitigate the risk of mis-selling and breaching market conduct obligations.

In summary, sales-driven cultures have the potential to increase the risk of mis-selling. The importance employees place on reaching sales targets and qualifying for incentives may lead them to prioritize sales over consumers' interests, which, in turn, may jeopardize banks' adherence to their market conduct obligations.

2. Performance management

Performance management programs—including financial and non-financial incentives, sales targets and scorecards—may increase the risk of mis-selling and breaching market conduct obligations.

Bank performance management programs—which include financial and non-financial incentives, sales targets and scorecards—play a significant role in influencing employee behaviour and shaping corporate culture. The review found that employees' behaviour toward consumers was influenced more by financial and non-financial incentives than by the communications they receive from senior management ("tone from the top") advocating putting the customer first, selling the right way and acting in the interests of their customer.

Financial incentives

Most bank employees are remunerated through a combination of fixed base salary and variable incentive pay. For the majority of front-line employees, the base salary comprises the bulk of their compensation, with variable pay representing only a small percentage. Variable pay is based on individual performance, team performance and bank results.

In interviews, banks stressed their view that front-line employees have little to gain from mis-selling in order to achieve sales results, as the variable compensation and annual bonuses at stake are relatively small. However, FCAC found that most front-line employees nonetheless consider their variable compensation important.

Managers, on the other hand, earn significantly higher base salaries, and the variable portion of a manager's compensation tends to make up a larger proportion of their overall compensation package. Additionally, the compensation of certain groups of front-line employees, such as mobile mortgage specialists, consists of 100 percent variable pay with no base salary. As will be explained in more detail later in this report, compensation programs with variable pay as a significant component can lead to mis-selling because employees may look to increase sales to maximize their commissions or rewards.

Non-financial incentives

Non-financial incentives are used to motivate employees to reach promotional campaign objectives and annual sales targets. Banks use a variety of non-financial incentives, such as small-value gift cards, peer recognition forums, all-expenses-paid trips and holidays, career development opportunities and promotions. The review found that employees are motivated to achieve strong sales results in part because they believe doing so provides more opportunity for non-financial incentives.

Regional vice-presidents, branch managers and front-line employees informed FCAC that strong sales results are a key consideration for promotion. Branch managers further advised that, since achieving sales results is fundamental to the performance objectives for more senior positions, they were unlikely to consider promoting staff who did not achieve satisfactory sales results. In their view, strong sales results tend to be an indicator of an employee's potential to fill more senior roles. Bank employees consider promotions key to earning significantly more annual and variable compensation.

Non-financial reward programs generally are subject to limited oversight in comparison with variable compensation programs. When properly designed, non-financial incentives can promote good sales practices and behaviours. The review identified opportunities for banks to significantly enhance the design, monitoring and oversight of non-financial rewards programs.

Sales targets

Banks employ different types of sales targets to motivate employees to sell. Ambitious and product-specific targets can increase the risk of mis-selling significantly. For example, offering employees financial compensation to sell a large number of travel rewards credit cards within a specific time period may lead employees to sell products without making a reasonable effort to determine whether the products are consistent with the consumer's financial needs, goals or circumstances.

Banks track the proportion of employees who fall short, reach or exceed sales targets and use the data to calibrate the targets for the next calendar year. FCAC found that most banks strive to calibrate the sales targets so that approximately two-thirds of front-line employees will reach them. On occasion, some banks have adjusted targets mid-year, usually to take into account external factors such as regional economic events or natural disasters.

As part of the shift toward more customer-centric strategies, a number of banks have introduced, or are testing, activity-based targets to complement sales targets. This can mitigate the risk of mis-selling, as employees are recognized for sales-related activities even in circumstances where consumers choose not to purchase any products or services. In these cases, however, employees are still required to complete a certain number of sales-related tasks, such as reaching targets for telephone calls and meetings with customers.

Some banks have taken steps to integrate more team-based sales targets, which may mitigate the risk of mis-selling by reducing the pressure on individual employees to sell products and services. On the other hand, team-based targets can put additional pressure on top performers to contribute more to help the branch reach its goals. Team-based sales targets can also put pressure on more customer-service oriented roles to contribute to the branch's overall sales goals.

Currently, banks tend to assign greater value to more profitable and complex financial products and services, which may lead to mis-selling and poor consumer outcomes. For example, if the sale of premium travel rewards credit cards garners more weight toward the achievement of sales targets than low-fee and low-interest credit cards do, employees would likely be more motivated to sell the premium cards, perhaps even at the expense of consumers' interests. Product-neutral sales targets could greatly mitigate the risk of mis-selling financial products and services to consumers.

Scorecards

Banks use scorecards to manage performance and inform the calculation of variable compensation. Scorecards comprise variables used to evaluate employee performance based on the roles and responsibilities associated with each position. Variables are weighted, with strategic priorities assigned the highest values.

In recent years, banks have placed greater emphasis on customer satisfaction when assessing employee performance. This shift toward customer satisfaction in retail banking has encouraged the development of new metrics for front-line employees. For example, front-line employee scorecards may include metrics such as:

- 40 percent for customer satisfaction
- 40 percent for sales targets
- 10 percent for compliance
- 10 percent for referring customers to advisors

Banks point to balanced scorecards as a key control to mitigate the risk of mis-selling and breaching market conduct obligations. In practice, however, the metrics used to assess an employee's sales results tend to be significantly more robust than those used to assess other areas of performance.

FCAC found that many employees felt they had greater control over their sales results than over customer satisfaction results, even when both results carried an equal weighting on their scorecards. For instance, customer satisfaction is measured by a net promoter score (NPS) survey, which asks customers whether they would recommend the bank to others based on their recent in-branch or call centre experience. Consumers are randomly selected for surveys, but only a small number complete the survey on a quarterly or annual basis for any given employee. Moreover, consumers may use surveys to express their dissatisfaction with bank practices that are beyond the control of front-line employees.

3. Higher risk sales channels, practices and products

Certain banking products, business practices and distribution channels present higher sales practices risk.

FCAC identified a higher risk of mis-selling and breaching market conduct obligations in areas involving mobile mortgage specialists, cross-selling, creditor insurance products and third-party sellers. The risks associated with these products, business practices and distribution channels are driven by sales-focused cultures and the performance management programs outlined earlier in this report. In general, the controls in place do not adequately mitigate the elevated risks associated with sales practices.

A) Mobile mortgage specialists

Mobile mortgage specialists (MMS or specialists) sell mortgages independently from the branch channel, going out in the community to meet clients and business contacts. This mobility, coupled with 100-percent variable pay, presents a higher risk to consumers, particularly given that controls are underdeveloped and levels of bank supervision are less intense. The proportion of mortgages sold through the MMS channel varies significantly across the six large banks. In some instances, banks sell upwards of 90 percent of their mortgages through this channel.

Variable pay compensation model

Each of the six large banks uses a 100-percent variable pay model to compensate their MMS. This means MMS are paid straight commission and do not earn a base salary. Commissions are calculated mainly by multiplying the dollar value of all mortgages sold—known as mortgage volume—by a commission rate expressed in basis points. For example, 85 basis points of compensation for a mortgage of $500,000 would result in a commission of $4,250.

In addition to mortgage volume, compensation rates for MMS may be influenced by several factors, including:

- mortgage types
- term lengths
- interest rates
- cross-selling of other products as part of the mortgage sale

Most banks also set individual volume and cross-selling targets for their MMS and pay higher commission rates for sales that exceed targets. For example, banks may raise the commission rate by 10 basis points when MMS reach 105 percent of their quarterly volume target of $10 million.

Consumer risks associated with the MMS compensation model

Variable pay compensation models may discourage MMS from making reasonable efforts to assess and take into account a consumer's needs and financial goals. The main risk to consumers in this compensation model is mis-selling. For example, the compensation model may encourage specialists to recommend mortgage products that earn higher commissions even if they are not the best option for the consumer. When commission rates vary with term lengths, interest rates and mortgage type, MMS may be motivated to sell mortgages that yield higher commissions without adequate regard for the consumer's needs.

The opportunity to earn higher commissions for reaching mortgage volume targets may also lead specialists to recommend larger mortgages to consumers. Furthermore, MMS may encourage consumers to acquire a mortgage sooner than they were intending, rather than encouraging them to save for a larger down payment.

Specialists can also earn higher commissions by meeting cross-selling targets. In most cases, banks expect MMS to sell creditor insurance products such as life, critical illness or disability insurance to as many as one in three mortgage borrowers. The risks associated with cross-selling and creditor insurance are discussed later in the report.

Controls and oversight of MMS sales practices

Banks generally impose fewer controls and exercise less-intensive oversight on the sales practices of MMS compared with other bank sales roles. The result can be an increase in sales practices risk. For example, branches and call centres use balanced scorecards to assess employee performance not only on sales results, but also on other criteria such as customer satisfaction survey results. However, balanced scorecards are not widely used to determine the variable pay of MMS and, when they are, the scorecards are much less balanced and more heavily weighted toward sales.

Most banks use, albeit to a limited extent, compensation penalties to retroactively claw back commissions earned by MMS if certain events occur. For example, commissions are clawed back if the mortgage paperwork is incomplete or if the number of defaulting mortgages is too high. Presently, claw backs are primarily used as a control to mitigate credit risk. However, FCAC found limited evidence of claw backs being used to mitigate the sales practices risk associated with MMS during the review.

Direct oversight of MMS sales practices is underdeveloped. As mentioned, given the mobile nature of this role, MMS often operate outside the branch channel. They are expected to spend their time in the community developing business relationships with real estate agents, developers and others from whom they can earn mortgage referrals. This limits opportunities for direct supervision, observation of sales practices and coaching by managers.

In addition, the managers responsible for overseeing MMS often have a vested interest in promoting mortgage sales volume growth. A significant portion of a manager's compensation may be directly tied to the volume of mortgages sold by the specialists they supervise. The scorecards of MMS managers are heavily weighted toward sales.

The competitive market for the services of high-performing MMS can make it more difficult for banks to enforce codes of conduct and take disciplinary action. During the review, FCAC learned there have been cases of MMS leaving their employer before the bank could complete its investigation or take disciplinary action.

B) Cross-selling

Cross-selling is the sale of additional products and services to existing customers by leveraging the relationship. Banks use this sales method to sell more products and increase their market share. Typically, consumers who are using one or two products are targeted and are provided a range of offers. Cross-selling performance is tracked with statistical metrics such as "share of wallet," which allow banks to see how successful they are at turning one-product consumers into multi-product consumers.

There are benefits associated with this practice. Consumers can be made aware of useful products and services. However, cross-selling may also result in the sale of unwanted or unsuitable products or services, particularly when bank employees are responding to sales targets and not making a reasonable effort to assess consumer needs.

Leads-based cross-selling

A common form of cross-selling is a leads- or prompts-based model. When a consumer visits a branch or contacts a call centre, the bank employee's computer screen may highlight as many as 10 leads for that customer. These leads tend to be generated by algorithms, prompting the employee to offer a range of products and services that the consumer does not currently have with the bank, such as:

- travel rewards credit cards
- unsecured personal lines of credit
- credit limit increases
- additional services tied to products currently used, such as overdraft protection or creditor insurance
- other means of accessing their existing services, such as online and mobile banking applications

Consumer risks associated with cross-selling

Banks' heightened focus on cross-selling may increase the risk that they will fail to obtain consumers' express consent. For example, presenting consumers with a large number of different product offers while managing service times increases the risk that bank employees will feel rushed and not communicate in a manner that is clear, simple and not misleading when obtaining a consumer's consent. In other words, cross-selling increases the risk that employees will not take the time to explain important terms, fees and conditions related to the products they are offering. As a result, consumers may not be adequately informed about the products or services they are purchasing.

Cross-selling may also increase the risk of mis-selling, as the sales model may encourage bank employees to offer consumers products without taking into account consumers' financial goals, needs and circumstances. Customer service representatives and sales staff are generally required to offer products they see in the computer-generated leads while also managing their service times. For example, a consumer may visit a branch to cash a cheque and be presented with offers for travel rewards credit cards and credit card balance protection insurance. Because bank employees often have to reach targets for computer-generated leads, cross-selling strategies can discourage employees from identifying consumers' needs and goals and recommending suitable products.

Controls for cross-selling risk

Presently, banks mitigate the risk of mis-selling associated with cross-selling through:

- scripts and conversational cues used by employees to guide offers to consumers
- supervision by branch managers
- quality assurance reviews in the phone channel
- cultural values reflected in bank codes of conduct
- the "tone from the top" set in communications from senior management

Controls to prevent failure to obtain express consent

FCAC found that banks generally have controls in place to ensure that a consumer's consent is obtained when new products and services are sold. However, FCAC also found that controls were not adequate to ensure that the written or verbal communication used to obtain consumer consent is clear, simple and not misleading.

It is important to note that most banks sell a number of products and services (e.g., credit limit increases on personal lines of credit, deposit account plan changes) by obtaining the verbal consent of consumers. Reliance on verbal consent can increase the risk that consumers are sold products for which they did not provide their express consent.

The controls in place to ensure banks obtain consumers' consent through communication that is clear, simple and not misleading are typically weaker in the branch channel when compared to call centre operations. For both channels, employees are provided with conversation cues and scripts, which are intended to ensure that the most important terms, fees and conditions are disclosed to consumers before obtaining their consent. In branches, managers and customer service supervisors are responsible for ensuring that employees read the scripts and cues. However, FCAC found that branch managers and supervisors are not well positioned to ensure that express consent is always obtained in the prescribed manner. For a more detailed explanation, see the "Controls" section.

Banks record most conversations between consumers and call centre employees, which allows them to review transactions to verify whether employees are following the scripts and properly obtaining the consent of consumers. However, the review revealed that banks examine only a relatively small number of calls—too few, in fact, to provide a high level of confidence that individual call centre employees are in compliance with policies and procedures related to obtaining consent.

In most cases, call centre employees who take 60 to 80 calls per day have only a small number of calls per month reviewed for quality assurance purposes, such as adherence to scripts and compliance with market conduct obligations. Moreover, in general, the calls reviewed are randomly selected and not chosen based on risk factors. For example, banks do not review a higher percentage of calls where credit card balance protection insurance was sold to consumers, even if these calls may represent a greater risk in terms of sales practices.

Performance management

Compensation, employee scorecards and other forms of performance management tend not to effectively mitigate the risks associated with cross-selling. In some cases, banks assess employees against ambitious, product-specific and individualized cross-selling targets. This can increase the risk of mis-selling and breaching market conduct obligations.

As discussed earlier, introducing activity-based targets, team-based sales targets and product-neutral financial compensation could help mitigate the risks associated with mis-selling. A number of banks have introduced activity-based targets, compensating employees who offer products or have conversations with consumers even when no sales result. FCAC found that the majority of banks do not have team-based sales targets and there has been only limited implementation of product-neutral compensation.

Data analytics

Most banks are working to implement new technologies to improve controls related to cross-selling and reduce the risk of mis-selling. For example, data analytics can be used to detect unusually high rates of unused credit cards or product cancellations, which may indicate a pattern of mis-selling.

Data analytics could be used to discourage mis-selling by enabling banks to claw back employee compensation in situations where products are sold to consumers who do not use them. This technology could generate reports to support the oversight of employee sales practices by supervisors and branch managers. While banks indicated they planned to increase their investment in data analytics, the technology is still underdeveloped as a control for risks related to sales practices, especially when compared with the maturity of the technology supporting marketing strategies.

C) Creditor insurance

The purpose of creditor insurance is to pay off outstanding credit balances or to make set monthly payments against debts if certain triggering events occur, such as job loss, serious illness or death. In the large majority of cases, consumers can acquire creditor insurance products only from the bank that sold them the credit product. Consumers who wish to purchase credit card balance protection insurance can do so only through the bank that originally issued the credit card.

Similar to most insurance policies, creditor insurance coverage is subject to exclusions, such as employment status and health conditions. At the time of purchase, the underwriting is performed by assessing answers to a handful of broadly worded yes-or-no questions. Depending on how consumers answer these questions, creditor insurance may be granted in a matter of minutes.

Credit insurance products usually offer a 30-day first-look period during which consumers are fully refunded any premiums paid if they choose to cancel the coverage. This feature is described in a variety of ways, such as a "trial period" or "free look." However, it is important to highlight that banks are not required to ask consumers to reconfirm their consent for acquisition of the product after the initial 30-day period.

Consumer risks associated with creditor insurance

There is a risk that consumers and front-line staff may not adequately understand creditor insurance, the exclusions to the coverage or the claims adjudication process. Bank employees may not provide certain details because of an inadequate understanding of the product, in the interest of closing a sale or in response to time constraints. For example, bank employees may sell creditor insurance to post-secondary students to go along with a personal line of credit but neglect to inform them that they need to work a minimum number of hours for the coverage to be in force.

Bank employees are often encouraged to cross-sell, bundle and generally apply more pressure when selling creditor insurance than other banking products and services. Employees can mistakenly or deliberately imply that creditor insurance is sold as part of the credit product or that credit approval is contingent on the purchase of creditor insurance. For example, front-line employees may sell creditor insurance by advising consumers that "the credit card comes with balance protection," which may give consumers the impression that creditor insurance is a card feature, as opposed to what it really is: a separate and optional product.

Banks set product-specific sales targets for creditor insurance. Employees are expected to reach insurance penetration targets, such as selling creditor insurance with 30 percent of credit products sold. Product-specific targets increase the likelihood that sales staff may push a specific product to meet their target, even when the product does not meet the needs of the consumer. Failure to meet a target may lead to reduced variable compensation or negatively impact their eligibility for non-financial rewards.

Bank employees may try to persuade consumers to purchase creditor insurance by failing to provide clear information about the 30-day first-look feature. For example, when consumers ask questions about coverage exclusions, bank employees may encourage them to purchase the product on a trial basis in order to obtain an information package, even though the information is available without purchase. During the review, FCAC found that some consumers forget to cancel the product and incur premium payments.

The industry describes creditor insurance as a "sold" product rather than a "bought" product. This means consumers rarely inquire about creditor insurance, initiate its purchase on their own or educate themselves about its features. Instead, banks rely on employees to offer the product to consumers. Consumers often depend on the information provided by bank employees when deciding whether to purchase creditor insurance.

Controls for creditor insurance sales practices

Banks use scripts and cues, training and claw backs to mitigate the risk of mis-selling creditor insurance and to promote compliance with market conduct obligations. In general, FCAC found that the controls are underdeveloped, particularly in light of the characteristics of creditor insurance and the risks associated with prevailing sales practices.

Scripts and cues

Banks rely on scripts and conversation cues to make sure employees communicate key information to consumers, including the terms and conditions of creditor insurance products. In addition, scripts and cues are used to mitigate the risk of employees applying undue pressure when selling creditor insurance and to ensure employees communicate in a manner that is clear, simple and not misleading when obtaining the consent of a consumer. Employees are expected to use and follow the scripts, which are designed to present information in a logical manner.

However, banks do not have adequate controls in place to ensure employees follow scripts, clearly explain terms and conditions, and avoid using undue sales pressure. Oversight is greater in call centres where calls are recorded, but only a very small number are reviewed for compliance with the bank's code of conduct and market conduct obligations. In the branch environment, banks largely rely on branch managers, assistants and supervisors to prevent mis-selling.

Training

Banks use training to mitigate the risk of employees mis-selling creditor insurance and to prevent breaches of market conduct obligations. The training is intended to supplement scripts and cues, ensuring employees are in a position to adequately answer consumer questions about creditor insurance.

Training on creditor insurance is covered by a voluntary code of conduct adopted by the banks. All code signatories commit to training employees and to taking measures to ensure that the products are sold by knowledgeable staff.

The review revealed that bank employees are not always adequately informed or knowledgeable about creditor insurance products. For example, during FCAC branch visits, employees provided inaccurate and incomplete information about the benefits, coverage and exclusions associated with creditor insurance when answering questions about how they sell the product. FCAC is of the view that there is room to strengthen the training of front-line staff.

Claw backs

Some banks claw back sales commissions when consumers cancel creditor insurance products within 90 days of sale. This measure reduces the risk of mis-selling by encouraging employees to make a reasonable effort to assess consumers' needs when selling creditor insurance. FCAC found that claw backs are more widely employed to control the mis-selling of creditor insurance than they are for other banking products or services.

Banks gather some data on cancellation rates, but it may not necessarily reflect instances of mis-selling as consumers may cancel the insurance for other reasons. Further analysis of cancellations by banks would enable the data to be used to monitor, identify and address sales practices risk.

D) Third-party sellers

In an effort to reach consumers outside the branch environment, most banks have outsourced the sale of certain products, such as credit cards, to third parties. Third-party sellers are required to comply with federal financial consumer legislation when they market bank products and services. Banks are responsible for ensuring the compliance of third-party sellers. In practice, the third-party sales model, along with the limited oversight exercised by banks, lead to an increased risk of mis-selling.

Third-party sales models

Third-party sellers and their sales staff are often limited to selling one product or one type of product, such as travel rewards credit cards at airport kiosks or creditor insurance in outbound call centres. Consequently, their sales targets tend to be product specific. Contracts between banks and third-party sellers may also set specific and ambitious targets, such as requiring the third-party seller to sell thousands of credit cards per month.

Third-party sellers typically divide sales targets among sales staff and locations. Sales staff are often required to sell a minimum number of products per shift or hours worked. In addition to a base salary or hourly wage, third-party sales staff may receive commissions based on the number of units sold. Even when their employees are compensated without regard to volume or units sold, third-party sellers may be compensated by banks on a per-unit basis, which could lead the third-party seller to increase the sales pressure on their staff.

Consumer risks associated with third-party sales

Third-party sales pose several risks to consumers. First, ambitious and product-specific sales targets may encourage third-party sales staff to use high-pressure tactics to sell credit products to consumers. For example, FCAC reviewed complaints where consumers alleged that third-party sales staff ignored their objections or failed to obtain a clear "yes."

Second, third parties may not make reasonable efforts to assess the suitability of a financial product or service for consumers based on their needs. As third parties typically are contracted to sell one or two banking products and services, they may be less motivated to identify consumer needs and financial goals. The limited number of products offered by third-party sellers also means they are not well equipped to offer alternate products or types of products.

Third, the circumstances under which third parties interact with consumers can affect the way consumer consent is obtained. Third-party sellers typically encounter consumers in locations such as grocery stores, airport terminals, gas stations and coffee shops. Under these circumstances, consumers are not actively seeking bank products and may not be prepared to make important financial decisions. These environments can be more conducive to mis-selling given that consumers are often busy and distracted.

Finally, third-party sellers may add to consumer confusion by offering rewards, gifts and prizes in exchange for a consumer's signature on an application. Third-party sellers may not always make it clear to consumers that they are completing a credit application or entering into an agreement in exchange for a gift or prize. Some sellers have been known to describe the agreements as surveys.

Controls over third-party sellers

Bank oversight of third-party sellers is significantly weaker than that which banks exercise over their branch and call centre operations. Banks rely heavily on their cultural values and managerial oversight to prevent mis-selling and ensure compliance with market conduct obligations in their branches and call centres. These tools are less effective for the oversight of the sales practices of third-party sellers.

When banks outsource sales to third parties, they rely on the third parties for most aspects of control and oversight. For example, third parties are typically responsible for the day to day management of the sales locations, establishing culture and tone, hiring and training staff, and ensuring staff do not mis-sell or breach market conduct obligations. In some cases, third parties perform their own quality assurance, call monitoring and investigations of potential breaches of market conduct obligations in response to consumer complaints and report their findings to banks. In general, banks rely on the third-party sellers to manage sales practices risk.

Some banks are currently rethinking their use of third-party sellers and have taken steps to enhance their oversight. Banks employ data analytics to monitor and compare third-party activity with their own sales data. For example, banks monitor early cancellation rates as an indicator of low quality sales. Banks have also begun requiring third-party sellers to use customer satisfaction surveys. It is important to note that banks generally can terminate their contracts with third-party sellers if they fail to meet contractual obligations.

In conclusion, and notwithstanding recent efforts, bank oversight of third-party sellers remains underdeveloped and weaker than the oversight exercised over their own retail sales operations. Considering the elevated risk posed by third-party sellers, banks would benefit from buttressing their oversight of third-party sellers.

4. Governance of sales practices

Bank governance frameworks do not manage sales practices risk effectively.

The quality of bank corporate governance practices is an important factor in maintaining consumer and market confidence. Media reports alleging high-pressure sales practices in Canada provided the impetus for FCAC to review bank corporate governance structures in the area of sales practices and consumer protection.

The *G20/OECD Principles of Corporate Governance* state:

> "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."[4]

Corporate governance frameworks provide the structure to assign roles, responsibilities and accountabilities in the furtherance of corporate objectives and performance monitoring.

FCAC's review identified opportunities to strengthen bank governance of sales practices going forward:

- develop governance frameworks that specifically address the management of sales practices risk
- establish clear mandates, roles and responsibilities for oversight of sales practices
- set clear expectations for reporting on sales practices risk to allow for a more informed and holistic perspective of the risks

[4] OECD (2015), *G20/OECD Principles of Corporate Governance*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264236882-en, p. 9.

- facilitate more effective oversight of bank controls with respect to sales practices and market conduct obligations

Governance frameworks

FCAC found that, compared with the management of other forms of risk, bank governance frameworks do not adequately address the management of sales practices risk. As a result, banks lack a consolidated and holistic view of the risks associated with sales practices. Boards, senior management and control functions are limited in their ability to identify, measure, monitor and address risks related to mis-selling, poor consumer outcomes and breaches of market conduct obligations. Some banks, however, have begun to develop and implement frameworks to manage sales practices risk, but this work is in its early stages.

Mandates

There is no specific board committee mandated to oversee sales practices. Board oversight of financial consumer protection is dispersed among a number of committees. The absence of clear roles and responsibilities to oversee sales practices and consumer protection has hindered the ability of boards to adequately oversee and challenge senior management with respect to these matters.

Reports

FCAC has determined that the sales practices-related reports submitted to boards are largely inadequate. In general, boards do not receive comprehensive data or root-cause analyses of sales practices risk, such as complaints, disciplinary actions, terminations and exit interviews. For example, each bank’s internal ombudsman’s annual report to the board on consumer complaints provides only a high-level summary of the small number of consumer complaints that reach the ombudsman level. As the reports contain little explanation or root-cause analysis of potential issues, it may be difficult for boards to monitor and challenge the action plans proposed to address the consumer complaints.

Because of the limited information provided, boards are less likely to be informed of employee issues related to sales practices. During the interviews conducted for this report, board members expressed surprise at the allegations in the media that were made by current and former employees about high-pressure sales practices and mis-selling. This suggests that the channels established for employees to escalate concerns with regards to sales practices and other issues may not be functioning as well as intended. Employees who feel their issues will not be heard or dealt with may choose to take their concerns to the media.

Oversight of controls

Boards oversee and monitor the effectiveness of banks’ internal control systems. They perform this role by challenging and advising on the soundness of these systems. Internal control systems provide the rules, policies and procedures, and organizational structures that support the achievement of banks’ objectives.

During the review, boards expressed a high degree of confidence in their banks’ management of sales practices risk. However, the controls in place to mitigate the risks associated with sales practices were found to be underdeveloped in comparison with other areas, such as credit risk.

5. Controls for sales practices

Controls to mitigate the risks associated with sales practices are underdeveloped.

In general, banks rely on organizational culture, human resources and the three-lines-of-defence model to mitigate sales practices risk. The three-lines-of-defence model comprises operational management, compliance and risk management, and internal audit.

Bank controls to mitigate the risk of mis-selling and breaching market conduct obligations have not kept pace with the shift toward a significantly greater focus on sales and advice in branch and call centre operations. The controls in place to manage the risks associated with sales practices are less developed than those in place to manage other forms of risk. Underdeveloped controls may result in a failure to detect and prevent non-compliance or mis-selling.

Organizational culture as a control

Banks cite organizational culture as a key control for mitigating the risks associated with sales practices. They are confident that the importance of integrity and appropriate behaviour has been communicated successfully to bank staff. They rely on strong employee and customer satisfaction scores and relatively low incidences of code of conduct violations to illustrate the soundness of their sales culture.

Banks also point to on-boarding, training and codes of conduct as being among the supports shaping cultures that mitigate the risks associated with sales practices. However, FCAC's review found that the organizational cultures promoted by banks lack the maturity to be effective tools in detecting and reducing the risk of mis-selling and breaching market conduct obligations.

The measures banks use to assess their cultures are not designed to assess sales practices risk. For example, employee surveys tend to exclude important questions, such as whether employees are feeling pressure to reach sales targets. Similarly, customer satisfaction survey scores are not designed to measure whether consumers feel the products and services they purchased were suitable.

FCAC found that communications from senior management about integrity and "selling the right way" do not always cascade down to the front line in a consistent manner. Senior management teams' attempt to ingrain messages such as "putting the customer first" and "customer-centric sales." However, while customer-facing employees generally are aware of the messaging about the importance of customer satisfaction and "doing the right thing," they are not always clear on how this messaging applies in the context of sales practices.

Although the tone from the top consistently focuses on the consumer, the review found that middle management is in a much stronger position to shape the sales culture in branches and call centres with daily sales meetings, morning huddles, coaching, leaderboards highlighting sales achievers, promotions and recognition, and non-financial incentive programs. Following its discussions with front-line staff, FCAC found that the messaging from middle management to front-line staff is not always consistent with the tone from the top. Some employees relayed experiences of working for ambitious middle managers who were rewarded for cultivating an aggressive sales culture focused on results and volume rather than on customer service or customer satisfaction.

First line of defence: Operational management

Branch channel

Primary responsibility for sales conduct in the branch channel rests with branch managers, while in call centre environments, it rests primarily with team leaders who are supported by a quality assurance process. These managers and leaders monitor the sales practices of front-line employees. The involvement of senior management and head office control functions (such as compliance) for this channel tends to be limited.

Branch channel managers have complex and wide-ranging responsibilities. They run the day-to-day operations, including security matters, staffing and coaching. They ensure that sales targets, both for the individuals and the branch as a whole, are met while ensuring a high level of customer service.

In addition, branch managers play a pivotal role in the internal communications of branch offices, exercising a high degree of influence with front-line employees. Depending on how managers communicate, they may exercise undue pressure on front-line employees to meet specific sales revenue targets or exceed growth expectations. During interviews, some employees disclosed feeling pressured to sell or witnessing mis-selling while working for other banks or at different branches of their current employer.

FCAC has concerns regarding the tools and resources available to branch managers to manage sales practices risk in their branches. Although branch managers informed FCAC that they can detect mis-selling and breaches of market conduct obligations, the Agency observed that branch managers have limited line of sight into interactions between consumers and employees, particularly in comparison with the telephone channel, where all interactions are recorded.

Branch managers receive limited reports for areas other than sales results and customer satisfaction surveys. In general, they receive insufficient reporting on areas that could help detect mis-selling and market conduct breaches, such as consumer complaints. For example, banks have not made adequate investments in data analytics tools to help business lines identify low rates of product use or high rates of product cancellation, which may indicate a pattern of mis-selling.

Moreover, branch managers are afforded a large degree of discretion in how they respond to mis-selling. Most mis-selling issues are identified and addressed by managers, giving rise to the possibility of similar problems being treated differently depending on the manager and the employee involved. And while branch managers may be required to seek the advice of human resources in cases of mis-selling, most are managed by the employee's direct supervisor through informal coaching.

Telephone channel

Team leaders and quality assurance are key controls for sales practices risk in the telephone channel. Team leaders listen to calls in real time and review a sample of the calls taken by each employee every month to inform coaching and performance management.

Banks record most calls in and out of their call centres, but only a small number of calls are reviewed for quality assurance purposes, such as to verify whether employees are following sales scripts and complying with market conduct obligations. For example, FCAC found that in bank call centres where employees take 1,400 calls per month, generally up to 4 calls are reviewed for quality assurance purposes. The recordings are archived, which means banks can choose to review a larger number of calls if further investigation into employee conduct is necessary.

FCAC found opportunities to improve quality assurance in call centres to better detect and prevent mis-selling and breaches of market conduct obligations. Banks should review a higher number and larger proportion of calls for quality assurance. Implementing voice analytic technology could reduce the costs associated with reviewing more calls. In addition, call selection should be risk-based instead of random. When sales practices issues are identified during call reviews, banks should perform significantly more root-cause analyses. These analyses should not be restricted to individual employees but should encompass the work environment and the sales culture.

Consumer complaints

Consumer complaints have great potential to provide insight into the consumer experience. Banks are required to have an escalation process in place to handle these complaints. Effectively managing and monitoring consumer complaints is an important component of the first line of defence. Weaknesses in policies, procedures and systems for handling complaints limit the ability of banks to adequately monitor, identify and report complaints to management, boards and FCAC.

Line of sight

Currently, banks resolve approximately 90 to 95 percent of consumer complaints at the first point of contact as part of providing good customer service. However, complaints resolved at this level are generally not logged into a central database because of technological constraints or inadequate policies and procedures. This process weakens a bank's line of sight into consumer complaints and issues and reduces the opportunity to identify trends.

Most banks recognize the need to improve their line of sight to these complaints. They are exploring solutions to enhance the data received from employees who routinely handle and resolve complaints.

Escalation and reporting

With 90 to 95 percent of consumer complaints resolved at the first point of contact, consumers escalate only a small percentage of complaints beyond that point, in part because the escalation process is often complicated and cumbersome. Even when escalated, a complaint may be returned to the first point of contact for resolution and not logged in a manner that would allow for trend analysis.

Moreover, there are limited resources in place to monitor escalated complaints and ensure they are classified correctly. As a result, it is difficult to interpret the meaning of the small number of escalated complaints and to assess whether they are representative of the broader consumer experience. Boards and senior management only receive reports on escalated complaints, and the small numbers may give them a false sense of confidence about consumers' experiences with sales practices.

Banks are required to report escalated complaints to FCAC. The weakness noted above with escalated complaints also limits FCAC's ability to use the information in monitoring sales practices risk.

Investigation

The Agency found numerous instances of inadequate bank investigations of consumer complaints, particularly when those complaints had been resolved at the first point of contact. Investigations are performed only to the extent needed to resolve a complaint and banks make little effort to identify root causes. For example, if a consumer complains about undisclosed service charges, the employee may reverse the fee to please the customer but not investigate to identify whether there were any breaches of disclosure obligations.

When banks do not investigate the root causes of complaints, it may result in a failure to identify and address sales practices risk.

Second line of defence: Compliance and risk management

Banks have established risk management and compliance functions to ensure that the first line of defence is properly designed, in place and operating as intended. The second line of defence includes a risk management function that monitors the implementation of effective risk management practices by operational management and a compliance function that monitors bank compliance with applicable laws and regulations.

Compliance and risk management oversight of consumer protection in retail banking is underdeveloped in comparison with the level of oversight afforded to other areas of the bank, such as the sale of investment products. Risk management and compliance staff monitor bank adherence to market conduct obligations. However, compliance and risk management do not adequately monitor mis-selling or the risk of poor consumer outcomes related to sales practices in retail banking.

Risk management and compliance track fines and other regulatory activity that may indicate the level of risk associated with breaching market conduct obligations. In the past, this risk has been deemed low; therefore, it has been subject to less rigorous oversight. In response to reports about Wells Fargo and allegations in Canadian media, banks elevated the risk rating associated with the obligations related to obtaining express consent.

Banks have undergone rapid growth, but their investment in control functions does not appear to have always kept pace. Understaffing and underinvestment in technology and systems hinder the compliance and risk management functions' ability to monitor sales practices risk effectively. For example, this scarcity of resources can limit the capacity to identify and respond to new regulatory requirements, review new products and business strategies, and supervise the efforts of business lines to adhere to market conduct obligations.

In general, compliance reports to boards lack adequate detail on sales practices risk. More specifically, these reports tend to lack root-cause analyses of trends and issues. They also tend not to include the status of action plans related to sales practices. Risk management reports do not adequately capture the key risks associated with sales practices, such as mis-selling and breaching market conduct obligations.

Third line of defence: Internal audit

Internal audit provides independent assurance to the board's audit committee and to senior management of the quality and effectiveness of a bank's overall internal controls, risk management and governance framework. Support for this assurance should include internal audit's assessment of the key controls and processes within the business units and support functions as they relate to retail sales practices.

While banks cite culture as a key control for risks related to sales practices, FCAC did not find evidence that internal audit has assessed the degree to which culture mitigates sales practices risk. Considering the role of internal audit, some banks have acknowledged the opportunity to have internal audit review culture.

Some market conduct obligations are included in internal audit's coverage of retail banking, but the related risks have been considered low and audits have been infrequent and lacking in rigour. Similar to the second line of defence, internal audit increased the risk rating for sales practices risk in response to Wells Fargo and allegations in Canadian media. However, gaps remain in the audit coverage of banks' market conduct obligations. For instance, FCAC found that internal audit does not review the controls in place to ensure the communication to obtain consent is clear, simple and not misleading.

In general, sales practices have not been identified as a separate audit unit by internal audit. Following media reports raising concerns about sales practices, the internal audit functions at Canadian banks examined past audits to identify elements that touched on sales practices. It is important to note, however, that these audits were not focused on sales practices and did not examine sales practices risk in sufficient detail.

Human resources as a control function

Bank human resources departments do not adequately leverage the tools and data available that could provide insight into sales practices, such as surveys on employee engagement, exit interviews, attrition, turnover rates and employee conduct monitoring.

FCAC found that employee onboarding and training do not adequately address risks associated with market conduct obligations or mis-selling. Some banks recognize there are opportunities to improve the consistency of the disciplinary process when issues related to sales practices are identified. Human resources reporting to senior management and boards lacks the detail and context necessary to support the oversight of sales practices.

FCAC also concluded that banks lack the personnel, technology and operational support required to enable human resources to monitor and reduce the risks associated with sales practices.

Conclusions and a look forward

The findings of this review are well summarized by the following statement from the *OECD/G20 High-Level Principles on Financial Consumer Protection*:

> "Rapid financial market development and innovation, unregulated or inadequately regulated and/or supervised financial services providers, and misaligned incentives for financial services providers can increase the risk that consumers face fraud, abuse and misconduct."[5]

FCAC found that retail banking culture is focused on sales. Bank performance management programs, in particular the financial compensation and non-financial incentives provided to employees, play an important role in supporting this culture. This environment increases the potential for mis-selling products and services that may be incompatible with consumer needs and financial situations, as well as breaching market conduct obligations. These risks are particularly prevalent in the cases of mobile mortgage specialists, third-party sales channels, and in practices and products such as cross-selling and creditor insurance.

[5] OECD (2011), *OECD/G20 High-Level Principles on Financial Consumer Protection*, https://www.oecd.org/daf/fin/financial-markets/48892010.pdf, p. 4.

FCAC found that governance frameworks and control mechanisms do not effectively manage or mitigate the risks inherent to cultures that are so heavily anchored in sales. Operational management, compliance and risk management, internal audit and human resources lack the frameworks needed to adequately address sales practices risk. Robust governance frameworks that provide greater oversight by boards and senior management would strengthen the ability of banks to manage the risks related to sales practices.

In the course of the review, FCAC identified several measures that would strengthen financial consumer protection and result in closer alignment with OECD/G20 principles.

Enhancements to banks' management of sales practices risk

To improve bank management of sales practices risk, FCAC recommends that banks:

- prioritize financial consumer protection, fairness and product suitability
- establish a formal sales practices governance framework that clearly defines roles and responsibilities to ensure all elements of sales practices risk are effectively managed, including the effective monitoring and reporting of mis-selling and market conduct obligations
- improve their oversight, management and reporting of consumer complaints
- ensure financial and non-financial compensation strategies motivate employees to work in the interest of consumers
- ensure internal controls adequately address sales practices risk, particularly for the practices, products and channels that pose a greater risk of mis-selling and breaching market conduct obligations
- ensure human resources and second and third lines of defence—including compliance, risk management and audit—are resourced adequately to improve their oversight of sales practices risk

Enhancements to FCAC

FCAC will implement a modernized supervision framework that will allow it to proactively ensure banks have implemented the appropriate frameworks, policies, procedures and processes to effectively mitigate the risk of mis-selling and breaching market conduct obligations.

FCAC will increase the resources devoted to its supervisory and enforcement functions.

FCAC will enhance its consumer education materials to raise consumer awareness about financial products and services, and to inform consumers of their rights and responsibilities and of the importance of asking their banks the right questions, particularly when purchasing financial products. These efforts will help consumers make informed financial decisions and potentially avoid harm.

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KEY MESSAGES FOR CAFII FOR USE WITH MEDIA & INSURANCE REGULATORS AND POLICY-MAKERS WITH RESPECT TO FINANCIAL CONSUMER AGENCY OF CANADA'S DOMESTIC BANK RETAIL SALES PRACTICES REVIEW DRAFT 3 – MARCH 24/18

For reactive use with media:

1. We are pleased that the FCAC found no evidence of widespread mis-selling of products and services among Canada's six largest banks, and that it does not put forward any significant evidence, examples, or statistics to support a different conclusion.

2. Furthermore, we are pleased that the FCAC acknowledges that consumers carry out millions of transactions every day without incident, and that banks and their employees generally strive to comply with market conduct conditions.

3. While the report does say there is some risk that mis-selling could take place in certain circumstances, we are pleased that it also acknowledges that the industry has controls in place to monitor, identify and mitigate these risks. Furthermore, the report acknowledges that the industry is in the process of enhancing its oversight and management of sales practices to further mitigate this risk.

For use with insurance regulators and policy-makers:

4. We are not aware of any evidence, examples, or statistics to support a hypothesis that there is wide-spread mis-selling of creditor insurance by bank employees. In fact, even the recent FCAC report was careful to use the words "may" and "some" consistently, in describing those limited circumstances in which there might be a risk of mis-selling by employees.

5. While we acknowledge there is always room for improvement in the procedures and sales personnel training which CAFII members use with respect to offering insurance products to consumers, our own research indicates that Canadians believe creditor insurance is a convenient, accessible and affordable product. In addition, Canadians have a high level of customer satisfaction with creditor insurance according to several sources including the Ombudsman for Banking Services and Investments (OBSI), and the Ombudsman for Health and Life Insurance (OHLI). In fact, creditor insurance did not even make the OBSI list of the top five banking products and issues for 2017, and represented a very small proportion of complaints received by the OLHI in 2017.

6. There are a handful of criticisms about creditor insurance that are speculative in nature, lack any substantive proof, and are at odds with marketplace realities. For example:

- It has been pointed out that banks are not required to ask consumers to reconfirm their consent for acquisition of creditor insurance coverage after the initial 30-day free look period. Making that a requirement would deviate from industry norms which apply to all types of insurance -- including individual term life, critical illness, and disability insurance -- and it would create an unlevel playing field for comparable products that compete with each other in a vibrant marketplace.

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- Some people have suggested that because some bank employees have targets for the sale of creditor insurance products, they may push a specific product in order to avoid a reduction in their variable compensation. However, there is actually very little incentive for that to occur among CAFII member sales personnel because the vast majority of their compensation is salary-based and only a small portion is incentive-based.

- Some people believe that some front-line bank staff may not adequately understand creditor insurance, the exclusions to the coverage, or the claims adjudication process. However, in practical reality, any risk of mis-selling is minimal given the in-depth training that CAFII member banks provide to their creditor insurance sales personnel, and the follow-up testing of their knowledge that takes place on a regular basis.

- Some people believe that creditor insurance should be described within the industry as a "sold" product rather than a "bought" product, implying that this is different from comparable types of insurance. However, the reality is that nearly all types of life and health insurance, unlike mandatory insurance such as automobile insurance, are "sold" products. All types of life and health insurance coverage requires significant marketing and educational efforts with consumers, because most consumers are uninformed about how such optional insurance can protect them and their loved ones and provide peace of mind; and creditor insurance is no different in that regard.

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Agenda Item 4.3(1)
April 17/18 Board Meeting

From: Keith Martin [mailto:keith.martin@cafii.com]
Sent: Monday, April 09, 2018 4:59 PM
To: 'Thorn, Peter'; 'Brendan Wycks'
Subject: Phone Call from the Government of Saskatchewan -- Ministry of Finance

I wanted to provide an update on a call I just received from Brent Hebert, Assistant Deputy Minister, Revenue Division, in Saskatchewan's Ministry of Finance.

He was very professional and courteous, and he said he was reaching out to key stakeholders to get their feedback on the consultation process and on the content of the Information Bulletins published by the Government of Saskatchewan last week.

He additionally said he wanted to thank CAFII for providing input into the content of the Information Bulletins on refunding PST on insurance products to customers; and to specifically ask if we were satisfied with the outcome as contained in the Information Bulletins.

I said that the process was transparent and that was appreciated by CAFII. I noted that the original draft Information Bulletin excluded job loss from creditors group insurance exempt products, and that would require retroactively segmenting components of policies where the coverages had been bundled together. This would have been a challenge, but now that creditors group insurance was entirely exempt from PST—including job loss—the process would be facilitated, and that was something that our members appreciated.

The official said that he was very aware of the issue, and that he was very pleased to hear that the outcome was helpful to our members; he added that our input was listened to carefully, was extremely helpful, and was paid attention to purposefully by Ministry officials. He said that the Ministry wanted to make the refund process as easy as possible in the circumstances.

I also told him that the official I was principally in communication with, Leslie Jerkovits, was professional, asked thoughtful and probing questions, and was interested in understanding the issues we were raising. He said he was extremely pleased to hear that, and thanked me for telling him.

I added said that I could not speak to someone from Saskatchewan without expressing my heartful distress at the tragedy that had recently unfolded; and Brent paused, and said he appreciated that.

Finally, Brent said that he knew that industry was reviewing the changes proposed by the Government to the Insurance Act, and that our paths may cross again on that issue; he said his phone line was open, and to call him if we had any concerns or issues.

I told him that was much appreciated, and added that we had met officials in Saskatchewan on this matter and on the process around it, and that we appreciated that a sufficient timeline was planned from the publishing of the Act to the drafting of the regulations, and their implementation, as industry needed time to adjust to changes. He responded that he very much understood that concern.

He thanked me one more time and wished me a good day. The call was about 5 minutes in duration.

Keith Martin
Co-Executive Director / Co-Directeur général
Canadian Association of Financial Institutions in Insurance
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From: Keith Martin [mailto:keith.martin@cafii.com]
Sent: Friday, April 06, 2018 3:21 PM
To: 'Brendan Wycks'; 'Thorn, Peter'; 'Pergola, Antonio'; 'Beauchamp, Jason'; 'Bedford, Laura'; 'Isabelle Choquette'; 'Beckford, Rose'; 'Charles Blaquiere'; rob.dobbins@assurant.com; 'Easthope, Dana'; dominique.julien@cibc.com; charles.maclean@rbc.com; 'Diane Quigley'; moira.gill@td.com; 'Lewsen, John'; 'Manson, Sue'; jsavard2@dsf.ca; 'Shawna Sykes'; anuraj.bains@cibc.com; scott.kirby@td.com; 'Bradley Kuiper'; 'Monika Spudas'; nina_desai@manulife.com; 'McCarthy, Peter'; 'Lobbezoo, Chris'; chris.knight@td.com; wallace_thompson@manulife.com; nbenson@cricanada.net; 'Kelly Tryon'; 'Rondzik, Sandra'; 'Robert Zanussi'; 'Grant, Bob'; andre.langlois@dsf.ca; 'Nick Bilodeau'
Cc: 'Natalie Hill'; 'Boyle, Martin'; 'Tara Moran'
Subject: FW: **SK PST on Insurance - Information Notices & Bulletin**

Board and EOC Members:

On 29 March, 2018 the Ministry of Finance issued draft Information Notices on the exemption of PST for certain insurance products, and offered the opportunity for relevant industry associations to be consulted.

CAFII has been in regular contact with the Ministry of Finance, both through emails and direct phone calls, to provide further detail and explanation of our members' position on some elements of the bulletin, including concerns about the PST exemption only applying to portions of a creditors group insurance policy (job loss would not be exempt, for example, and the entire policy would not be exempt, nor receive a PST refund, if the life portion was not segregated from the job loss component); and the short time lines.

The final revised Information Bulletins are attached, along with the transmittal message from the Ministry of Finance (see email string below); and was officially posted at 1pm Saskatchewan time (3pm Eastern time). I have drawn out the relevant portions of the original draft language and the revised, final language for comparative purposes.

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From Information Bulletin 2018-04, we are interpreting the revised language to indicate that creditors group insurance has received a blanket exemption from PST. (In a phone communication today with a Ministry of Finance official I was specifically told that the Department has revised its original policy and job loss would no longer be excluded from the exemption.) From Information Bulletin 2018-05, the Ministry has slightly softened the language around the deadline for processing refunds; and that process should be much simplified now that the entire policy, not just a portion, is subject to refund.

Any questions or concerns, please let me know.

Original Draft Text, Government of Saskatchewan Information Notice 2018-04	**Final Revised Text, Government of Saskatchewan Information Notice 2018-04**
Credit and Credit Protection Insurance Credit and credit protection life, health, disability, accident and sickness insurance is exempt from PST. Job loss, strike or lockout insurance is subject to tax. As noted above, if taxable and exempt coverages are included together in the policy or contract, and the taxable and exempt components are not segregated, the total premium is subject to PST. Note: Mortgage default insurance is taxable.	**Credit Protection Insurance** Credit protection insurance, including creditor's group insurance, is exempt from PST. Note: Credit insurance that protects the lender from default is taxable (e.g. lender's mortgage insurance or mortgage default insurance).

Original Draft Text, Government of Saskatchewan Information Notice 2018-05	**Final Revised Text, Government of Saskatchewan Information Notice 2018-05**
The refund/credit process involves a large number of policy holder accounts; however insurance providers expect to complete the majority of credits/refunds by June 30, 2018.	The refund/credit process involves a large number of policy holder accounts. Insurance providers are making every effort to process the refunds/credits as soon as possible and expect the majority to be complete by June 30, 2018, with a small number occurring after that date.

--Keith
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To: 'Ronald Sanderson' <rsanderson@clhia.ca>; 'keith.martin@cafii.com' <keith.martin@cafii.com>; Jaques, Shawn SCIC <shawn.jaques@scic.gov.sk.ca>; 'Silvia Pozzobon' <Silvia_Pozzobon@cooperators.ca>; 'Brubacher, Mark' <Mark.Brubacher@gwl.ca>; 'Derek.Lothian@ibas.ca' <Derek.Lothian@ibas.ca>; 'Morrison, Tim' <TMorrison@ibc.ca>; 'Drew Kendel' <dkendel@sgi.sk.ca>; Bahr, Perry PEBA <perry.bahr@peba.gov.sk.ca>
Cc: Akpan, Florence FI <florence.akpan2@gov.sk.ca>
Subject: SK PST on Insurance - Information Notices & Bulletin

Hello everyone,

Thank you for the feedback provided in relation to the Information Notices, it is greatly appreciated. I have attached the finalized publications including updated Information Bulletin PST-73.

In order to highlight this information apart from the Budget next Tuesday, these publications will be posted today, Friday April 6th, with the following news release at 1:00 SK time:

AUTOMATIC PST REFUNDS ON CERTAIN TYPES OF INSURANCE

Policy holders of crop, livestock, hail, margin/income, life and health insurance in Saskatchewan will soon receive a sales tax refund or credit from their insurance provider. Refunds and credits are automatic, meaning no action is required of policy holders.

As announced February 26, 2018, Provincial Sales Tax (PST) no longer applies to the following types of insurance:

- Individual and group life, health, disability, accident and sickness insurance; and
- Crop, livestock, hail and margin/income insurance.

The PST exemption on these insurance products is retroactive to August 1, 2017, the date certain insurance premiums became taxable in Saskatchewan.
Insurance providers who collected and remitted the PST will calculate all refunds payable and either credit each policy holder's account or provide a refund. Policy holders do not have to request or submit a claim to their insurance provider or to the government to receive a refund or credit.

Most refunds or credits will be paid by June 30, 2018. If you do not receive a refund or credit by that date, or have questions about the process, please contact your insurance provider.

Please let me know if you have any questions or concerns.

Thank you,
Leslie Jerkovits
Government of Saskatchewan

Government of Saskatchewan
Ministry of Finance

Information Notice

IN 2018-04
Issued April 6, 2018

PROVINCIAL SALES TAX INSURANCE EXEMPTIONS

As publicly announced February 26, 2018, Provincial Sales Tax (PST) no longer applies to insurance premiums for the following types of insurance contracts:

- Individual and group life insurance
- Individual and group health, disability, accident and sickness insurance
- Crop and livestock insurance, hail insurance and margin/income insurance.

The application of PST to these insurance products is further clarified in the sections below.

Insurance Products with Taxable and Exempt Components

When an insurance contract or policy includes both taxable and exempt coverages, the value of the taxable and exempt components must be listed and identified separately in the insurance contract with PST applied to the taxable portions.

If these amounts are not shown separately in the contract or on the invoices issued pursuant to that contract, with tax applied to the taxable portions, PST applies to the total premium charged to the customer.

Credit Protection Insurance

Credit protection insurance, including creditor's group insurance, is exempt from PST.

Note: Credit insurance that protects the lender from default is taxable (e.g. lender's mortgage insurance or mortgage default insurance).

Travel Insurance

Travel emergency medical insurance is exempt from PST.

Travel insurance, such as trip cancellation, trip interruption, trip delay and lost or delayed baggage insurance is subject to tax. As noted above, if taxable and exempt coverages are included together in the policy or contract, and the value of taxable and exempt components are not listed and identified separately, the total premium is subject to PST.

Agriculture Insurance

Taxable Agriculture Insurance

General agricultural policies including coverages such as general liability, farmer's liability, business interruption, aerial application or agricultural aircraft, farm implements and farm machinery, farm buildings and structures etc. are subject to PST.

Exempt Agriculture Insurance

Dedicated policies for crop insurance, agricultural product insurance and livestock insurance are exempt from PST, including the following:

- Contracts of insurance subject to *The Saskatchewan Crop Insurance Corporation Act*, and any insurance product providing similar coverage.
- Contracts of insurance subject to *The Municipal Hail Insurance Act*, and any insurance product providing similar coverage.
- AgriStability and any similar margin support insurance.
- Livestock price insurance protecting against unexpected price declines.
- Livestock insurance to insure livestock against loss through death, sickness, accident and theft.
- Agricultural product insurance covering the product in storage or in transit.

Note: Livestock generally means any animal raised or bred as a commercially produced product for sale or raised or bred for the commercial sale of the products they produce. Agricultural product means a product raised or produced through primary farming activity for the purpose of resale.

As noted above, if taxable and exempt coverages are included together in the policy or contract, and the value of taxable and exempt components are not listed and identified separately, the total premium is subject to PST.

Questions relating to insurance policy coverage and potential refunds or credits of PST should be directed to the insurance provider. Please see Information Notice IN 2018-05, *Provincial Sales Tax Refunds on Insurance Premiums* for information regarding the PST refund process.

For further information regarding the application of PST to insurance contracts please contact the Ministry of Finance or refer to Information Bulletin PST-73, *Information for Vendors of Insurance Contracts*.

FOR FURTHER INFORMATION

Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6

Telephone: Toll Free 1-800-667-6102
Regina 306-787-6645

Email: sasktaxinfo@gov.sk.ca

In-Person: Ministry of Finance
Revenue Division
2350 Albert St
REGINA SK S4P 4A6

Fax: 306-787-9644

Internet: Tax bulletins, forms and information are available here.
Government website: http://www.saskatchewan.ca/

Information Notice

IN 2018-05
Issued April 6, 2018

PROVINCIAL SALES TAX REFUNDS ON INSURANCE PREMIUMS

As publicly announced February 26, 2018, Provincial Sales Tax (PST) no longer applies to insurance premiums for the following types of insurance contracts:

- Individual and group life insurance
- Individual and group health, disability, accident and sickness insurance
- Crop and livestock insurance, hail insurance and margin/income insurance

Please see Information Notice IN 2018-04, *Provincial Sales Tax Insurance Exemptions* and Information Bulletin PST-73, *Information for Vendors of Insurance Contracts* for further clarification regarding PST exempt insurance products.

Refund Process

The PST exemption on the insurance products noted above is extended retroactively to August 1, 2017, the date when insurance premiums became taxable in Saskatchewan. Therefore, any PST collected on these products must be refunded or credited to the customer.

To facilitate the refund process in an efficient manner, the insurance provider who collected and remitted the PST will calculate the PST refund payable and either credit the policy holder's account or provide a refund of the tax paid. Policy holders are not required to request or submit a refund claim to their insurance provider or to the Ministry of Finance. The insurance provider is acting on the policy holder's behalf by dealing directly with Finance for the refund claims.

The refund/credit process involves a large number of policy holder accounts. Insurance providers are making every effort to process the refunds/credits as soon as possible and expect the majority to be complete by June 30, 2018, with a small number occurring after that date. Policy holders with questions related to their insurance policies and potential refunds or credits of PST should contact their insurance provider before contacting Finance.

Please note there is no credit or refund of PST paid on insurance policies that include both taxable and exempt coverages when the taxable and exempt coverage values are not listed and identified separately in the contract of insurance. These insurance policies remain taxable.

Ministry of Finance Refunds to Insurance Providers - Documentation Required

Insurance providers requesting a refund of PST from Finance for PST refunded to their customers are required to submit the following information:

- The amount of PST being claimed for each type of insurance
- A description of each type of insurance relating to the refund claim

Finance may contact the applicant if further information is required.

Insurance providers with questions related to submitting refund claims may contact Rachel Knudsen at rachel.knudsen@gov.sk.ca or (306)787-6661. Refund claims and supporting documentation may be submitted to PSTRefunds@gov.sk.ca or mailed to the address noted below.

Insurance providers with questions related to administering the PST refunds/credits to their customers may contact:

Leslie Jerkovits	306-787-7768	leslie.jerkovits@gov.sk.ca
Florence Akpan	306-787-0577	florence.akpan2@gov.sk.ca

FOR FURTHER INFORMATION

Write:	Ministry of Finance Revenue Division PO Box 200 REGINA SK S4P 2Z6	Telephone: Email:	Toll Free 1-800-667-6102 Regina 306-787-6645 sasktaxinfo@gov.sk.ca
In-Person:	Ministry of Finance Revenue Division 2350 Albert St REGINA SK S4P 4A6	Fax:	306-787-9644

Internet: Tax bulletins, forms and information are available here.

Government website: http://www.saskatchewan.ca/

Government of Saskatchewan
Ministry of Finance

Information Bulletin

PST-73 **Issued: May 31, 2017** **Revised: April 6, 2018**

PROVINCIAL SALES TAX ACT

INFORMATION FOR VENDORS OF INSURANCE CONTRACTS

This bulletin has been prepared to assist you in applying the Provincial Sales Tax (PST) to contracts of insurance and benefits plans. It is a general guide and not a substitute for the legislation.

Changes to this bulletin are indicated by a bar (|) in the left margin.

The contents of this bulletin are presented under the following sections:

A. Definitions
B. Registration Requirements
C. Collection and Remittance of Tax
D. Fees and Charges in Relation to Insurance Contracts
E. Taxable Insurance Contracts
F. Insurance Contract Exemptions
G. Agriculture Insurance
H. Insurance Sales to First Nations
I. Allocation for Taxable and Exempt Coverage
J. Endorsements (Amended Coverage)
K. Refunds and Amendments
L. General PST Requirements for Businesses
    - Sales of Used Business Assets
    - Goods and Services for Your Own Use
M. Purchases Related to an Insurance Claim
N. Saskatchewan Electronic Tax Service (SETS)

A. DEFINITIONS

'Contract of insurance' includes any policy, certificate, interim receipt, renewal receipt, endorsement or writing evidencing the contract of insurance, whether sealed or not.

'Insurance' means the undertaking by one person to indemnify another person against loss or liability for loss with respect to certain risks or perils to which the object of the insurance might be exposed or to pay a sum of money or other thing of value on the happening of a certain event and, without limiting the generality of the foregoing, includes life insurance.

'Insurer' means any person who undertakes or effects, or agrees or offers to undertake or effect, a contract of insurance.

'Ordinarily Resident' means an individual's place of residence at the time of premium payment. Place of residence will be determined by applying criteria similar to that applied or used for income tax purposes, meaning that an individual will be considered to reside in Saskatchewan when that person has significant residential ties, such as their dwelling place, spouse or common-law partner, and dependents.

'Premium' means the single or periodic amount due as consideration under a contract of insurance, including all dues, assessments, transaction fees, processing fees, policy fees, administration fees and any other consideration due for the administration or servicing with respect to the contract of insurance.

B. REGISTRATION REQUIREMENTS

Businesses that sell insurance contracts to consumers in Saskatchewan or in respect of properties located in Saskatchewan must become licensed as a vendor under *The Provincial Sales Tax Act* (The PST Act), to collect and remit PST on insurance premiums. This includes:

- Insurance companies;
- Insurance brokers, agents and third party administrators;
- Reciprocal exchange groups, associations and fraternal societies;
- All other vendors that sell taxable insurance contracts; and
- Administrators of self-insured group arrangements or administrative services only (ASO) agreements.

The Application for Vendor's Licence form is available on our website here.

An insurance company's obligations as a vendor may be fulfilled by having the agents or brokers selling their contracts collect and remit the tax on their behalf (in which case, the agent or broker must also be a licensed PST vendor). However, as insurance contracts are between the insurance company and the customer, the insurance company is responsible for the collection and remittance of tax on contracts where a broker or agent does not collect the tax.

C. COLLECTION AND REMITTANCE OF TAX

PST is due at the time of sale, purchase, or renewal, on the total premium amount as specified in the contract of insurance.

Generally, if the terms of the insurance contract specify that the premiums are due monthly, quarterly, or annually, then the PST is payable on the due date of the premium.

For some categories of insurance it is common practice among insurers, agents or representatives to extend a payment term option to their customers on the full premium due (i.e. payments may be made on the full premium amount in equal monthly instalments rather than as a single payment). If the premium is financed by the insurer, the agent, or representative the PST is payable on the full amount of the premium at the due date determined in the policy.

Example:

A home insurance policy states that the premium amount of $1,200 is due once per year (i.e. annual renewal). The customer can choose to pay this premium all at once, or the broker may provide the customer with an option to pay by monthly installments (i.e. 12 payments of $100). PST of $72 (6% x $1200) is also due once per year, and is to be collected and remitted at the time of the premium renewal, not collected on the monthly payment amounts.
PST collected must be remitted on the vendor's next PST return, due on 20th day of the following month.

For additional information on filing your tax return see Information Bulletin PST-5, *General Information*.

Insurance Purchased From an Unlicensed Vendor

When a taxable insurance contract is purchased from an insurance company that is not licensed to collect the PST, the customer must self-assess and remit the tax directly to the Revenue Division. Individuals must pay the tax using a Casual Return Form. Businesses are required to self-assess the tax and report it on their PST return. PST is payable at the time of purchase.

The Casual Return Form used to self-assess and report the tax is available on our website here.

D. FEES & CHARGES IN RELATION TO INSURANCE CONTRACTS

The PST at the rate of 6 per cent applies to the total premium charged under taxable contracts of insurance.

The total of all fees and charges invoiced in relation to a taxable insurance contract are subject to tax, including:

- Premiums (gross amount of the premium, including broker fees and/or commissions);
- Administration fees;
- Placement fees;
- Risk consultation fees; and
- Enrollment fees.

The following charges are not subject to PST if listed and shown separately:

- Financing fees applied when customer opts to pay by instalments; and
- NSF fees.

E. TAXABLE INSURANCE CONTRACTS

PST applies to the total premium charged for contracts of insurance that are effective on or after August 1, 2017, with the exception of those listed as exempt in Sections F, G and H of this bulletin.

For taxable insurance contracts all premiums that are payable and relate entirely to a coverage period on or after August 1, 2017 are subject to PST.

The following are examples of insurance contracts that are subject to PST:

- Insurance on goods, land, buildings and any other property located in Saskatchewan (property includes vehicles not registered under *The Traffic Safety Ac*t)
- Insurance on vehicles registered under The *Traffic Safety Act*, including extended vehicle insurance, such as Auto Pak policies
- Self-insurance (for taxable insurance)
- Liability insurance
- Credit insurance protecting lender against default (I.E. lender's mortgage insurance or mortgage default insurance)
- Surety, fidelity and guarantee insurance
- Aircraft insurance
- Cargo Insurance / Goods in transit insurance – where goods originate in Saskatchewan
- Builder's risk insurance
- Title insurance
- Identity theft insurance*
- Executor insurance – regardless of where the estate is located*
- Travel insurance such as trip cancellation, trip interruption and lost or delayed baggage insurance*
- Agriculture insurance described in Section G under Taxable Agriculture Insurance

** PST applies to Saskatchewan residents only. See Section I for information on allocating for taxable and exempt coverage.*

F. INSURANCE CONTRACT EXEMPTIONS

The following insurance contracts are not subject to PST:

- Individual and group life insurance
- Individual and group health, disability, accident and sickness insurance
- Agriculture insurance described in Section G under Exempt Agriculture Insurance
- Credit protection insurance, including creditor's group insurance
- Travel emergency medical insurance, when the value is listed and identified separately from taxable travel insurance
- Reinsurance contracts
- Annuity contracts
- Property insurance for property located outside Saskatchewan
- Liability insurance covering risks, perils or events that relate wholly to an activity or location outside Saskatchewan
- Contributions or premiums paid under the *Canada Pension Plan, Employment Insurance Act (Canada)* and *The Workers Compensation Act, 2013*
- Insurance contracts purchased by federal government departments and agencies

Note: Taxable insurance contracts **are** subject to PST when purchased by:

- Federal government Crown corporations,
- Provincial government ministries, agencies or Crown corporations, or
- Any other level of government (e.g. municipalities, RMs, etc.).

G. Agriculture Insurance

Exempt Agriculture Insurance

Dedicated policies for crop insurance, agricultural product insurance and livestock insurance are exempt from PST, including:

- Contracts of insurance subject to The Saskatchewan Crop Insurance Corporation Act, and any insurance product providing similar coverage.
- Contracts of insurance subject to The Municipal Hail Insurance Act, and any insurance product providing similar coverage.
- AgriStability and any similar margin support insurance.
- Livestock price insurance protecting against unexpected price declines.
- Livestock insurance to insure livestock against loss through death, sickness, accident and theft.
- Agricultural product insurance covering the product in storage or in transit.

Note: Livestock generally means any animal raised or bred as a commercially produced product for sale or raised or bred for the commercial sale of the products they produce. Agricultural product means a product raised or produced through primary farming activity for the purpose of resale.

Hobby farms are excluded from the exemptions for agriculture insurance described above. A hobby farm is generally operated for recreation, without the expectation of profit and not as the primary source of income for the owner.

Taxable Agriculture Insurance

Coverages that are not listed above under Exempt Agriculture Insurance are subject to PST. This includes policies such as:

- General liability insurance
- Farmer's liability insurance
- Business interruption insurance

- Farm implement and farm machinery insurance
- Insurance for farm buildings and structures
- Aerial application and agricultural aircraft insurance
- Insurance for farm inputs such as feed/fodder, fertilizer, or chemicals
- Agriculture insurance policies that include both taxable and exempt coverages when the value of taxable and exempt premiums are not listed and identified separately in the policy. If taxable and exempt premiums are listed and identified separately in the policy, PST applies to only the taxable components.

H. INSURANCE SALES TO FIRST NATIONS

Contracts of insurance purchased by Status Indians, Indian Bands or non-commercial band-empowered entities pertaining wholly to their property situated on a reserve as defined in the *Indian Act* (Canada) are exempt from PST providing:

- The purchaser's *Certificate of Indian Status Card* number or band number is recorded on the invoice, and
- The purchaser completes an ***Exempt Sales Certificate*** (or equivalent authorized by Finance) attesting that the insurance purchased by the Status Indian, Indian Band or non-commercial band-empowered entity pertains wholly to their property situated on a reserve as defined in the *Indian Act* (Canada).

  The *Exempt Sales Certificate* for insurance is available on our website here.

The complete 10 digit card number must be recorded on the sales invoice. If the federal identification card number is only three to five digits, record the number and the name of the band on the sales invoice.

The exemption from PST does not extend to insurance contracts purchased by corporations owned by Status Indians or Indian Bands, whether located on or off reserve. No exemption is provided where the purchase is made in the name of a commercial Indian corporation.

A joint purchase between a status Indian and non-status individual is also subject to tax.

Proration will be necessary when the insurance pertains to subject matter that is both on-reserve and off-reserve.

I. ALLOCATION FOR TAXABLE AND EXEMPT COVERAGE

1) Taxable and Exempt Components

When an insurance contract contains both taxable and exempt coverages, the value of the taxable and exempt components must be listed and identified separately in the insurance contract, with PST applied to the taxable portions.

If these amounts are not listed and identified separately, PST applies to the total contract value unless proration is possible as set out below.

2) **<u>Prorating for Insurance Contracts that Cover Multiple Jurisdictions</u>**

Insurance contracts that include coverage with respect to matters outside Saskatchewan are taxable on the portion that relates to Saskatchewan. The allocation to Saskatchewan is to be determined on the basis that is most reasonable in the circumstances, such as:

- The insured value of property in Saskatchewan as a percentage of the total insured value of property in all jurisdictions
- For contracts covering employees both inside and outside Saskatchewan, the portion that covers Saskatchewan based employees.
- For railways, interprovincial carriers and international carriers, the distance travelled in Saskatchewan as a percentage of the total distance travelled.

Examples of Proration for Property Insurance

The taxable value is the amount T calculated using the following formula:
T = P/I x C

Where:

P - is the total insured value of the contract of insurance in or relating to Saskatchewan,
I - is the total insured value of the contract of insurance, and
C - is the total premium due for the entire contract of insurance

<u>Example 1</u>:

A person insures a house in Saskatchewan for $800,000 and a cottage in Alberta for $200,000 under one insurance policy. The annual policy premium amount is $2,000. PST does not apply on the insurance that relates to the Alberta cottage if the coverage is listed and identified separately on the invoice.

If the premium is not shown separately, the taxable value (T) for application of the PST may be calculated using the formula as follows:

T = (800,000/(800,000+200,000))x2,000 = $1,600

<u>Example 2</u>:

A Status Indian, who is a farmer with farmland both on and off reserve, purchases insurance wherein the farmland on reserve is valued at $500,000 and the farmland off reserve is valued at $1,500,000. The policy specifies that premiums of $400 are due monthly. PST does not apply to the insurance related to the on-reserve farmland; therefore the insurance contract for the farmland must be prorated to only apply PST to the off-reserve land.

The taxable portion of the monthly premium (T) for application of the PST may be calculated using the formula as follows:

T = (1,500,000/(500,000+1,500,000))x$400 = $300

J. ENDORSEMENTS (Amended Coverage)

Endorsements added to an insurance contract on or after August 1, 2017, will follow the tax status of the premiums for that insurance contract.

K. REFUNDS AND AMENDMENTS

Cancelled or Reduced Coverage

When a taxable insurance contract is cancelled or the coverage is reduced before the end of the term, any refunded insurance premiums should include the proportionate PST amount. The tax that is refundable is based on the refundable insurance premiums.

Example:

A taxable insurance contract valued at $1,000 is entered into on October 1, 2017. The total payable for the contract including PST is $1,060. Part way through the coverage period, the contract is cancelled and $400 of the insurance premium is refunded. PST of $24 ($400 x 6%) is refundable for a total refund amount of $424. The vendor of the contract can deduct the PST refunded from their tax collected in the period and remit the net amount on their PST return form.

Note: PST refunds can only be claimed within four years from the date of overpayment.

Please see Information Notice IN 2018-05, *Provincial Sales Tax Refunds on Insurance Premiums* for information regarding refunds of PST related to the exemptions announced on February 26, 2018 for life, health and certain agriculture insurance.

L. GENERAL PST REQUIREMENTS FOR BUSINESSES

Sales of Used Business Assets

Businesses are required to collect tax on the sale of used assets, such as vehicles and equipment. When used assets are being sold as part of the closure of a business, the purchaser is required to self-assess and report the tax.

When individuals purchase used goods for personal use, other than vehicles, tax applies to the selling price of the goods less a deduction of $300 per item. If a trade-in is involved, the purchaser is entitled to a deduction of $300 or the value of the trade-in, whichever is greater. If the goods are for commercial use, the $300 deduction does not apply.[1]

Goods and Services For Your Own Use

Businesses are required to pay tax on purchases of new and used equipment, supplies and taxable services purchased for use in their business operations. Tax is payable as follows:

- When purchased from a licensed supplier, the tax must be paid to the supplier at the time of purchase.

[1] Information Bulletin PST-58, *Information on the Taxation of Used Goods*

- When purchased from a supplier who did not collect the tax, or when taken from an exempt resale inventory, the tax must be self-assessed and remitted with the regular tax return. This includes goods taken for personal or business use.
- When purchased from an unlicensed supplier located outside Saskatchewan, the tax must be self-assessed and remitted with the regular tax return on the laid down cost, which includes currency exchange, transportation charges, customs and excise duties, and importation charges; but not the GST.

M. PURCHASES RELATED TO AN INSURANCE CLAIM

PST applies to taxable goods and services purchased in connection with an insurance claim. For example, when services are purchased to repair a damaged vehicle as part of a claim, the service provider is required to collect PST on this taxable service.

N. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

Finance has made it possible to report and remit tax electronically through the use of a standard Internet connection. SETS offers a secure, fast, easy and convenient alternative to filing returns in paper format. Several E-File services are currently available through SETS.

Businesses may use SETS to file and pay returns for PST and other provincial taxes.

SETS allows businesses to:

- file and pay returns or make payments on account;
- file a return and post-date the payment to the due date;
- view account balance and statement information;
- authorize your accountant to file on your behalf; and
- subscribe to an email notification service that allows the option to be notified by email that a tax return should be filed. This replaces the paper forms normally received in the mail.

FOR FURTHER INFORMATION

Write:	Ministry of Finance Revenue Division PO Box 200 REGINA SK S4P 2Z6	Telephone: Email:	Toll Free 1-800-667-6102 Regina 306-787-6645 sasktaxinfo@gov.sk.ca
In-Person:	Ministry of Finance Revenue Division 2350 Albert St REGINA SK S4P 4A6	Fax:	306-787-9644

Internet: Tax bulletins, forms and information are available here.

To receive automatic email notification when this or any other bulletin is revised, click here and then click the "Subscribe" button.

Government website: http://www.saskatchewan.ca/

The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

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9 March, 2018

Mr. J. Scott Moore
Deputy Superintendent, Financial Institutions
Financial Institutions Regulation Branch, Government of Manitoba
207-400 St. Mary Avenue
Winnipeg MB R3C 4K5
scott.moore@gov.mb.ca

Re: Single Premium Creditors Group Insurance Policies

Dear Mr. Moore:

The Canadian Association of Financial Institutions in Insurance (CAFII) appreciates the opportunity to provide Manitoba's Financial Institutions Regulation Branch with information about single premium creditors group insurance policies, in response to questions raised during CAFII's October 19/17 liaison meeting with the Insurance Council of Manitoba, which you attended, and an ensuing email exchange on this topic.

There is significant variance among CAFII members on the question of whether or not they offer single premium creditors group insurance policies; and the specifics of any product that is offered on a single premium basis also differ from member to member.

That said, however, there are a number of key distribution characteristics common to single premium policies that are offered by our members, including adherence to applicable regulations; adherence to CLHIA Guideline G7 on Creditors Group Insurance[1]; and a commitment to full consumer disclosure of the terms and conditions associated with this type of policy.

Single premium Insurance is a traditional form of creditor's group insurance, which is typically offered in connection with a new fixed term/amortized debt obligation of under 10 years duration, with repayment terms varying by lending institution.

With respect to the coverage, single premium creditors group insurance may be life insurance or critical illness insurance, which typically pays the entire insured amount (i.e. the outstanding loan balance) upon an approved claim. Alternatively, the coverage may be disability or loss of employment insurance, which typically pays the monthly loan obligation (selected at time of issue) upon an approved claim.

The full amount of the insurance premium is known at the time the associated debt is arranged, and the full amount of premium is considered to be paid all at once, at the time of issue (it may be paid in cash, or it may be added to the debt and financed): hence, the name "single premium" creditors group insurance.

[1] All members of CAFII are also members of CLHIA with the exception of American Express Bank of Canada.

In your recent follow-up note to our Association, you referenced some consumer complaints related to refunds for single premium insurance coverage at the time the policy was cancelled. Since the full amount of premium is paid at issue, a debtor-initiated cancellation will result in a refund, the details and calculation of which are explained in the Certificate of Insurance.

All of the above features are factored into the pricing of the insurance coverage and, hence, the resulting single premium. While practices at each insurer will vary, all of the above information is clearly disclosed on the enrolment form and throughout the enrolment process, and it is summarized in an acknowledgement section that the debtor must sign.

Nearly all CAFII members are members of the CLHIA and – as distributors and/or underwriters of creditor's group insurance including, in some cases, single premium creditor's group coverage -- they adhere to the best practices outlined in *CLHIA Guideline G7, Creditor's Group Insurance*. This means that at the point of sale, the amount and duration of the insurance must be clearly disclosed to the debtor in a distinct transaction. In addition, insurance features must be similarly disclosed during that transaction, including eligibility criteria, the voluntary nature of the product, the minimum "free look period", the fact that the insurance is cancellable, the amount of the premium, and the impact of any refinancing of the debt on the insurance coverage.

In addition, under CLHIA G7, a Certificate of Insurance must be provided to the insured debtor with the insurer's name and contact information; description of the insurance features; information about important exclusions, restrictions, and limitations; the voluntary nature of the product; when insurance coverage begins/ends; claims procedures; where benefit proceeds will be directed; and circumstances under which the debtor is eligible for a refund. This information may also be provided in a summarized, key features document.

Further, with reference to refunds, these must be made promptly; the amount must be related to the insurance premium; and the method to calculate the refund must be clearly disclosed in the Certificate of Insurance.

In addition, CAFII members are committed to training their employees and, in the case of member insurers, their distributors, so that they adhere to these principles. Under CLHIA G7, training must include information about all of the items listed above; and insurers are accountable for the training of lenders who distribute their products, and for ensuring that training activity is monitored. As well, the federally regulated financial institution members of CAFII must comply with the staff training and other commitments set out in the Canadian Bankers Association Code of Conduct for Authorized Insurance Activities.

To sum up, based on their adherence, as applicable, to CLHIA Guideline G7; the CBA Code of Conduct for Authorized Insurance Activities; and their commitment to the fair treatment of consumers, those CAFII members that do offer single premium policies are doing so in a manner that is appropriate, including full consumer disclosure of the features of this type of policy.

Thank you again for the dialogue which CAFII representatives had with you and ICM officials last Fall on this matter; and for this follow-up opportunity to share the key features of single premium creditor's group insurance policies with you, in writing. Should you require further information or wish to meet with representatives of our Association at any time, please contact Keith Martin, CAFII Co-Executive Director, at keith.martin@cafii.com or 647-460-7725.

Sincerely,

Peter Thorn
Board Secretary and Chair, Executive Operations Committee

c.c. Barbara Palace Churchill, Executive Director, Insurance Council of Manitoba
bpalacechurchill@icm.mb.ca

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; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players American Express, Assurant Solutions, Canadian Premier Life Insurance Company, and The CUMIS Group Ltd.

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<u>Summary of Meeting between CAFII and Board Members of the Financial Services Regulatory Authority (FSRA) of Ontario, 11am-12pm, Tuesday, 6 March, 2018</u>

A CAFII delegation met with the three founding members of the Board of the Financial Services Regulatory Authority (FSRA) of Ontario, from 11am-12pm on Tuesday, 6 March, 2018. The meeting was held at the temporary offices of FSRA at 130 Adelaide Street West, Toronto, Ontario.

<u>Attending From CAFII were:</u>
Pete Thorn, TD Insurance and EOC Chair
John Lewsen, BMO Insurance
Sue Manson, CIBC Insurance
Huma Pubani, TD Insurance
Brendan Wycks, Co-Executive-Director, CAFII
Keith Martin, Co-Executive-Director, CAFII

<u>Attending From FSRA were:</u>
Bryan Davies, Chair, Board of Directors, FSRA
Judith Robertson, Board Member, FSRA
Kathryn Bouey, Board Member, FSRA

The meeting was notable for the open and vibrant dialogue. The FSRA board members, led by Mr. Davies, said they wanted to listen and hear from CAFII on our priorities. They asked questions, were engaged, took notes, and were very open and forthcoming in their responses.

They emphasized that consultation was critical for FSRA to succeed, both prior to its formal launch as well as when it is up-and-running as Ontario's new financial services regulator.

CAFII mentioned that it is expanding its membership, will focus more on research in future, and has launched a new website that is consumer-focused. Mr. Davies said that CAFII's research outputs would be valuable to FSRA. He also said he was interested in our new website, took down the URL address, and said he would visit it.

CAFII emphasized its efforts to engage with insurance regulators and policy-makers in all the provinces regularly, and Mr. Davies supported that. Judith Robertson said that financial and insurance industry regulations should not be hastily developed in response to a crisis, but should be the result of careful deliberations. She said regulators often feel at a disadvantage in terms of knowledge relative to those who work in the industry, and that successful regulation requires speaking to, consulting with, and listening to the expertise and knowledge of those in the industry.

CAFII emphasized that the insurance sector has unique characteristics, especially life and health insurance, and that a top priority for our Association was for the FSRA Board (of up to 11 Directors, under the enabling legislation) to include at least one Director with a strong background and/or expertise in the health and life insurance industry, who could share his/her expertise in Board deliberations. There was head-nodding and agreement from the three FSRA Board members on this recommendation.

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Mr. Davies said that while the Ontario government appoints FSRA's Board members, recommendations for new Director appointees are made to the government by the existing Board members.

Furthermore, Mr. Davies advised, in a departure for the Ontario government from its usual practice up to this point in time, the founding CEO of FRSA, a position which is currently being recruited for, will be appointed directly and solely by the FSRA Board. Mr. Davies added that with the appointment of three additional FSRA Directors that very morning, there were now six members of the FSRA Board; and with the enabling legislation allowing for up to 11 Directors; there will be further appointments. *(One additional FSRA Director, Lawrence Ritchie, was announced on March 20/18, bringing the current total to seven (7).)*

Mr.Davies indicated that FSRA Director appointments are for two years, twice renewable (up to 6 years tenure, in total). The Ontario government will probably start to stagger the appointments for the remaining Director appointees. Mr. Davies will ask for his appointment to be extended by at least one year, so he can provide continuity in working with the founding CEO. The FSRA Board very much wants a CEO to be in place as soon as possible—and hopefully no later than the summer of 2018—so that they as Board members can move from being "managing directors" who are "running the place" to a more appropriate role as governance authorities overseeing management, without having operational involvement in the day-to-day running of the organization. *(See Appendix A for a list of the four recently appointed FSRA Board members, including recent CAFII Annual Members Luncheon speaker Richard Nesbitt.)*

In commenting on the recently posted recruitment advertisement for the founding FSRA CEO, Mr. Davies noted that they were looking for someone "who can walk on water." He added that "it takes two to dance" and that perhaps they will love someone who does not love them back—or who does not love government salaries, noting that while FSRA has some leeway to operate outside of strict government pay bands, the salary for the role cannot match what comparable CEO positions in the private sector typically pay, i.e. "what your industry pays." These comments and the tone in which they were delivered reinforced an impression that FSRA is looking for a leader with a strong private sector background. *(See Appendix B for the FSRA CEO job description.)*

Mr. Davies made a pointed comment in response to a CAFII comment that while we supported FSRA having rule-making authority, it was critically important that FSRA continue FSCO's model of using a principles-based approach in its regulation of the insurance industry. Mr. Davies said that the bedrock beneath any rules-making authority had to be a principles-based regulatory philosophy, and that not only does he not see any conflict or dichotomy between the two, he firmly believes that rules-making authority requires the foundation of a principles-based approach to regulation beneath it, if it is to be successful.

On the matter of consultations with the industry, it was mentioned that CAFII participates in a recently created Life Insurance Industry Working Group at FSCO, and that we encouraged that kind of consultation process as it did not seek our views just prior to the launch of a regulatory initiative, but rather began the conversation earlier and allowed for dialogue and exploration of emerging issues. Mr. Davies and his fellow FSRA Board members indicated their support of that type of approach.

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It was noted by Ms. Robertson that there had been a dramatic under-investment in technology at FSCO, and that reversing this and investing in new technologies would be a key priority for the FSRA Board and its CEO and management team. Mr. Davies noted that this included investing in programs and technologies that made it easier for the regulator to know proactively and early on where there were behaviours inconsistent with the regulations.

Mr. Davies confessed to having a knowledge gap about whether provincially regulated insurance companies whose parents are federally-regulated banks were themselves subject to federal regulations; and, in that connection, he queried whether the FCAC's investigation of the alleged aggressive sales tactics of banks had touched CAFII members and their insurance operations. It was explained that banks' sales of insurance was not the principal focus of the FCAC investigation, but it would be relevant to the insurance arms of banks if any inappropriate sales practices touched on CGI or other products that CAFII members distribute.

CAFII's representatives emphasized how important it was for the provincial insurance regulators to take a nationally harmonized approach to their work. CAFII urged FSRA to play a leadership role in this, and in promoting CCIR's efforts to have a nationally coordinated approach, where possible, to regulation.

Mr. Davies mentioned that he had thought, dating back to conversations five years ago or so, that CCIR was not particularly effective; and in response to our suggesting that currently it was a very effective and important player in the regulatory space, he said he was pleased to hear that and would encourage further efforts on harmonization.

It was mentioned that CCIR and FSCO were simultaneously developing guidelines on treating consumers fairly, and that this was an example of nearly identical but yet separate and seemingly unharmonized initiatives that might be better developed in a co-ordinated fashion. The FSRA Board members listened attentively to this example and took notes about it.

CAFII mentioned that there were dramatic changes taking place in the industry, with new technologies, and the emergence of potentially disruptive new entrants. Consumers were increasingly open to securing insurance coverage through new channels including the internet and digital devices; and giving consumers a high degree of choice in how they can access insurance products and services was a primary policy of our Association.

Mr. Davies agreed that there was dramatic change taking place and said that a successful FSRA had not just to be relevant today, but needed to be structured so that it could adjust to the world in five years. He stressed that FSRA's mandate to be a more responsive and decisive regulator, with more authority to respond to new developments independent of government oversight, was in response to that requirement. He said that given the pace of change in the industry, it was more important than ever for Ontario's new financial services regulator to be in close touch with industry.

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It was noted that Quebec's AMF, among Canada's provincial/territorial insurance regulators, has traditionally been the most engaged with international bodies such as the International Association of Insurance Supervisors (IAIS) -- partly because there was a desire in Quebec to be represented on such international bodies, but importantly because the AMF was so well-supported and had more resources and deeper budgets than other provincial regulators. With FSRA gaining additional authority and becoming a potentially better resourced organization than FSCO has been, it was suggested that FSRA might play a larger role in the international space, as would be befitting for the province with Canada's largest populace and economy. All three FSRA Board members seemed interested and positive about that idea, and Ms. Robertson said that this was definitely one of the areas FSRA should explore.

In conclusion, Mr. Davies that there was no need to "blow up FSCO" and that there was expertise and historical knowledge in that organization that made it worthwhile to migrate much of the talent from FSCO to FSRA. In addition, there were collective agreements in place with FSCO staff that would need to be respected; FSRA would not be building its new mandate from a blank slate.

In response to CAFII's directly extended invitation, Mr. Davies indicated that he was interested in our invitation to be the guest speaker – on FSRA's progress, plans, and priorities – at one of the Association's two upcoming Receptions events in Toronto, on either Tuesday, April 17/18 or Tuesday, June 5/18. He said that if FSRA's founding CEO was appointed and had started in the job by then, he would try to have him or her come with him and the two of them could jointly speak at the CAFII event, in a tag-team approach.

For further details, see Appendix A for the announcement of three new FSRA Directors; and Appendix B for the FSRA job recruitment advertisement.

Appendix A

http://www.fsrao.ca/en/news-and-updates/announcement

Announcement
March 6, 2018: FSRA Announces New Board of Directors Appointments

Bryan Davies, Chair, is pleased to announce the following appointments to the Financial Services Regulatory Authority (FSRA) Board of Directors:

- Blair Cowper-Smith is a former Partner at McCarthy Tetrault where he held leadership roles including board membership and the leadership of professional teams including private equity. In addition, he is former Executive Vice-President and Chief Corporate Affairs Officer at OMERS. Mr. Cowper-Smith's community involvement includes being Director of the Face the Future Foundation, former Director of the Heart and Stroke Foundation, and former Director and Co-Founder of the Canadian Coalition for Public Private Partnerships. Mr. Cowper-Smith holds a Bachelor and Master of Laws degree from Osgoode Hall Law School.

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- Brigid Murphy has held a number of senior positions at Travelers Canada, including Vice-Chair, and President and CEO. In addition, she is former Director of General Insurance Ombudservice and former Director of the Insurance Bureau of Canada. Ms. Murphy's community involvement has included being Chair of the Board and of the Executive and Fundraising Committees of the George Hull Centre for Children and Families, and volunteering with the United Way.

- Richard Nesbitt is CEO of Global Risk Institute in Financial Services, which is building a globally recognized research organization in management of emerging risks. He is also a Visiting Professor at the London School of Economics, United Kingdom, an Adjunct Professor at the Rotman School of Management, University of Toronto, and Chair of the Advisory Board of the Mind Brain Behaviour Hive at the University of Toronto. At Rotman, Mr. Nesbitt created and teaches a course entitled "How Banks Work: Management in a New Regulatory Age". An active public speaker, he presents on the topics of risk management and securities market structure. Mr. Nesbitt co-published (with Barbara Annis) "Results at the Top," a book on the issue of men's responsibility for gender diversity to improve their organizations (Wiley 2017).

The new members join three founding board members appointed when FSRA was established in June 2017 - Bryan Davies, Kathy Bouey and Judith Robertson.

"We are pleased to welcome Blair, Brigid and Richard to the FSRA Board of Directors. Their unique financial services, governance and regulatory knowledge and expertise will help FSRA deliver on its mandate as a modernized, adaptive financial services regulator. Strong strategic leadership, oversight and sector experience is essential to building the regulator of the future," said Board Chair Bryan Davies. Biographical information on all Directors is available on the Governance section of the FSRA website at www.fsrao.ca/en/governance.

March 20, 2018: Bryan Davies, Chair, is pleased to announce that Lawrence E. Ritchie has been appointed to the Financial Services Regulatory Authority (FSRA) Board of Directors.
Mr. Ritchie is a partner at the law firm of Osler, Hoskin and Harcourt LLP. He chairs Osler's cross-disciplinary Risk Management and Crisis Response national practice and co-chairs its Securities Regulatory Enforcement and Broker-Dealer litigation practice. One of the leading securities litigators in Canada, his practice involves dispute avoidance and resolution across a range of capital markets, the financial sector, and other regulated industries and activities, as well as advising clients on class actions, capital markets enforcement and regulatory investigations and related matters.

He has served in a number of positions at the Ontario Securities Commission, including Vice-Chair and member of the Commission, member of the board of directors and executive management and adjudicative committees, and a secondment to the Canadian Securities Transition Office as its Executive Vice-President and Senior Policy Advisor .He represented the OSC at national and international bodies and organizations and, in particular, on the Joint Forum of Canada's Financial Regulators, the North American Securities Administrators Association, and at the International Organization of Securities Commissions. Mr. Ritchie was a member of the Expert Panel Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario.

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The other FSRA board members are Bryan Davies (Chair), Kathy Bouey, Blair Cowper-Smith, Brigid Murphy, Richard Nesbitt and Judith Robertson. Detailed biographical information is available on the Governance section of the FSRA website at www.fsrao.ca/en/governance.

"We are pleased to welcome Larry to the FSRA Board of Directors. His extensive financial services, governance and regulatory knowledge and expertise will help FSRA establish and deliver on its mandate as a modernized, adaptive financial services regulator," said Davies.

About FSRA
FSRA is a new, independent regulatory agency created to improve consumer and pension plan beneficiary protections in Ontario. It was established on the recommendation of an independent expert advisory panel that reviewed the mandates of the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO).

When operational, FSRA will be an innovative, flexible, self-funded regulator capable of responding to the dynamic pace of change in marketplace, industry and consumer expectations. It will regulate many sectors that are important to Ontario consumers and pension plan beneficiaries: property and casualty insurance; life and health insurance; credit unions and caisses populaires; loan and trust companies; mortgage brokers; health service providers (related to auto insurance), and pension plan administrators. At this time FSRA is establishing its organization and developing a transition plan to assume regulatory functions currently under the auspices of other agencies.

For more information, visit www.fsrao.ca or contact inquiries@fsrao.ca.

Appendix B

https://www.odgersberndtson.com/en-ca/opportunities
(under Tab 4 of at least 6 current position tabs at the bottom)
Chief Executive Officer – Financial Services Regulatory Authority of Ontario, Toronto ON

In early 2015, Ontario's Minister of Finance appointed an expert Advisory Panel to review the mandate of three agencies important to the financial well-being of Ontarians: the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST), and the Deposit Insurance Corporation of Ontario (DICO). The Final Report recommended significant reforms to the regulatory landscape, including the establishment of a new, independent and flexible regulator.

Based on the Panel's recommendations, legislation in the 2016 Ontario Economic Outlook and Fiscal Review establishes the initial parameters for the Financial Services Regulatory Authority of Ontario (FSRA), governed by an independent Board of Directors. For more information, visit www.fsrao.ca.

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The FSRA Board's immediate priority is the appointment of a Chief Executive Officer (CEO) to lead the formation and development of an institution that will establish a world-class regulatory system within Ontario's financial services and pension sectors. This is an extraordinary opportunity to play an integral part in shaping a regulatory framework that will enable market participants to respond more effectively to the dynamic changes occurring in the marketplace, and to develop and implement structures and processes to enhance financial services regulation and consumer protection.

Success in this groundbreaking role will require a decisive leadership style in both strategy and execution. The CEO will have superior communications skills and the drive/energy to move multiple projects forward in a fast moving, fluid and evolving environment. This is a complex undertaking, calling for a sophisticated executive with an understanding of regulatory environments and financial services, strategic and operational skills, and proven experience in creating a new organization or facilitating the merger of existing entities.

For more information, please contact: michael.henry@odgersberndtson.com. If you wish to be considered for this position, please submit your cover letter and resume in confidence online below.

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Draft Itinerary For CAFII Liaison Visits Tour To Atlantic Canada Insurance Regulators and Policy-Makers
Sunday, May 13 Through Thursday, May 18, 2018

Sunday, May 13/18

- CAFII representatives fly from Toronto to Halifax (AC flight #620, arriving 9:57 p.m.; or WS flight #252, arriving 8:20 p.m.); pick-up rental car/van; drive to downtown Halifax and check into hotel.

Monday, May 14/18

- Meeting between CAFII representatives and Nova Scotia Superintendent of Insurance William Ngu; Deputy Superintendent of Insurance Jennifer Calder; and other relevant staff members (possibly with Byron Rafuse, Deputy Minister of Finance and Treasury Board, in attendance also) at Superintendent of Insurance office in Halifax: 9:00 to 10:15 a.m.
- CAFII representatives drive to Fredericton, have lunch enroute, arrive approximately 3:15 p.m., and check into hotel.
- Meeting between CAFII representatives and New Brunswick Superintendent of Insurance Angela Mazerolle; David Weir, Deputy Director, Insurance; and other relevant staff members (possibly with Nicole Picot, Deputy Minister of Finance, in attendance also) at FCNB office in Fredericton: 4:00 to 5:00 p.m.
- Overnight stay in Fredericton.

Tuesday, May 15/18

- Meeting between CAFII representatives and Stephen Lund, CEO, and/or other Opportunities New Brunswick staff executive(s) at Opportunities New Brunswick office: 9:15 to 10:15 a.m.
- Lunch meeting between CAFII representatives and Michele Pelletier, Consumer Advocate for Insurance, New Brunswick, at Fredericton restaurant: 11:30 a.m. to 1:00 p.m. (Ms. Pelletier is making three hour drive from office in Bathurst, NB to meet with CAFII in Fredericton).
- CAFII representatives drive to Charlottetown, arrive at approximately 6:15 p.m., and check into hotel. Overnight stay in Charlottetown.

Wednesday, May 16/18

- Meeting between CAFII representatives and PEI Superintendent of Insurance Robert Bradley (Vice-Chair of CCIR); Compliance Officer Phillip McInnis; and other relevant staff members (possibly with Erin Mitchell, Deputy Minister of Justice and Public Safety, in attendance also) at Superintendent of Insurance office in Charlottetown: 9:00 to 10:15 a.m.
- CAFII representatives drive to Halifax airport, have lunch enroute, and arrive at approximately 3:30 p.m., and catch flight to St. John's (WS flight #3424, departing 5:00 p.m. and arriving 7:20 p.m.; Porter flight PD237 departing 8:55 p.m. and arriving 11:10 p.m.; or AC flight #668, departing 9:30 p.m. and arriving 11:30 p.m.). Overnight stay in St. John's.

Thursday, May 17/18

- Meeting between CAFII representatives and Newfoundland Acting Superintendent of Insurance Craig Whalen; and other relevant staff members (possibly with Sean Dutton, Deputy Minister of Service Newfoundland, in attendance also): 10:00 to 11:00 a.m.
- CAFII representatives travel back to St. John's airport and catch flight to Toronto (AC flight #667; departing 1:55 p.m. and arriving 4:00 p.m.; or AC flight #685 departing 2:50 p.m. and arriving 4:52 p.m.)

200-411 Richmond Street E, Toronto, ON M5A 3S5
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info@cafii.com www.cafii.com

Appendix A
CAFII Initiation Member Benefits Proposal

2018 INITIATION MEMBERSHIP APPLICATION FORM

Organization Name: The Canada Life Assurance Company

Representative's Name and Title: David Fear, Senior Vice-President, Creditor Insurance

Address: 330 University Avenue

City: Toronto Province: ON Postal Code: M5G 1R8

Phone - Main: 416-597-1440 Direct: 416-552-5799

Fax: 416-552-6622 Email: david_fear@canadalife.com

Website: www.canadalife.com

Parent Company: Great-West Lifeco Inc.

Asset Size of Corporate Family: $1.35 Trillion

Annual Membership Dues

I. INITIATION MEMBERSHIP

☒ $44,000 ☐ $22,000

Financial organizations involved in the business of insurance in Canada are eligible to apply for Initiation Member status. Initiation Members are entitled to a single vote on Association decisions, regardless of corporate size. Dues are $44,000 per annum for companies with consolidated corporate family assets of $75 billion CAD or greater; and $22,000 per annum for companies with consolidated corporate family assets below that threshold. Dues are payable in equal semi-annual instalments.

CAFII Initiation Membership is valid from January 1 to December 31 each year; and the eligibility period for this membership class is two years.

David Fear

Signature of Applicant:

April 9, 2018

Date:

Information Supplied By OneMain Solutions Canada
In Support Of Its Application For CAFII Associate Status

From: Henryka Anderson [mailto:henryka.anderson@onemainfinancial.com]
Sent: Wednesday, February 07, 2018 2:42 PM
To: Brendan Wycks; Denis Martel
Cc: 'Keith Martin'; 'Daniella Bustamante'; 'Natalie Hill'; 'Tara Moran'
Subject: RE: Follow-up Re CAFII Associate Status Application from OneMain Solutions Canada

Brendan, I've tried to address your questions below in red. As you read, through you'll find that we've been through a number of buys/sells and corporate reorganizations to get to where we are today. However, we have basically manufactured and underwritten the same creditor life, disability and job loss products for the same customer base for at least the last 20 years. We of course have updated our products as required.

There's a great deal of information below, so please feel free to reach out to me should you have any further questions. The history is so familiar to me so I may have skipped some details and my apologies in advance if I did that.

Sincerely,
Henryka

Henryka Anderson
Toll Free: 844-621-8014
Direct: 817-820-5014

From: Brendan Wycks [mailto:brendan.wycks@cafii.com]
Sent: Wednesday, February 07, 2018 10:39 AM
To: Henryka Anderson <henryka.anderson@onemainfinancial.com>; Denis Martel <denis.martel@onemainfinancial.com>
Cc: 'Keith Martin' <keith.martin@cafii.com>; 'Daniella Bustamante' <Daniella@managingmatters.com>; 'Natalie Hill' <Natalie@managingmatters.com>; 'Tara Moran' <taram@managingmatters.com>
Subject: Follow-up Re CAFII Associate Status Application from OneMain Solutions Canada

Hi, Henryka and Denis.

Just want to give you an interim update on your CAFII Associate Status Application and also ask for some additional background information about OneMain Solutions Canada.

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However, even if time does not allow for your Application to be dealt with today, we will still be able to invite up to five (5) representatives from your company to attend our Annual Members' Luncheon in Toronto on Tuesday, February 20; and, similarly, to have up to five (5) representatives attend our CAFII Networking Reception on Tuesday, April 17 from 5:00 to 7:00 p.m., immediately following our CAFII Board Meeting on that day.

All that said, our Board Prep Meeting discussion yesterday did give rise to the following questions about OneMain Solutions Canada – which I'm forwarding to you now in the hopes that you can reply at your earliest convenience:

• what types of creditor's group insurance products do Triton Insurance Company and American Life and Health Insurance Company (AHL) manufacture/underwrite?
Triton Insurance Company manufactures and underwrites Disability and Job Loss group creditor Insurance. AHL manufactures and underwrites group creditor life insurance.

What distribution channels are used for those creditor insurance products? What type/profile of end consumers are those creditor insurance products designed to serve (meet their needs)?
Both Insurance Companies currently distribute only through Fairstone's 200+ lending branches. The creditor products we distribute are designed specifically for the customers of Fairstone and suit the lending products distributed through their branches.

• what types of other insurance products (non-creditor), if any, do Triton Insurance Company and American Health and Life Insurance Company manufacture/underwrite?
No other products are currently manufactured or actively underwritten by either company at this time. Triton assumed some group creditor disability and job loss policies, AD&D and liability policies that are in runoff from the former London & Midland Insurance Company. AHL has group creditor life insurance policies and some individual term life policies assumed from predecessor insurers.

What distribution channels are used for those other insurance products? What type/profile of end consumers are those other insurance products designed to serve (meet their needs)?
The products that have been assumed were marketed to customers of our affiliated lending companies at the time. (Avco, The Associates and CitiFinancial).

• what are the differences between your two insurance companies in terms of products offered, distribution channels utilized, and end consumers served?
Triton provides the group creditor disability and job loss coverage while AHL provides the group creditor life insurance coverages. All distribution channels and customers served are the same as described above.

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- corporate history:

Our recent history – since 1998
1998: AVCO Financial was the parent of London & Midland General Insurance Company (L&M); Two foreign branches Balboa Insurance Company and Balboa Life Insurance Company offered group creditor insurance products (life, dis and job loss) and term life, AD&D etc to the customers of AVCO through their 200+ branches
1999: Associates Financial purchased AVCO and hence L&M; L&M assumes the group creditor disability and job loss policies from Balboa Insurance and that foreign branch is closed. Associates Financial Life foreign branch is created and it assumes the group creditor life insurance policies from Balboa Life and that branch is closed.
2000: Citigroup purchases Associates Financial Life which becomes CitiFinancial Canada, Inc. and via that transaction also purchased L&M and Associates Financial Life in the US and the branch in Canada. Citi had two insurance companies of its own in the US – Triton and AHL.
2003: Citigroup's insurance company American Health and Life mergers with Associates Financial Life in the US triggering a name change for the Canadian branch from Associates Financial Life to American Health and Life (AHL). No further changes to AHL since that time.
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In summary:
AVCO ⍰ Associates Financial ⍰ CitiFinancial Canada, Inc. ⍰ Fairstone Financial Inc.

Balboa Insurance Company + London & Midland ⍰ London & Midland ⍰ Triton Insurance

Balboa Life Insurance Company ⍰ Associates Financial Life Insurance Company ⍰ American Health and Life Insurance Company

-up until 2016/17, were Triton Insurance Company, American Life and Health Insurance Company, and the 217 alternate lender/responsible loan solutions branches across Canada now operated by Fairstone Financial Inc. all part of the same company under the CitiFinancial Canada Inc. banner? No. Please see the history above. The US Citifinancial/OneMain Financial was sold in 2015. As Triton and AHL are foreign branches, they went with the sale thus becoming third party to Citifinancial Canada.

-when and how did OneMain Solutions Canada come into existence through a corporate reorganization and/or rebranding? Please provide a brief description.

Please see the history above. When Citifinancial US rebranded to OneMain Financial, the insurance companies rebranded their group name to OneMain Solutions in 2015. We were previously branded as Citi Assurance Services (CAS).

-when and how was London and Midland General Insurance Company divested from the Citi Financial Canada/OneMain Solutions Canada corporate family? What is the relationship between London and Midland General Insurance Company and OneMain Solutions Canada now, if there is one?
Please see the history above. Triton assumed all polices from L&M. L&M was wound up into CitiFinancial Canada in 2008/9.

-has CitiFinancial Canada Inc./OneMain Solutions Canada ever had a regulatory action/sanction made against it? If yes, how was the matter(s) resolved?
To the best of my knowledge, I don't believe Citifinancial Canada has ever had a regulatory action/sanction made against it. As Chief Agent for the insurance companies, I participated in many of their senior management meetings. OMS Canada or any of the insurance predecessor companies listed in the history above have never had a regulatory sanction/action made against them.

We look forward to receiving your responses to these questions asap, Henryka and Denis, which will help our Board to deal with your Associate Status Application at the earliest feasible opportunity.

Brendan Wycks, BA, MBA, CAE
Co-Executive Director
Canadian Association of Financial Institutions in Insurance
Brendan.wycks@cafii.com
T: 647.218.8243
Alternate T: 647.361.9465
www.cafii.com

From: Henryka Anderson [mailto:henryka.anderson@onemainfinancial.com]
Sent: Friday, February 02, 2018 10:53 AM
To: Brendan Wycks; Denis Martel
Cc: 'Keith Martin'
Subject: RE: CAFII Associate Status Application from OneMain Solutions Canada

Brendan, what you have written below is a very good high level overview of our companies. As we are still developing the Canada website to attach to the US website, there's nothing external I can point you to right now.

OneMain Solutions Canada's distribution channel/partner for the creditor's group insurance products which your two insurance companies – Triton Insurance Company and American Health and Life Insurance Company -- offer to Canadian consumers is predominantly/exclusively Fairstone Financial Inc., the former CitiFinancial Canada.

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2018 INITIATION MEMBER APPLICATION FORM

Organization Name: Triton Insurance Company

Representative's Name and Title: Henryka Anderson, Chief Agent

Address: 1420-380 Wellington Street

City: London Province: Ontario Postal Code: N6A 5B5

Phone - Main: 844-621-8014 Direct: 817-820-5014

Fax: 866-897-8985 Email: henryka.anderson@omf.com

Website: onemainsolutions.com

Parent Company: OneMain Financial

Asset Size of Corporate Family: Unknown

Annual Membership Dues

I. INITIATION

☐ $44,000 ☒ $22,000

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CAFII Initiation Membership is valid from January 1 to December 31 each year; and the eligibility period for this membership class is two years.

[signature]
Signature of Applicant:

April 11, 2018
Date:

As a signing authority, I hereby acknowledge that as an applicant for Initiation Member status in CAFII, my organization supports the Association's mission, objectives, and policy positions. For more information visit www.cafii.com.

Information Supplied By OneMain Solutions Canada
In Support Of Its Application For CAFII Associate Status

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Sent: Wednesday, February 07, 2018 2:42 PM
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CAFII Media Awareness and Training Session

Wednesday, March 28, 2018

SETTING EXPECTATIONS

Part One

STRATEGY2COMMUNICATIONS

Different Media, Different Impact

- Trade Media
- Mainstream Media
- Bloggers

Risks and Rewards

- Print Media
- TV News
- Radio News
- Online News

Implementing an Effective Engagement Strategy

- Relationship Development
- Rapid Response
- Source of Ideas
- Being Prepared
- Direct Communication
- Relevance and Timeliness
- Strategic Use of News Releases
- Temper Expectations

STRATEGY2COMMUNICATIONS

A Model Media Strategy

- Low-risk/Low-profile
- Step-by-Step Approach
- Build Capabilities
- Choose Media Carefully
- Don't Poke The Bear
- Share Results with Stakeholders

STRATEGY2COMMUNICATIONS

MANAGING THE MEDIA

Part Two

STRATEGY2COMMUNICATIONS

Our Goals for today

1. To make you a more effective spokesperson for your organization

2. To make you a more desirable spokesperson for the media

Re Goal 1: How to make you more effective?

In a word: "Preparation"

- Preparation is the most important stage of the process
- Every interview requires preparation. The corollary is, never do an interview on the spot; always take time to prepare

STRATEGY2COMMUNICATIONS

Re Goal 2: How to make you more desirable to media?

Basically, give ‘em what they want …

- You aren’t going to change them.
- They have final say over what goes into the story.
- You will be quoted out of context (by definition!)

… so, what do they want?

What makes it "News"?

- **Timeliness and currency**
  - It's new and people are talking about it (News is perishable; it loses value as it ages.)
- **Significance or Impact**
  - The more it matters, the more people it affects, and the more it affects them, the "newsier" it is
- **Conflict, Controversy**
  - Arguments, debates, fights ("bad" news is more newsy than "good" news - or "good news is no news")
- **Prominence**
  - The more prominent the people (or country) involved, the bigger the news
- **Proximity and Familiarity**
  - "What's it mean to Metro?" (Is it about people who are like me?)
- **Rarity or Oddity**
  - "Man bites dog"
- **Human interest**
  - Affects other people, touches our emotions
- **Usefulness**
  - Is it "news I can use" to solve a problem, make me more knowledgeable?

STRATEGY2COMMUNICATIONS

Why do reporters want to talk to you?

They need **Information**, **Confirmation** or **Reaction**

- You're an expert
  - You have knowledge or information they can't get anywhere else
  - You lend credibility to the story
- You have experience
  - You were an eye-witness or a participant
  - You can provide real-life examples
- You have a stake in the story and/or its outcome
  - You are or will be affected by the issue, or have the power to affect its outcome
  - You have (strong) feelings about the topic
- You have a unique perspective
  - You want to deal with the issue differently than someone else
  - You act as a polarizing force, defining a controversy

STRATEGY2COMMUNICATIONS

What do reporters want to know?

- "Just the facts, Ma'am."
  - **W**ho, **W**hat, **W**here, **W**hen, **W**hy (The Five Ws) … and **H**ow"
- The "Colour"
  - How do you feel?
  - Who are the Victims? Culprits?
  - Could this happen to me? What if this happened to me? What needs to be done so it doesn't happen to me?

And they are going to quote you only if you provide them something quotable – either something you express better than anyone, including your competitors (more concise, more interesting, more clever, etc.) or something that the reporter couldn't express from his own experience (i.e., you were there, he wasn't; you're the expert, he isn't).

STRATEGY2COMMUNICATIONS

How to Prepare. How to become “quotable”.

- The reporter chooses the topic (even if you suggested it) and the reporter picks the questions.
  - You don’t control the questions and you don’t “control” the interview.
  - You do, however, control everything that comes out of your mouth – and that gives you great control over the outcome of the interview.

STRATEGY2COMMUNICATIONS

Preparation

- What is the nature of the news outlet?
  - national, regional, local; print, tv, radio; business focus vs general
- What do we know about the reporter?
  - Have we dealt with her before? What experience have we had? What is her knowledge level? Interview style, attention to detail, balance
  - Previous articles, outlet's usual approach to topic, industry or CAFII, in particular
- Environmental scan:
  - issues in the news, competitors' announcements/comments, analyst reports, government actions, etc.
- What is the stated reason for wanting the interview?
  - Is there a hidden agenda?

Preparation (cont.)

- Reactive vs. proactive
  - First step is to catalogue all likely questions based on your knowledge of the outlet, the reporter, the environmental scan and the Topic – including questions you hope will never be asked! (reactive)
  - Second step is to determine all the possible things that YOU could communicate on the Topic (proactive).

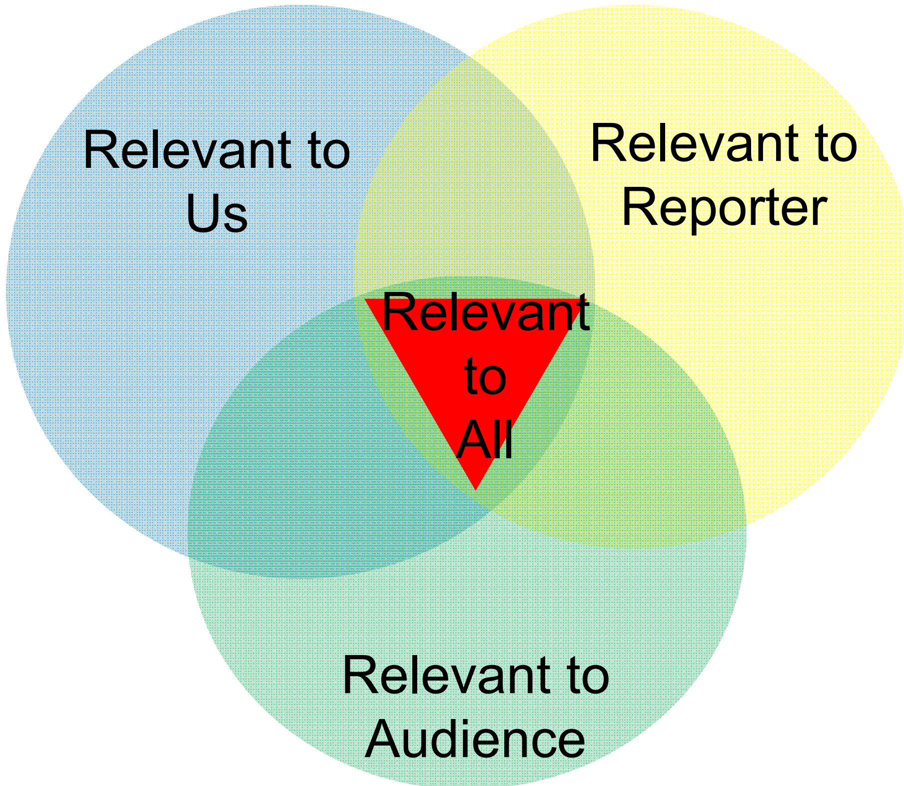
    We call these your message themes.

Narrowing down your message themes

- Limit each message theme to one thought (look for commas, “and’s” or “but’s” and separate them into individual message themes).
- Play to your strengths – your unique perspective, capabilities or knowledge.
- Read your message themes out loud, one by one.
- Are they relevant (to All)?
- Give each a thumbs up or thumbs down.
- Repeat until you’re down to three compelling messages.

S2C STRATEGY2COMMUNICATIONS

Who do your message themes appeal to?



Preparing Media Messaging

- For each of your three messages, you need to figure out how to get the reporter to pick up on them. You will need:
  - proof points (factoids, statistics)
  - stories, anecdotes
  - "sound bites"

- Keep in mind: Who cares? Why does it matter? (i.e., the customer benefit)

The Sound Bite

"Your message, the way the media wants it"
(quote in the paper, clip on the radio/TV)
aka "quotable quotes"

27 words / 9 seconds

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Creating a good sound bite

- Use bold, action-oriented words
- Clichés are okay
- It’s okay to express emotion
- Use analogies, metaphors
- Use pop culture references
- Plays on words, alliteration
- Use absolutes
- Use real-life examples
- Rhetorical questions
- Beware attack words
- Consider humour - carefully

Rehearse your sound bites

- Record them on video
- Play them back
- What do you like? What don't you like?
- Revise accordingly
- Record them again until you are happy with the result

Prepare your cheat sheet

- <u>One</u> sheet of paper
- Three columns, list themes at top
- Write sound bites, proof points, cues for anecdotes in column below
- Look at your cheat sheet throughout the interview – or, if it's a television interview, make sure it's the last thing you look at before you go on (<u>not</u> the three-ring binder with all the background info!)

Map Messages to Qs

- Review list of anticipated questions
- Determine, in general terms, which message theme responds best to the issue raised
- During the interview, your strategy will be to move from the question asked toward your message themes – as smoothly as possible – using your sound bites, proof points and anecdotes

Rehearse the interview

- Use the questions you know you will get
- Use your cheat sheet
- Try to address one, two or, ideally, all three themes in your answers
- Record the interview
- Review the interview (What did you like? What didn't you like?)
- Rehearse again – do more of what you liked, less of what you didn't

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Making sure your messages are used

- Two basic techniques to master:
  - “Flagging” – drawing attention to your key messages
    - “If there’s one thing you should take away from our discussion, it’s that…”
    - “There are three things to remember… (count off with fingers)”

Making sure your messages are used

- Two basic techniques to master:
  - "Bridging" – moving from the Question Track to the Message Track
    - "Let me put that in context…"
    - "Let me put that in perspective"
    - "Before we go there, I think you need to consider this…"

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More bridging phrases

- From my perspective…
- Yes, but…
- Here's another way to look at it…
- However, the facts are…
- The critical issue is…
- What concerns me even more…
- That's an example of …

Tactics for answering questions

- Pick and choose
  - Reporters often ask multi-faceted questions; pick the one that leads you most easily to your key messages

- Re-write the question
  - Reporters often provoke by asking questions in a negative way; consider the underlying question – “what are your views about *x*?” – and it will be easier to respond positively, using your key messages. Never repeat the negative!

- Avoid hypotheticals
  - Reporters often want to know how things would be different if we had done things differently in the past, or want to know what will happen in the future; don’t speculate, but bridge to things you can tell them with certainty

- Beware the pregnant pause
  - Reporters will often remain silent to encourage you to keep talking; don’t feel obliged to do so, or, if you do, make sure you use another sound bite, proof point or anecdote from your list

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Remember: Less is more

- Use your sound bites, proof points and anecdotes in response to every question, if possible
- Every time you introduce another message theme, you are diluting your desired message
- If you cannot use one of your key messages, be brief and be bland; don't provide a sound bite that the reporter might be tempted to use instead of one of your key messages

Take care

- Tell the truth
- Don’t repeat the negative in a question
- Never say “no comment”
- Don’t over-educate – stick to your key messages
- Don’t use jargon
- Consider nothing to be “off the record”
- If you don’t know, say so – and undertake to provide later
- Use statistics, numbers, sparingly – use analogies, anecdotes whenever possible
- Paint word pictures

SIMULATED MEDIA INTERVIEWS

Part Three

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Looking right for the part

- Appearance
  - Avoid “flash” (jewellery, watches, busy patterns)
- Demeanour
  - Match “mood” to the occasion (concerned/serious, excited/motivated, sorry/apologetic, compassionate,…) – maintain slight smile in “neutral”
- Connect with the interviewer
  - Maintain eye contact with interviewer (not camera)
  - Practice good listening skills (e.g., don’t jump in with answer before question is finished)

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Looking right (cont.)

- Body movement
  - Lean in
  - Avoid rocking in the chair
  - Be economical with hand gestures
  - Be conscious of head movements
- Voice quality
  - Project
  - Enunciate
  - Modulate

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Review

- What did you like?
- What didn't you like?
- How did he look?
  – Did he seem nervous? Friendly? Confident? Was his body, face relaxed? Did he move his hands, his head, his body? Did he maintain eye contact with the interviewer?
- How did he sound?
  – Did he sound nervous? In command of the facts? Were there a lot of ums and ers? Did he speak too fast or too slow? Did he talk in a monotone? Did he project, articulate, modulate, his voice?
- What did he say?
  – Was it convincing? Interesting? Provocative? Emotional? Articulate? Noteworthy? What word or phrase can you quote back?

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Setting Expectations

How the media works

There are different types of media and their needs, level of industry knowledge and audiences are different. So is their impact. For example:

Trade media: Reports on a single industry or industry niche such as insurance, and their audience is typically made up of people working in and following the industry (including regulators). Reporters are usually more knowledgeable about the subject matter, and more interested in supporting the industry with their coverage). Some trade media will share some or all of a story with you before publication to check for accuracy. Trade media typically present less risk for interviews.

Mainstream media: Reports on a wide variety of topics and industries, and their audience is the average Canadian. Reporters that have a dedicated beat such as financial services can be knowledgeable about the industry they follow, but others can cover a wide variety of topics and have less industry insight. Their job is to make the industry they cover newsworthy, which can sometimes result in coverage that is less industry friendly. Mainstream media rarely accept written statements or share stories in advance with the people they interviewed. Because of their large audiences, mainstream media can have an over-sized impact on regulators, politicians, customers, investors, etc. (e.g. CBC News story on mis-selling at Canada's large banks). Mainstream media typically present more risk for interviews, particularly TV and radio.

Bloggers: Provide opinions based on personal views and experiences, and their audience is typically younger Canadians who get most of their news and information through online media. Bloggers can have huge followings, and some accept sponsorship from organizations to write about their products and services. Some bloggers are more knowledgeable than others (i.e. interview risk can vary greatly depending upon the personal and financial relationship with the blogger).

> **Example of a sponsored blog:**
>
> *"Gone are the days when we have to use a budget binder with a pen and paper to get our financial life together! Now, all you need is access to the internet and choose to bank with a financial institution (like RBC) that is clearly not just trying to keep up with the pack, but striving to be leader of that pack."*
> **- Jessica Moorhouse, Blogger, Money Life, Balance, November 21, 2017**

Risks and rewards

Most organizations have the opportunity to deal with print media, TV and radio, and online media. Each of these media has different requirements and present different levels of risk and rewards. For example:

Print media: Most interviews are conducted by phone, which provides the opportunity for the person being interviewed to refer to a list of prepared key messages and/or a script of potential Q&As. And in the case of trade media, many will also provide questions in writing and accept written responses. When doing an interview in person, it's also acceptable to have some notes with key facts and statistics that one can occasionally refer to.

TV News: Once the camera and microphone start recording, there is little opportunity to refer to notes, and how you look can often be as important as what you say. TV news segments are also very short, which means you have far less time to make your point. Business television networks like BNN tend to be more business friendly and less risky than mainstream television networks like CBC and CTV.

Radio News: Like TV, radio has a short time-span in which to tell a story, which means the interview subject has to be prepared with several short and punchy key messages. As many radio interviews are done by telephone, there is more opportunity to refer to notes and key messages without appearing to do so. All news radio stations like Toronto's 680 news tend to be safer venues than CBC radio, which sometimes can follow an agenda. Call-in shows can be very dangerous as organizations with an opposing agenda can flood the call in lines and dominate the messaging.

Online News: There are a number of news and business information websites, digital versions of mainstream news and trade media, and digital publications such as Huffington Post that appeal to digitally savvy consumers. One of the advantages of these digital media is that errors in reporting can be easily corrected in a manner that is easily visible.

"If you're quoted out of context, you've probably provided too much context!"

Implementing an effective engagement strategy

Relationship development: It's important to develop relationships with key media based on mutual respect and trust. Reporters will generally be kinder to people who they like, who can provide clear and concise answers, and if they can't, are willing to provide some off-the-record background that could be helpful to the reporter, or suggest another industry experts who might be more helpful.

Rapid response: Reporters have a tough job with strict deadlines. They appreciate people who respond to their calls in a timely fashion, and are more likely to use their comments and return to them in future for more comments if they do so. Even when an organization does not want to comment, they should say so in a timely fashion.

Be a source of ideas: Media, particularly columnists, are often searching for an idea or topic for their next column. Don't be self-serving, but if you come across trends, data, new developments, etc. in the industry that you think might be of value, send a quick email to someone you think might benefit from it.

Be prepared: Never do an interview unless you have had time to think through your potential responses and create some key messages. If possible, try to work your key messages into your interview so that you have a better chance of being quoted in context

Communicate directly with your audience: There are times when it may be more effective to bypass the media and communicate directly with your desired audiences. This can be done through a variety of controlled media such as the CAFII website, letters to the editor, bylined opinion pieces, Youtube videos, a Facebook page, Twitter posts, etc.

Be relevant and timely: Opinion pieces have a better chance of being accepted if they provide a new and interesting perspective, and are timely in terms of the news cycle and seasonal themes. Likewise, letters to the editor have a much better chance of being accepted for publication if they arrive within 48 hours of the story they are addressing.

Strategically use news releases: News releases are an effective way to get a controlled message to media, and to stimulate media interest in doing interview.. However, not all news releases need to be sent over a news wire to a broach spectrum of media. They can also be emailed to targeted media such as insurance trade media and regulators, and posted on the CAFII website at much lower cost.

Don't expect media coverage to be perfect: Not everything you say will make it into the final version of a news story, and it may be contradicted by someone with a different perspective. A print reporter has to boil down everything you say into a part of his/her story, and that story will have a maximum word count. A TV reporter has to edit out lots of comments to make the story fit a very tight time limit. At the end of the day, if the story gets one or more of your key messages across without embarrassing the organization, you've succeeded!

"Remember that news tends to be inherently negative, and that some reporters are always looking for the negative. When a plane lands safely, it's not news!"

What an effective media strategy might look like

Low risk/low profile: As engaging the media is a relatively new goal for CAFII, support for it among members needs to be built based upon a low risk strategy that will deliver a series of small, but successful outcomes. It is also important that we do not bring too much media attention to the issue of creditor and travel insurance, as this could backfire and result in increased regulatory scrutiny.

Begin with small, safe steps: Identify key media in both mainstream and trade press for relationship development. This can best be accomplished over coffee in an off-the-record "get to know you" meeting, particularly if CAFII has some new research or insights that it wants to share with columnists or beat reporters.

Build experience & capability: It is much safer to gain experience and practice new media skills with trade media than with mainstream media, particularly television. Once experience is gained, the effort can be expanded into more challenging media environments if necessary.

Utilize controlled media where possible: In some situations, it is much safer to bypass media and communicate directly with key audiences through media such as the CAFII website, opinion pieces letters to the editor, news releases, and eventually social media like Facebook.

Never criticize regulators to the media: One of CAFII's key goals is to positively influence regulators with respect to creditor insurance, which makes public criticism of regulators a bad strategy. It is better to deliver key messages without linking them to a regulator's report (e.g. FCAC banks sales practices report), or boy couching them in a positive framework (i.e. we are pleased that FCAC found no evidence of wide-spread mis-selling by banks).

Ensure members see the results of media outreach: The best way to build support for a media strategy is to make sure members and regulators see the results. This can be done by posting links to media interviews on the CAFII website, emailing key articles to the CAFII Board and EOC, and by informing the appropriate regulators of an article mentioning CAFII that may be releant to them.

2018 Digital Performance, Awareness and Video

Action	Benefit	Investment
Quarterly Reporting		
Quarterly reporting on website & digital key performance metrics, presented by conference call.	How many people are visiting; how long they stay; what they are looking at; and what your results are in terms of SEO	**$985 (x2)** Per Report
Directory Building		
Placement of CAFII business information on 100 Directories.	Search improvement, consumer trust, consumer awareness, access to CAFII.	**$985** One-time
Wikipedia Entry Creation		
Creation and submission of a CAFII Wikipedia entry.	Search improvement, consumer trust, consumer awareness, access to CAFII.	**$1,800** One-time
Membership Badge Creation		
Creation of membership badge and guidelines for member deployment.	Search improvement, consumer trust, consumer awareness, access to CAFII.	**$1,800** One-time
Website - Consumer Examples *(16 Insurance products)*		
Creation of new format for consumer examples.	Product application awareness, real-life examples of insurance products.	**$2,400** One-time
Website - News & Research		
Redesign of the News & Research section of the website.	Inclusion of research section and improvement to visuals of News posts.	**$1,200** One-time
Website - Home Page		
Incorporation of an image and video slider on the home page.	Allow CAFII to feature research publications and video content on the home page.	**$1,200** One-time
Video Production		
White board: Creation of 30 second whiteboard video. *English & French voice talent included.	Explain products, benefits and consumer application of creditor insurance products.	French & English - **$6,500** Est. both videos
Package Option	Efficiencies in Website Updates & Membership Badge Creation	~~$16,665~~ **$14,780**

Video Production (Optional)		
Live Action & Animation: Creation of video introducing CAFII to consumers, for placement on the website and YouTube. *Actor talent investment not included.	Introduce CAFII and Creditor Insurance to consumer leveraging consumer facing positioning and slogan.	French & English **-** **$8,000** Est. both videos

Background

CAFII's 3-5 year strategic plan has identified research as a key component of the Association's effort to build on its successes and increase its profile. Viable research can increase the organization's credibility, allow it to provide evidence-based support for its key messages, and strengthen its case with regulators, policy-makers, influencers, and the media.

In the past, CAFII has invested in two major research efforts—a Pollara consumer satisfaction survey entitled the "Travel Medical Insurance Study," which has been conducted once thus far, with results released in September 2015; and a Towers Watson (previously Avalon Actuarial) study to compare the customer value propositon of Creditor's group insurance on mortgages with individual insurance products, including critical illness and disability insurance products, conducted several times over the years as a tracking study with the most recent results released in September 2015, entitled "Comparison of the Customer Value Proposition of Creditor's Group Insurance on Mortgages with Individual Insurance Products."

Going back a bit further, CAFII also commissioned Pollara Strategic Insights in 2010 to examine customer experience and satisfaction with creditor insurance. The study involved over 1,300 Canadians who had mortgage Creditor Insurance or a secured home equity line of credit insurance with a major bank, credit union or caisse populaire. This research helped CAFII better understand the satisfaction and purchase experience of Canadians. Highlights of the results were that creditor insurance delivered "peace of mind," there was confidence in the product, and clients reported a positive purchase experience. The results of this research were often quoted by CAFII in regulatory consultations and presentations to regulators, until the research was stale dated.

Analysis of Previous Research

The Pollara consumer satisfaction survey was well-received and demonstrated the high level of service, support, and claims payout of providers offering travel medical insurance products across Canada. As a result, in 2017 CAFII decided to update this research in 2018, at a cost of $35,000 which was part of the 2017 budget. The research will be released in the Spring of 2018. If the research results warrant publicizing them, a key difference with this version is that the results will include collateral that summarizes the key findings, to be shared on our website, and electronically and in hard copy form with regulators and policy-makers and other influencers; and will include a press release with the opportunity to share the key results with media, accompanied by a media strategy.

CAFII positioning of Creditor Insurance has always been as complementary to individual insurance and that we believe there is room in a customer's protection and risk concerns share of wallet for both.

While the Towers Watson study was an actuarial study, CAFII has been able to rely on it extensively to make the claim that creditor insurance is "convenience, accessable and affordable" for Candians. It is this independent actuarlal study that enables us to make this claim with quantitative statistics to back it up on all three aspects of the claim. The claim is made in reference to comparison between creditor insurance on mortgages (life, disability and critical illness) and individual life insurance (life, disability and critical illness) that was a key aspect of the study. The claim that creditor insurance (on mortgages) is convenient, accessible and affordable is quoted in varying amounts of detail in several presentations to regulators, in regulatory consulations and in mulitple product documents launched on the CAFII website as part of the website re-launch to the public, with approval from Towers Watson. While having to obtain approval from Towers Watson to use the data externally is an extra step that feels time consuming and cumbersome, it does provide a valuable check that the data is being quoted correctly. These were all benefits derived from this study and the approach taken to it.

However, because the Towers Watson study was an actuarial study and it was geared for internal use and benchmarking, it is less well suited for a public dissemenation consistent with CAFII's new strategy to be more public-facing where appropriate. It is a dense and difficult-to-navigate study, and there was no intent in the 2015 version to try to render some of its findings in a publicly digestible form (other than sharing limited highlights of the findings with insurance regulators and policy-makers). Furthermore, it was subject to an agreement that it could not be used publicly without explicit permission from Towers Watson. As a result, there is very limited ability to use the findings in the study publicly, both because they have not been turned into useable stories, and because of the public restriction on the use of the data and analysis.

Key Finding #1: *The Towers Watson study should not be repeated in its current form—it must include a strategy to summarize the data in publicly useable fashion, and there should be no restriction on its use publicly.*

Options for Future Research

While CAFII is committed to an ongoing research program, financial challenges resulted in the 2018 research budget not being increased over 2017. This, however, has the benefit of allowing CAFII to demonstrate the value of research and its impact, prior to increasing the budget allocated to it.

In reviewing the options for research, the Research & Education Committee brainstormed in January 2018 on possible projects, and the topics considered were then analyzed by CAFII's Co-Executive Directors, and by Media Consultant David Moorcroft, for their media/influencer, and regulatory, interest. That analsysis is summarized in Table 1.

Some additional context is worthwhile here. During CAFII's visits tour to Western Canada insurance regulators and policy-makers in October, 2017, and during a CAFII visit to the Minister of Finance of Saskatchewan in June 2017, we noted that CAFII has no collatoral on key elements of its members' businesses—for example, in a province we were visiting, we had no information on total premiums collected; aggregate claims paid out; total number of employees, etc. These statistics can be valuable as part of information-sharing with regulators and policy-makers, and for example are collected and shared by the Canadian Life and Health Insurance Association (CLHIA). (This type of research information is identified in Research #3.) It is also worth noting that until CAFII has developed research on its benefits and which support its key messages, there may be risk to drawing attention to our size, and so there may be a benefit to delaying such research until we have produced research-based evidence to back up our key messages.

The Towers Watson study, as per Recommendation #1, should not be repeated in its current form. There is a requirement for either an analyst or researcher to be hired to analyze the data and turn it into a series of stories that are fact-based, evidence-driven, and highly understanable and readable; or to have such an output of the research included in the research contract.

In the past, the Research Committee typically had 3 or 4 industry volunteers for each major research initiative, with one of the volunteers being the lead for the initiative. These volunteers would work with the research firm to drive the study design, the survey questions and target audience and to dig into the research results to synthsize the major learnings and convert it into slides, sound bites or other outputs for us in a variety of communications with various target audiences. It was essential to have working groups comprised of CAFII members from industry who understood the product, pricing, underwriting, industry and target audiences. This approach will continue to be the foundation of CAFII's research efforts going forward. In addiiton, there will be closer collaboration going forward between the Research & Education Committee, and the Media Advocacy Committee, to ensure that from the beginning of a research effort we incorporate the media and public-facing elements that we will want to make part of the outputs from the research.

In discussion with various individuals involved in offering advice on CAFII's strategy, one suggestion was that an alternative to engaging Towers Watson, or another actuarial firm, as the organization producing the research to update the Towers Watson analysis, would be to hire a research firm that could do the analysis, but which would have the internal reosurces and expertise to also be able to provide excellent written summaries of the research as part of their effort. It is important to note, however, that a key requirement for the Towers Waston study was that it be a comparison of the value propsition of Creditor Insurance vs. individual insurance. It was this comparison that enabled CAFII to make the claims about creditor insurance convenience, accessibility and afforability. The participation of 13 individual insurers in this study was achieveable because of the relationships Towers Watson had with the individual insurers that participated. Regardless of which approach is taken, it is recommended that the Towers Watson type research not be updated without this additional component incorporated into the research contract.

Recommendation #1: *A future Towers Watson type research effort (Research #1) needs to include turning the data results into readable, highly digestible storylines that could be shared with media/influencers and regulators/policy-makers.*

The Tower-Watson CGI information was identified by confidentially collecting information from members of CAFII (as well as from outside insurance firms offering term insurance). This internal collection of information would involve approvals from CAFII members, and would involve working with internal departments of CAFII members that would provide the required information. CAFII EOC members were accountable for delivery of the data such they worked with their internal departments to obtain the data. There may be minimal overlap in data collected for the two studies. It would be essential to keep the data separate to avoid confusion in what was being collected. However, the effort to gather statistical information (Research #3) might be more efficient, and less of a distraction for our members, if it was combined with the effort to update the Towers Watson research itself.

Recommendation #2: *We should explore whether an update to the Towers Watson type research (Research #1) should be combined with a statistical analysis of CAFII members (Research #3) for efficiency and cost-effectiveness reasons.*

Table 1
Possible Research Topics and their Interest to Media/Influencers; and Regulators/Policy Markers

Research #	**Topic**	**Media / Influencer Interest**	**Regulatory / Policy Maker Interest**
1	Repeat of the Towers Watson Study (Update) (but with some adjustments to how the content is displayed, and with no restrictions on its public use)	High	High
2	A comparison of CGI and other competitive products along a series of dimensions: ease of signing up (medical tests required, questions, time to be signed up); cost; claims ratios. This is analysis by a specialist—the output would be a "white paper" type of research on the industry	High	High
3	A summary of CAFII member's presence in each province, in the aggregate: Number of employees; Total premium written; Total claims payout; Taxes paid to the province	Low	High
4	A comparison of the regulatory structure of the Canadian insurance industry for the products offered by CAFII members, compared to other jurisdictions such as the United States, Great Britain, Australia, and Singapore	Low	High
5	A comparison of the "regulatory sandbox" approach in Canadian provinces as compared to other jurisdictions such as the United States, Great Britain, Australia, and Singapore	Low	High
6	A review of the economic costs to the Canadian economy from a lack of harmonized regulations and licensing regimes (for example, the need for a call centre to get multiple licenses and send calls only to the agents with a license from the province the caller is from)	Low	High
7	Comparison of the levels of life and other insurance coverages for Canadians in different wage brackets, broken out by term versus CGI, to show that lower and middle income Canadians are vastly underinsured and CGI addresses that gap. This same study could also look at this from an age perspective, to show the same issue for younger Canadians	High	High
8	Research on the potential impact of digitization, innovation, and technology change on insurance and the regulatory regime (this broad topic could be a series of more specific topics, and this could be a series of research items over time)	Medium	High
9	Review of some of the most innovative technology developments and how they could impact on the insurance industry	Low	High
10	Pollara-type consumer survey but not on travel medical insurance, rather on CGI products offered by CAFII members – level of satisfaction with sign up process, servicing, claims etc.	High	High
11	With the importance being placed on Treating Customers Fairly and enabling/empowering Canadians to make well informed decisions, we might consider research in the area of Financial Literacy. For example, what have other countries done to increase the financial literacy of their citizens and how could those learnings be applied in Canada to provide regulators with recommendations on how they could assist citizens to become better informed. FSCO talks about their efforts in the area of Fraud Prevention as being one of their past Financial Literacy achievements. What other types of initiatives could CAFII recommend based on primary (or even secondary) research?		

At this stage, it is worth noting that while these efforts could prove extremely valuable for CAFII, and could produce a rich stream of outputs that would be useable with media, influencers, regulators, and policy-makers, the Towers Watson research in its current limited form cost $45,000 in 2014. In an Autust 9th 2017 email from Helene Pouliou, Director, Canadian Leader, Risk Consulting and Software, Towers Watson, she said "an update [of the study] would not be as costly or time consuming as the methodology has been established for the first survey." To be conservative, we can estimate the cost of a renewed study, with the passsage of time, to still cost $45,000. If the recommendation to include a written output is supported, that would add at least $10,000 to the effort. If the recommendation to incorporate a statistically analysis at the same time is supported, that would add up to $25,000 to the effort. Therefore, this total effort would cost up to $80,000—and possibly more—and therefore is not in consideration in 2018 for budgetary reasons.

Recommendation #3: *A combined research effort that includes a Towers Watson type analysis updated to be current; and which also includes a written component; and which combines these efforts with a statistical analysis of CAFII members (the "combined research effort"), should not be be considered for the 2018 budget as it far surpasses the available 2018 budget.*

However, this would be a viable and worthwhile initiative to explore going forward. Therefore, CAFII should begin to consider this as a potential investment for 2019.

Recommendation #4: *A combined research effort should be explored as a candidate for investment, at a cost of approximately $85,000, for the 2019 CAFII budget.*

If a combined research effort is considered, an RFP should be solicited given the size of the investment in question.

Recommendation #5*: A combined research effort, given the expense it would incur, should be put to an RFP with a variety of vendors.*

If we move forward with Recommendation #4, considerable preparatory work can be done in 2018. There needs to be discussion about how data is gathered—for example, statistical analysis can be provided for the distribution side, the manufacturing side, or a combined view, and gathering this information may also require the involvement of CAFII members' partners, who would need to be engaged in parts of this effort. CAFII EOC members or Research and Education Committee members would be accountable for coordinating with internal members or partners. An RFP could be developed and issued in 2018, so that the research firm could begin its efforts immediately in 2019 if the budget for this effort was approved. This however would result in 2017 data being collected such that the results are already 2 years old once the study is published. It would be best to plan to obtain 2018 data in early 2019.

Recommendation #6*: If Recommendation #4 is supported, staff and volunteer work on this initiative can begin in 2018.*

Reviewing the remaining options for research, if the recommendations above are accepted and this combined research effort – an update to the Towers Watson research (Research #1) with a publicly useable written component, and a CAFII members' statistical analysis (Research #3)—are not viewed to be candidates for investment in 2018, the one that stands out as both within budget, and most impactful with media/influencers and regulators/policy makers, is Research #10—conducting a consumer satisfaction survey for creditor's group insurance products. This would involve questions on satisfacation with enrollment, service, cancellation, complaints, and claims, and could include additional questions like "Do you feel you paid the right amount for this insurance?"; "Do you feel like you are getting good value for your money with this insurance" etc., which media consultant David Moorcroft feels would generate powerful results to share with media and influencers. The previously CAFII-Pollara study that examined customer experience and satisfaction with creditor insurance would be an excellent place to start in terms of the survey questions, the audience, the products examined, etc.

Additional benefits to this approach are that we could re-use many of the questions and effort from the Travel Medical survey; we could consider using the same firm (Pollara) and leverage our partnership and knowledge of them, but we would definitely still issue an RFP for this project, which would allow us to validate the cost, and potentially seek out a firm that could be who we use for the 2019 research efforts as well. The timelines for this effort would work well in the early Fall of 2018; and we would be able to have a substantial 2018 research output within our $35,000 budget.
The previous Pollara research on

Recommendation #7: *CAFII's 2018 research investment should be a consumer survey of the satisfaction of consumers with CAFII members' CGI products (mortgage and loan life, disability, critical illness, and job loss insurance). We would issue an RFP for this research effort, with Pollara one of the firms we would ask to bid on the project. While it would be benefitical to be able to conduct research on a wide variety of coverages and credit products for which creditor insurance is offered, the budget may require that we focus our efforts on creditor insurance and credit products where aspects of purchase experience and consumer confidence issues are most fully played out, i.e. in products that are underwritten and are a more important risk concern for Canadians, such as products that offer protection for their home.*

Appendix A

Individuals and Committees Consulted in the Development of this Report, or Involved in the Approval of this Report

Individuals / Committees Consulted	Comment
Diane Quigley	Chair of the Research and Education Committee—has approved this report
Research and Education Committee (see Appendix B)	All members have inputted into this report; responsible for expert advice and for forwarding the report to the Executive Operations Committee (EOC) for formal approval
Executive Operations Committee (EOC)	Will be responsible for formal approval of the report and for recommending it be forwarded to the Board of Directors
Craig McKendrick	Has advised on different research firms that CAFII could solicit
Charles Blaquiere	Chair of the Media Advocacy Committee—has reviewed report from perspective of supporting the media / influencer strategy
Media Advocacy Committee (Charles Blaquiere, Chair)	Have inputted into the media/influencer components of the report and will be asked to review the report, and engage in its implementation (if approved) to ensure media/influencer aspect is fully incorporated into our research outputs
Peter Thorn	Chair of the EOC; has reviewed the report prior to its being forwarded to the EOC
David Moorcroft	Media Consultant; has provided expert advice and input into the media elements of the research strategy
Keith Martin, Brendan Wycks	Co-Executive Directors of CAFII; provided staff support for the development of the report and the process for its approval and implementation
Board of Directors	Will modify the report as required; and will be responsible for determining whether to approve the report and its recommendations

Appendix B
Membership of the CAFII Research & Education Committee

Committee Members	Title	Institution
Diane Quigley (Chair)	Director, Creditor Insurance Product & Pricing	CUMIS
Sue Manson	Planning Director, Strategy & Planning	CIBC
Noel Brackney	Manager, Regulatory Programs, Market Conduct & Policy	BMO
Craig McKendrick	Senior Consultant, Consumer & Market Research	CIBC
Laura Bedford	Senior Advisor, Insurance Compliance & Market Conduct	RBC
Rob Dobbins	Senior Director Compliance, Canada	Assurance
Aneta Murphy	Senior Manager, Policy and Training, Creditor Products and Operations	ScotiaLife
Scott Kirby	Manager – Life, Creditor and Travel, Government and Industry Relations	TD

Appendix C
Media Consultant David Moorcroft's List of Issues and Topics that Media/Influencers Could be Interested In

-- What percentage of Canadian households have a strategy for dealing with a sudden loss or drop in income?

-- What percentage of Canadians are concerned they could not maintain their current standard of living if they lost their job or became too ill to work?

- What percentage of Canadians feel their heirs could pay off their mortgage and remain in their home if they unexpectedly passed away?

-- What is the total mortgage indebtedness in Canada and what percentage of Canadians have insured their mortgage debt for life, disability and job loss?

- What percentage of Canadians believe that having greater choice in where they can obtain insurance is a good thing?

- What percentage of Canadians believe that having the option to buy creditor insurance at the time and place they purchase their mortgage or loan is a positive thing?

- What percentage of Canadians believe that being able to purchase creditor insurance at standard economical group rates is a good thing?

- Does mortgage life insurance help provide a valuable safety net for borrowers?

- What is the average monthly premium for a mortgage life insurance policy in Canada for people aged 18 to XX? How does that compare to term life insurance?

- What percentage of creditor insurance clients make claims and what percentage of them are approved? What percent was denied?

- What is the most common reason to deny a claim?

- What was the total amount of money paid out for all creditor insurance claims in the most recent year where the data is available?