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CAFII Executive Operations Committee Meeting Agenda

Date:	Tuesday, March 22, 2022	**Time:**	2:00 – 4:00 p.m. EDT
Chair:	R. Dobbins	**Dial-in:**	437-703-4263
Location:	Virtual MSTeams Meeting	**Phone Conference ID:**	965 295 258#

	1. Call to Order, Welcome, and Priority Matters 2:00 p.m.	Presenter	Action	Page #	Document
a.	Call to Order	R. Dobbins		3	
b.	Welcome to New EOC Members: -John Burns, Canadian Premier Life; -Robert Huang, CUMIS/Co-operators; -Jacqlyn Marcus, Valeyo; -Ivan Murray, National Bank Insurance; -Almas Satwat, CUMIS/Co-operators	R. Dobbins		4	
c.	Appointment of Jacqlyn Marcus, Valeyo, as Chair of Media Advocacy Committee	R. Dobbins	Update/ Approval	5	
d.	Members' Contributions to CAFII's Advancement Through Contribution of Volunteer Resources to Committee Chair, Committee Vice-Chair, and Committee Member Roles: Current Status and Next Steps Planned/Needed (Including Need For New CAFII Treasurer)	R. Dobbins/B. Wycks	Update	6	✔

	2. Consent Items 2:15 p.m.	Presenter	Action	Page #	Document
a.	Consultations/Submissions Timetable			7	✔
b.	Regulatory Update			8	✔
c.	February 15/22 CAFII Response Submission to FSRA on "Information Guidance on Complaints Resolution"			27	✔
d.	February 18/22 CAFII Response Submission to FCNB on "Proposed Rule INS-002: Insurance Fees"			32	✔
e.	February 18/22 CAFII Response Submission to AMF on "Incentive Management Guideline"			34	✔ (2)
f.	March 1/22 CAFII Response Submission to BCFSA on "Discussion Paper: Information Security Incident Reporting"			45	✔
g.	Regulator and Policy-Maker Visit Plan Recap				✔
h.	Summary of Board and EOC Action Items			50	✔
i.	Board-Approved Schedule of CAFII 2022 Meetings and Events			51	✔

	3. Financial Management Matters 2:15 p.m.	Presenter	Action	Page #	Document
a.	CAFII 2021 Audited Financial Statements and Independent Auditor's Report Thereon	T. Pergola	Update/ Endorsement	53	✔ (2)
b.	Critical Path for KPMG Audit of CAFII 2021 Fiscal Year Financial Statements	B. Wycks	Update	65	✔
c.	Dissemination of 2022 Member Renewal Letters and First Instalment Dues Invoices; and 2022 Associate Renewal Letters and Dues Invoices	B. Wycks	Update	67	

	4. Committee Updates 2:30 p.m.	Presenter	Action	Page #	Document
a.	Travel Insurance Experts	K. Umutoniwase	Update		
i.	Issues Discussed and Insights Gained from Two Recent Meetings of Travel Insurance Experts Committee	K. Umutoniwase	Update	68	
ii.	Insights Gained From CAFII/CLHIA/THIA BiWeekly Calls Re Impact Of COVID-19 On Travel Insurance Industry	B. Wycks	Update	69	
b.	Networking & Events	C. Manno	Update		
i.	Insights Gained from January 31/21 CAFII Webinar on "The Ins and Outs of Life Insurers' Health and Wellness Incentivization Programs"	K. Martin	Update	70	✔
ii.	Insights Gained From March 7/22 CAFII Webinar on "Mental Health Issues and Challenges in the Workplace, At Home, and In Society: Coping With The Persistent Pandemic's Impact"	K. Martin	Update	74	✔
iii.	Plans For CAFII 25th Anniversary Celebration In 2022	B. Wycks	Update/ Discussion	78	
c.	Market Conduct & Licensing	B. Kuiper	Update	79	✔
i.	CCIR/CISRO Consultation With Industry Stakeholders On Incentives Management (Submission Deadline: April 4/22)	K. Martin/B. Wycks	Update	80	✔ (2)

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	ii. FCNB Informal *Joint Sounding Board Consultation* With CLHIA and CAFII On Imminent Amendments to Life and Health Sections of New Brunswick Insurance Act: David Weir Request For Smaller CAFII Review/Input Group, Given Confidential/Embargoed Terms of Release	B. Wycks	Update	94	✔
	iii. FSRA Consultation on Principles-Based Regulation (Submission Deadline: April 29/22)	K. Martin/B. Wycks	Update	99	✔ (2)
d.	Research & Education	A. Stuska			
	i. Next Steps for Deloitte Canada Thought Leadership Paper on Trends, Consumer Demands/Expectations, and Best Practices in Digitization of CPI; Including Possible Public Release of Results	A. Stuska/K. Martin	Update/ Endorsement	109	✔ (2)

5.	Recent and Upcoming Strategic and Regulatory Initiatives 3:15 p.m.	Presenter	Action	Page #	Document
a.	Insights Gained From CAFII Internal Dialogue and Subsequent Email Exchange With AMF, Which Led To Cancellation Of Scheduled CAFII March 15/22 Feedback/Dialogue Meeting with AMF on RADM's Governance of Insurance Offered/Sold Over The Internet Since 2019	B. Wycks/K. Martin	Update/ Discussion	182	✔
b.	AMF's Plans For Issuing Feedback Letter To The Industry With Respect To December 17/21 Action Plans Submitted For Bringing Credit Card-Embedded Insurance Benefits Into Compliance With AMF's RADM-Based Expectations	K. Martin/B. Wycks	Update	186	
c.	AMF's Consideration of CAFII's January 17/22 Submission on Proposed Wording Modifications To Fact Sheet and Notice of Rescission to Make Them Fit/Suit Credit Card-Embedded Insurance Benefits	K. Martin	Update	187	
d.	Insights Gained from February 24/22 CAFII Virtual Consultation Meeting With BCFSA Staff Executives On Authority's "Discussion Paper: Information Security Incident Reporting"	B. Wycks/K. Martin	Update	188	
e.	Insights Gained From February 17/22 Meeting With FCAC Staff Executives For Feedback on How CAFII's Submission on *"Guideline on Appropriate Products and Services for Banks and Authorized Foreign Banks"* Has Resonated With FCAC and Influenced Final Version of the Guideline (Released February 24/22)	K. Martin/B. Wycks/M. Boyle	Update	189	✔ (3)
f.	Insights Gained from February 22/22 CAFII Feedback Meeting with Auditor General of Ontario on FSRA's Performance	K. Martin/B. Wycks	Update	207	

6.	Governance Matters 3:40 p.m.	Presenter	Action	Page #	Document
a.	Draft Minutes of February 15/21 EOC Meeting	B. Wycks	Approval	208	✔
b.	EOC Members' Comfort With Return To In-Person EOC Meetings Planned For May 17/22?	B. Wycks	Discussion	209	

7.	Read Only Items	Presenter	Action	Page #	Document
a.					

8.	Other Business 3:45 p.m.	Presenter	Action	Page #	Document

9.	In Camera Session 3:45 p.m.	Presenter	Action	Page #	Document

10.	Tracking Issues	Presenter	Action	Page #	Document
a.	Possible Movement of CAFII 25th Anniversary Celebration from June 7/22 to October 11/22				
b.	AMF Consultation on Declaration of Operational Incidents				
c.	BCFSA Consultation on "Code of Conduct For BC-Authorized Insurers" (pending proclamation into force of section 94.3 of BC Financial Institutions Act)				
d.	BC Ministry of Finance Drafting of Regulations to Implement Financial Institutions Amendment Act, 2019				
e.	FCAC: Phase 2 of Domestic Bank Retail Sales Practices Review				

Next Board Meeting: Tuesday, April 12/22, 2:00 to 4:00 p.m., Virtual MSTeams Meeting

Next EOC Meeting: Tuesday, April 26/22, 2:00 to 3:30 p.m., Virtual MSTeams Meeting

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 1(a)
Welcome, Call to Order, and Priority Matters: Call to Order

Purpose of this Agenda Item

Start of meeting.

Background Information

The meeting is called to order.

Recommendation / Direction Sought -- *Update*

Update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 1(b)
Welcome, Call to Order, and Priority Matters—Welcome to New EOC Members

Purpose of this Agenda Item

To welcome new members to the EOC.

Background Information

There has been an effort over the past few months to strengthen the membership of CAFII Committees and Working Groups. Today, five new EOC members are joining the Committee and they will be asked to introduce themselves briefly to their EOC colleagues.

They are:

- John Burns, Canadian Premier Life;
- Robert Huang, CUMIS/Co-operators;
- Jacqlyn Marcus, Valeyo;
- Ivan Murray, National Bank Insurance;
- Almas Satwat, CUMIS/Co-operators.

Recommendation / Direction Sought – *Update*

This is an information update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 1(c)
Welcome, Call to Order, and Priority Matters— Appointment of Jacqlyn Marcus, Valeyo, as Chair of Media Advocacy Committee

Purpose of this Agenda Item – *Update, Approval*

To update the Association on recruitment efforts to secure a new Chair of the Media Advocacy Committee, and ask for EOC approval of this appointment.

Background Information

Jacqlyn Marcus, Valeyo, has agreed to take on the role of Chair of the Media Advocacy Committee.

Recommendation / Direction Sought – *Update, Approval*

CAFII EOC members will be asked to approve the appointment of Jacqlyn Marcus as the new CAFII Media Advocacy Chair.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 1(d)
Welcome, Call to Order, and Priority Matters—Members' Contributions to CAFII's Advancement Through Contribution of Volunteer Resources to Committee Chair, Committee Vice-Chair, and Committee Member Roles: Current Status and Next Steps Planned/Needed (Including Need For New CAFII Treasurer)

Purpose of this Agenda Item – *Update*

To update the Association on efforts to strengthen the membership of Committees and Working Groups.

Background Information

CAFII seeks to have a Chair and Vice Chair for all Committees and Working Groups.

Recommendation / Direction Sought – *Update*

CAFII EOC members will be asked to continue to investigate appointing volunteers to CAFII Committees and Working Groups.

Attachments Included with this Agenda Item

1 attachment.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 2(a-i)
Consent Items

Purpose of this Agenda Item

To provide documentation for the Board to review, which does not require updates, discussion, or decisioning.

Background Information

The Consent Items that do not require any discussion or decisions are:

a. Consultations/Submissions Timetable;
b. Regulatory Update;
c. February 15/22 CAFII Response Submission to FSRA on "Information Guidance on Complaints Resolution";
d. February 18/22 CAFII Response Submission to FCNB on "Proposed Rule INS-002: Insurance Fees";
e. February 18/22 CAFII Response Submission to AMF on "Incentive Management Guideline";
f. March 1/22 CAFII Response Submission to BCFSA on "Discussion Paper: Information Security Incident Reporting";
g. Regulator and Policy-Maker Visit Plan Recap;
h. Summary of Board and EOC Action Items;
i. Board-Approved Schedule of CAFII 2022 Meetings and Events.

Recommendation / Direction Sought – *Information Only*

No action required.

Attachments Included with this Agenda Item

10 attachments.

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Regulatory Update – CAFII Executive Operations Committee, 22 March, 2022

Prepared by Keith Martin, CAFII Co-Executive Director

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Federal/National

Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulatory Organizations (CISRO)

CCIR and CISRO Jointly Announce Proposed Guideline on Incentives Management for Consultation

In a 17 February, 2022 news release, CCIR and CISRO announce that they are engaging in a public consultation on "a proposed guidance that setsout expectations for insurers and intermediaries that pay compensation and/or design incentive arrangements related to the sales and servicing of insurance products."

The news release specifies that the Guidance "is intended to complement *CCIR-CISROGuidance: Conduct of Insurance Business and Fair Treatment of Customers* (FTC Guidance)" and "ensure incentive arrangements align with principles set out in that document."

The news release goes on to state that

> *Like the FTC Guidance, this guidance is principles-based and provides insurers and intermediaries with the discretion necessary to devise strategies, policies and controls in support of fair customer outcomesbased on the nature, size and complexity of their business activities. While both insurers and intermediaries have a shared responsibility, the insurer bears the ultimate responsibility for fair treatment of customers through to the end of a product's lifecycle.*

The new chairs of the CCIR, Robert Bradley, and CISRO, Éric Jacob, made comments on the new Guidance:

> *"Fair treatment of customers has quickly become the key focus of financial services regulatory authorities in Canada and abroad," said Robert Bradley, Chair of CCIR. "The proposed guidance builds onthe foundation set by CCIR-CISRO Guidance: Conduct of Insurance Business and Fair Treatment of Customers by addressing a specific set of industry practices and how they can best support fair treatment of customers," he added.*
>
> *"Insurance intermediaries play an important role in the fair treatment of insurance customers," said ÉricJacob, Chair of CISRO. "While insurance intermediaries are compensated for the services they provide, the proposed guidance will help to ensure that the risks that arise from compensation are properly managed," he added.*

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The *Proposed Guidance on Incentives Management for Consultation* can be found here:
Incentive Management Guidance

The Fair Treatment of Customers Guidance that it is intended to align to can be found here:
FTC Guidance

There is a 45 day consultation period with written submissions to be submitted by 4 April, 2022. CAFII will be providing a written submission.

Canadian Council of Insurance Regulators (CCIR)

CCIR Announces Erica Hiemstra, Head, Insurance Conduct at FSRA as the new Chair of the OmbudServices Oversight Standing Committee (OOSC)

In its Winter 2022 Newsletter, the CCIR announced that that Erica Hiemstra, Head, Insurance Conduct, FSRA would become the new Chair of the OmbudServices Oversight Standing Committee (OOSC). Ms. Hiemstra replaces Chris Carter of BCFSA. Members of the CCIR extended their appreciation to Mr. Carter as he takes on the Chair of the Climate Change, Natural Catastrophes & Consumer Awareness Working Group.

The CCIR website notes that

> *This committee works to ensure that third party dispute resolution systems in the insurance sector, including OmbudService for Life & Health Insurance (OLHI) and General Insurance OmbudService (GIO), fulfill the public interest objectives of complaint resolution as an important component of a well-functioning consumer protection policy framework.*

Travel Health Insurance Association of Canada

THIA Issues Regulatory Update on Quebec's Bill 64 – Legislation to Update Privacy Laws and Rules

On 14 March, 2022 the Travel Health Insurance Association of Canada (THIA) issued a Regulatory Affairs Committee update on the adoption by Quebec's National Assembly of Bill 64 – *An Act to modernize legislative provisions as regards the protection of personal information.* The update notes that the bill significantly updates Quebec's privacy legislation, and will come into force over a three-year period, with most requirements coming into effect on 22 September, 2023. The update cites the following as highlights of the legislation:

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- *Appointment of a privacy officer and publication of contact information on the organization's website (coming into effect on September 22, 2022).*
- *Mandatory breach reporting requirements to the Commission d'accès à l'information (CAI) andindividuals, similar to those in PIPEDA (coming into effect on September 22, 2022).*
- *New requirements when outsourcing or transferring personal information outside of Quebec.*
- *Introduction of data portability, and the "right to be forgotten".*
- *The obligation for organizations to conduct privacy impact assessments (PIAs) for certaininitiatives.*
- *Accountability rules, such as the obligation to establish, implement and publish governancepolicies and practices.*
- *Transparency requirements when organizations are using technologies allowing individuals to beidentified, located and profiled.*
- *Greater enforcement tools for the CAI, including imposing administrative monetary penalties on organizations up to $10,000,000 or, if greater, the amount corresponding to 2 per cent of worldwide turnover in the preceding year.*
- *Expanded range of offences for certain serious contraventions of the law, subject to a maximum fine of 4% of global revenue or $25,000,000.*
- *Private right of action for intentional or gross fault of at least $1,000 where an unlawful invasion of privacy causes harm.*

The update adds that

> *As we predicted in our previous Privacy Laws Bulletin in March 2021, we expect significant revisions to privacy and data protection laws to continue in coming years. The province of Quebec has gone first to bring its legislation closer in line with Europe's GDPR and other provinces have similar initiatives underway. Although the overhaul of Canadian federal privacy legislation and its replacement with the Canada Consumer Privacy Protection Act was suspended by the 2021 federal election, we can expect Parliament to re-introduce similar legislation in this session.*

THIA's legal council of record is Jill McCutcheon of Torys, who would have been involved in the development of this update. CAFII will continue to monitor developments around privacy legislation carefully.

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The Ombudsman for Banking Services and Investments (OSBI)

The Ombudsman for Banking Services and Investments (OSBI) Releases its 2021 Annual Report, Along with a Press Release

The Ombudsman for Banking Services and Investments (OSBI) issued a press release on 15 March, 2022 which commented on its just-released 2021 Annual Report.

The report notes that

> *"The past year marked a number of significant milestones for OBSI," said Sarah Bradley, Ombudsman and CEO, OBSI. "We successfully managed the highest case volumes we have experienced in our 25-year history. During this landmark year, we also completed our 2017–2021 Strategic Plan and finalized the development of our new 5-year strategic plan. 2021 also marked an important governance shift for OBSI as it was the last full year in the term for our Chair of the Board of Directors, and the board undertook the recruitment process for our new chair.*

The report adds that

> *2021 was OBSI's busiest year on record, surpassing previous highs reached following the global financial crisis in 2009-2010. During the year, OBSI assisted 7,593 consumers who contacted the organization with inquiries, a 33% increase over 2020. In 2021, OBSI also opened 1,082 new cases, 37% more than in 2020.*

In terms of banking highlights, the report states that

> *Banking cases increased 55% year-over-year, from 332 cases in 2020 to 514 in 2021. The top concerns raised with OBSI by consumers in 2021 related to credit cards, personal transaction accounts, and mortgage loans. Complaints related to credit cards were the subject of 35% of all banking cases, while personal savings and chequing account complaints followed at 15%, and mortgage loan complaints represented 14% of all banking cases.*
>
> *Fraud was the overall leading issue for banking complaints in 2021, making up a large portion of the complaints involving credit cards, personal accounts, e-transfers and wire transfers, and 22% of OBSI's total banking case volume. Concerns about service issues made up 18% of complaints overall. Among consumers with credit card concerns, chargeback was the most common issue raised. For personal savings and chequing accounts, issues related to a bank's decision to end the consumer relationship were the most common area of*

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consumer concern. Pre-payment penalties was the top issue raised in relation to mortgage-related complaints.

The Annual Report can be found here:
[OSBI Annual Report 2021]

Financial Consumer Agency of Canada (FCAC)

CAFII Meets with Representatives of FCAC on its Proposed Approach to the Appropriate Products and Services Guideline

On 17 February, 2022 CAFII, at FCAC's request, met to hear the FCAC's final position on the Appropriateness Guideline that it planned to imminently release in final form. At the meeting from FCAC were Bradley Schnarr, Manager, Regulatory Guidance and Coordination, Supervision and Enforcement Branch; and Stephen Wild, SeniorResearch and Policy Officer, Supervision and Enforcement Branch.

While the FCAC said that the final version of the Guideline would remain largely unchanged from the consultation draft, there were significant changes made to the document that reflected CAFII's input. These are detailed in a written update of the meeting developed by CAFII which was shared with CAFII members as an attachment to an email sent on 24 February, 2022 at 4.15pm (please reach out to Keith Martin or Brendan Wycks if you would like a copy), which included the important clarification that the FCAC does **not** have an expectation that determining the appropriateness of a financial or insurance product for a consumer must necessarily include a needs analysis or providing advice.

Auditor General of Ontario

CAFII Meets with the Auditor General of Ontario on FSRA's Performance

The Auditor General of Ontario met with CAFII management (Keith Martin and Brendan Wycks) on 22 February, 2022 on the performance of FSRA. CAFII's input was generally very positive, but it was noted that FSRA's annual budget increases—and fees to industry—had recently been higher than the rate of inflation, and it was CAFII's view that this was not sustainable in the long run. CAFII applauded FSRA's quality of management, its commitment to principles-based regulation, and its open, consultative approach.

Canadian Health and Life Insurance Association of Canada (CLHIA)

CLHIA Releases Preliminary Agenda for the 4-5 May 2022 Virtual Compliance and Consumer Complaints Annual Conference

The CLHIA has released its draft agenda for the 4-5 May, 2022 virtual Compliance and Consumer Complaints Annual Conference. You can access the agenda here:

Agenda: Compliance and Consumer Complaints Annual Conference

If you are interested in attending the conference, you can contact Ethan Kohn:

Ethan M. Kohn EKohn@clhia.ca

Canadian Association of Financial Institutions in Insurance (CAFII)

CAFII Holds Webinar on 7 March, 2022 on Mental Health Issues and Challenges in the Workplace, At Home, and In Society: Coping With the Persistent Pandemic's Impact

On 7 March, 2022 CAFII held a webinar on "Mental Health Issues and Challenges in the Workplace, At Home, and in Society: Coping with the Persistent Pandemic's Impact." Participating in the webinar were three leading experts on these issues: *Paula Allen, Global Leader and SVP, Research and Total Wellbeing, LifeWorks, the successor to the business formerly know as Morneau Sobeco; Irene Keller, Director, Group Benefits Product and Solutions, Sun Life; and Shawna Oliver, AVP, Head of Global Benefits, Manulife, working out of its Boston office.*

Panelists all felt that the COVID-19 pandemic had definitely had an impact on mental health issues for Canadians. Paula Allen said that the impact had been greater than many realized. Change, uncertainly, risk, and isolation had all been introduced into peoples' lives in the past two years, and these are all stressors. LifeWorks has surveyed pre-pandemic and current levels of mental health and wellness, and has found that there has been a massive decline in the mental health status of people. This has resulted in major increases in mental health risks, including one-third of Canadians being at risk of mental health issues. Taking another measure, risky levels of alcohol intake has moved from 2 percent of the working population to 8 percent of the working population during the pandemic.

Irene Keller added that mental health issues were a big issue before the pandemic, and this has now been accelerated by the past few years, especially for the under-35 population. Paula Allen noted that there are more vulnerabilities and challenges for younger people, and the pandemic has added to the already existing stress for this more vulnerable population. This is also an age where isolation is more challenging and that has made the pandemic worse for this younger population. Shawna Oliver said that working mothers are another vulnerable group, and that the impact of stressors over the past two years are going to manifest themselves at some point in time.

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The panelists spoke next about workplace culture, and the importance of creating a safe, supportive environment. Many employees still associate a stigma with mental health issues, are many will not want to share any such issues with their employers. Employers have to take this on a critical priority, and the right tone has to be set throughout the organization.

The right tools and resources are critical, but the cultural environment is even more important. It was also noted that employees should not have to choose between physical and mental health—they are not separate issues, they are linked, and both need to be part of the equation for employees. The panel also noted that "one size fits all" does not work for mental health issues, and employees need to offer employees options.

The session included good representation from regulators across the country, with the following regulators registered for the session:

- The Alberta Insurance Council;
- The British Columbia Financial Services Authority, or BCFSA ;
- The Financial and Consumer Services Commission of New Brunswick;
- The Government of Alberta;
- The Insurance Council of Manitoba; and
- The Insurance Councils of Saskatchewan.

The webinar included some live polls that demonstrated that 100% of attendees had faced, or knew someone who had faced, mental health challenges; but the polls also revealed that nearly a third of attendees would not want to reveal to their employer that they were dealing with a mental health issue.

The recording of the webinar and the poll results can be found here:

https://www.cafii.com/research/

Kathryn Kitchen, VP Head of HR at Manulife, posted a link to the webinar on LinkedIn:

LinkedIn Posting on CAFII Mental Health Issues Webinar

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CAFII Holds Webinar on 31 January, 2022 with Insurance Experts on Incentivization Programs

On 31 January, 2022, CAFII held a webinar on "The Ins and Outs of Life Insurers' Health and Wellness Incentivization Programs." Three expert insurance panelists participated:

- Patti Annable, Assistant Vice-President, Marketing Communications, Lumino Health, Sun Life;
- Lisa Heath, CEO, MediResource Inc, business partner to Canada Life's Health Connected; and
- Paul Savage, Head of Product and Pricing, including for Vitality, Manulife.

The session covered a wide range of topics and the panelists were engaged in the discussion. Patti Annable said that Lumino Health at Sun Life is about connecting customers with their needs. Lisa Health spoke about Health Connected, which Canada Life participates in, with the intention to contributing the well-being of employees and connecting employees to the services that they need. Paul Savage said that Vitality is a program that tries to use incentives to promote healthy choices.

Panelists gave examples of incentives to promote healthy behaviour, like providing rewards for getting a COVID-19 vaccine. The panelists also noted that many people who have access to these programs are not aware of them, and increasing awareness is a key objective. On this issue, Lisa Heath stated:

> *Our experience is that communication actually matters the very most. It could be because our focus is the group benefit market so we're dealing with plan sponsors, but what's most important if you want engagement is to tell people, your employees, very specifically what you're offering to them in terms of health and wellness.*
>
> *It's more important, from our experience, than gamification because if people just don't even know that the tool is available, and you don't make any effort to tell them that these benefits are available, they're not going to use them.*

On the subject of wearables, Lisa Heath said that they had potential but that there was a need for evidence that they actually can influence behaviour, it needed to be kept in mind that not everyone has access to them, and caution needed to be shown around users being comfortable with sharing the data with third parties like their insurer.

On the latter issue, Patti Annable said that the information that was collected was often used in the aggregate, and that protection of personal privacy was essential. Lisa Heath said that regulatory changes would occur and that industry would have to adjust to that, and in fact proper regulation should be welcomed. Paul Savage said that trust is central to the collection of health data and that privacy is absolutely paramount.

Poll questions found that roughly half of attendees were in incentivization programs, which panel members felt sounded roughly correct. As well, 68% of attendees said gamification (like rewards, points, games) would increase their participation in incentivization programs, although panelists said that the demographic that found gamification most appealing was younger people.

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The session included good representation from regulators across the country, with the following policy-makers and regulators registered for the webinar:

- Quebec's Autorité des marchés financiers, or AMF;
- The Financial Services Regulatory Authority of Ontario, or FSRA;
- The Ontario Ministry of Finance;
- The Government of Alberta ;
- BC Financial Services Authority;
- The Insurance Council of BC;
- Consumer and Financial Services Commission of New Brunswick;
- The Insurance Councils of Saskatchewan.

The session was recorded and can be found here:

https://www.cafii.com/research/

Panelist Lisa Heath posted a LinkedIn thread on the Webinar:

Lisa Heath LinkedIn Posting on CAFII Webinar on Incentivization Programs

Ontario

Financial Services Regulatory Authority of Ontario (FSRA)

CAFII Meets with FSRA Executives to Discuss Issues of Mutual Interest

CAFII Management (Keith Martin and Brendan Wycks) met with FSRA executives on 11 February, 2022 to discuss issues of mutual interest. Representing FSRA at the meeting were Erica Hiemstra, Head, Market Conduct—Insurance; Swati Agrawal, Senior Manager, Market Conduct, Life & Health Insurance; and Joel Gorlick, Director, Market Conduct Policy.

Erica Hiemstra explained that the purpose of these meetings was to provide a forum for open discussion on issues that CAFII or FSRA might wish to raise, with no pre-set agenda and with the intention to hold them on a regular basis. CAFII shared the high level of regulatory activity of late, and referenced some of the submissions made including to the FCAC on the Appropriateness Guideline. CAFII applauded FSRA for its 27 January, 2022 FSRA Exchange Event, and in particular the very interesting session on principles-based regulation, but also noted that an event focused on insurance, in particular life and health insurance, could be very valuable. FSRA agreed with that feedback and said it would explore holding such an event, which used to be organized annually by its predecessor organization FSCO.

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FSRA Issues Framework Principles for Principles-Based and Outcome-Focused Regulation, Announces Consultation Until April 29, 2022

On 16 March, 2022 FSRA announced that it was initiating a consultation on its approach to principles-based regulation, noting that

> *We are setting out our approach to principles-based regulation, which will enhance consumer protection, facilitate innovation and ultimately lead to more efficient and effective regulation.*
>
> *Where possible, we are moving away from "prescriptive checklists" and encouraging entities to internalize regulatory requirements and work towards achieving desired regulatory outcomes based on their size, complexity, and risk profile.*
>
> *Adopting principles-based regulation represents an important cultural change for both the regulator and the regulated, now putting the emphasis on communication, collaboration and transparency on both sides of the regulatory relationship. It will also place greater reliance on a regulated entity's senior management, and its board of directors, to achieve desired outcomes and to demonstrate how they have achieved desired outcomes.*
>
> *Our proposed Principles-Based Regulation Approach Guidance being issued today sets out:*
>
> - *FSRA's Framework Principles for principles-based and outcomes-focused regulation ("Framework Principles")*
> - *How principles-based regulation is reflected in FSRA's approach to regulation and supervision*
> - *How FSRA's Framework Principles will be implemented.*

At the core of the approach that FSRA is proposing are the following general principles:

1. ***Outcome-Focused*** *– FSRA will focus its regulatory activities on the outcomes we seek to achieve for consumers and pension plan beneficiaries, regulated entities and the sectors based on the statutory objects in the FSRA Act, which will be used as an overlay to the interpretation of the sector statutes*
2. ***Innovative*** *– FSRA will continue to develop its own culture and capabilities in a manner that enables it to fulfill its objects, which specifically includes facilitating innovation and transformation in the sectors it regulates*
3. ***Consumer-Centric*** *– In formulating its regulatory approach toward regulated entities and individuals, FSRA will focus on impact on consumers and pension plan beneficiaries. Our Rules[3] and guidance strive to reflect the interests and needs of consumers*

4. ***Risk-Based*** *– FSRA will direct its resources to the issues and regulated entities and individuals that pose the highest risk. FSRA's risk assessment will consider the size, complexity, nature of the regulated entity, and where non-compliance or the inability to achieve the desired outcomes, will result in the most harm to consumers or pose the greatest threat to FSRA's ability to execute against its statutory objects*
5. ***Transparent*** *– FSRA will communicate its expectations and/or requirements, as well as its activities and performance to stakeholders.*[4] *We will design Rules and guidance that reference the applicable principles against which FSRA will supervise, and identify the specific outcomes FSRA is seeking to achieve*
6. ***Collaborative*** *– FSRA will engage with all stakeholders and leverage public consultations to ensure that its regulatory activities reflect the viewpoints and needs of its stakeholders, which include the interests of consumers and pension plan beneficiaries*

CAFII will make a written submission to FSRA on this proposed guideline.

The proposed principles-based regulation document can be found here:
[Proposed Principles-based regulation | Financial Services Regulatory Authority of Ontario (fsrao.ca)]

Details on the consultation can be found here:
[Seeking input on proposed principles-based regulation approach guidance | Financial Services Regulatory Authority of Ontario (fsrao.ca)]

FSRA Holds Virtual Mini-Conference on 27 January, 2022 that Includes a Focus on Principles-Based Regulation

On 27 January, 2022 FSRA held a mini-conference called the "2022 FSRA Exchange Event" which had an overarching focus on principles-based regulation. FSRA CEO Mark White stated:

> *"We are moving away from prescriptive checklists and a compliance focus. We want to evaluate regulated entities by, do they achieve the desired outcomes," said White. "And with Principles-Based Regulation entitles are expected to understand and achieve the desired outcomes and they can do so in a way that's suited to their size, nature and complexity of their business and where they are in the marketplace, it's not one size fits all."*

FSRA Board Chair Joanne De Laurentiis said:

> *"As the Board Chair of FSRA I want to challenge the leadership in all the sectors we regulate to collaborate and engage with us," said De Laurentiis. "We want to hear from you, and your consumers, and hear your ideas about where the sector is today and where it is going and needs to go, in order to meet the needs of those who buy your product or use your services."*

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A panel was focused on principles-based regulation (PBR) and included Dr. Cristie Ford, Professor at UBC's Allard School, who stated:

> *"Principles-Based Regulation is absolutely the right system for thinking about private sector innovation and how to deal with it," said Dr. Ford. "A purely rules-based system is going to produce maybe one of a couple of different outcomes, one will be that it will stifle innovation good, bad or otherwise, because the rules just prevent any kind of flexibility or creativity on the part of industry actors and on the part of the regulators."*

Dr. Ford emphasized that if principles-based regulation is based only on high level statements without clear communication between the regulator and regulated entities, it will not achieve the intended objectives. She added that it was necessary to have a regulator which collected information from the industry and operated in a collaborative way, while remaining independent, in order to have PBR succeed. However, done properly Dr. Ford felt that such a PBR regime was much more effective than a rules-based approach.

However, Dr. Ford also noted that principles-based regulation does not mean "doing away with rules." However, in such a regime the regulator does not reach for the rules first, and has a regulatory culture that is based on flexibility and focused on outcomes. Such a regime also requires significant regulatory guidance based on open discussions with industry. However, the option for enforcement of rules always has to be there—as William Douglas said:" If you have a big shotgun behind the door, hopefully you never need to use it."

Dr. Ford added that PBR is a better system for promoting innovation in the private sector. Innovative sectors do not thrive in a rigid, rules-oriented regulatory system. Such systems style innovation and restrict flexibility and creativity. Such a system also promotes "loophole behaviour" and efforts to circumvent the rules, as opposed to working with the regulator to achieve the outcomes it seeks; ultimately, industry actors may just seek out other jurisdictions. Summarizing her thoughts on PBR and innovation, Dr. Ford said:

> *Putting rules in place in a highly innovative system is a little bit like trying to put wallpaper on a cat. It's -- you can pretend that you're doing something really sort of comprehensive but ultimately you're just -- you're papering over a problem that is not staying still for you. So a principles-based system is absolutely the better way to go if you want regulation to stay relevant, if you want it to actually be responsive to industry. And through the communication with industry a principles based regulator has better information. So because there is a meaningful communication loop with industry, the regulator has better access to information, understands what's going on, understands the challenges that industry actors are facing, and also understands sort of where the risks might be arising for consumer protection, for example.*

Commenting on how industry can most effectively make PBR work, Dr. Ford said:

> *So for -- for -- for folks in the industry I think it's important to understand that this is really a compliance focused not enforcement focused regime. It's about being engaged. It's aimed to be or the intention is that it be cooperative to the greatest extent possible. Now again, it doesn't mean there's no enforcement stick in the background. There is. But this is -- the point is that this is not a gotcha regime, right? Where the regulator is looking for low hanging fruit and is seeking to I don't know catch you on some small rule violation. It really does look at overall regulatory priorities and by employing a risk based outcome oriented data driven regime, you can -- you can be confident that you're not going to be sort of caught out as long as you're communicating with the regulator*
> .
> *So -- so what this really means is it's in the industry -- it's in the interest of industry actors to really come to the regulator with problems earlier to demonstrate good will, and this allows the regulator to really focus its resources, its enforcement resources on the folks who are real, you know, causing -- a -- a -- real problem actors to mitigate that harm while not needing to do that with industry actors with whom they have a good relationship.*

CAFII is organizing a panel on principles-based regulation, outcomes-focused regulation, and on the implications of rule-making authority for the regulatory regime in provinces across Canada, including its possible impact on harmonization. Dr. Christie Ford will be participating in that panel with leading Canadian insurance lawyer Stuart Carruthers, Partner at Stikeman Elliott, on 3 May, 2022 (1-2pm). CAFII members and Associates will be receiving more information about the webinar in the coming weeks.

FSRA's New "Unfair or Deceptive Acts or Practices" Rule Effective 1 April, 2022

Insurance Portal reports that the Financial Services Regulatory Authority of Ontario (FSRA) has announced that its Unfair or Deceptive Acts or Practices (UDAP) rule for the insurance industry, is approved by the Ontario Minister of Finance, and will become effective April 1, 2022.

Notably, the rule states: "If a person has committed an unfair or deceptive act or practice, then every director, officer, employee or authorized representative of that person shall be deemed to have committed an unfair or deceptive act or practice," if those figures cause, authorize, permit, acquiesce or participate in the commission of the unfair act or practice, or if those parties fail to take reasonable care to prevent the person from committing the act in the first place.

FSRA says the rule, which applies to life and health insurers, property and casualty insurers, including auto, and any related goods or services providers, clearly defines outcomes that are unfair or otherwise harmful.

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The rule addresses discrimination, claims delays and unfair claims practices, incentives, misrepresentation and fraud. It also discusses prohibited conduct in automobile insurance quotations, applications and renewals. The rule was approved by the Minister of Finance following two public consultation periods and two submissions to the minister.

Quebec

Autorité des marchés financiers (AMF)

AMF Reaches out to CAFII on Action Plans Submitted Regarding the RADM and Credit Card-Embedded Insurance Benefits

CAFII members submitted by 17 December, 2021 Action Plans to the AMF on how to comply with the Regulation respecting Alternative Distribution Methods (RADM) for credit card-embedded insurance benefits. The AMF subsequently met with CAFII Management (Keith Martin and Brendan Wycks) to discuss the Action Plans and some concerns that they had identified, including some companies that produced one Product Summary for unrelated products (for example, warranty products and travel products cannot be combined in one Product Summary).

The AMF subsequently shared with CAFII a draft of a letter outlining these concerns, and on 15 March, 2022 CAFII submitted some suggested clarifications to the AMF (Mario Beaudoin and Charlène Boucher). The AMF intends to send the final version of the letter to CAFII; and to copy relevant insurer or underwriter members and other industry insurers which submitted Action Plans.

International Developments, Research, and Thought Leadership

Insurance Portal

Year-Over-Year Life Insurance Application Activity Declines in Canada

Insurance Portal cites MIB Life Index report on Canadian life insurance application activity to note that year-over-year application activity declined 8.4 percent in February, 2022 relative to February 2021. This continues a pattern of year-over-year declines that began in July, 2021.

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Aviva Canada Annual Risk Insights Report

Mental health emerges as top concern for Canadian employers worried about workers' low-grade trauma from pandemic

The Financial Post reports that Aviva Canada's Annual Risk Insights Report finds that mental health has emerged as a top concern of Canadian employers, ranking alongside more obvious threats such as labour shortages and COVID-19.

Prior to the pandemic, Canada businesses tended to express worry about more tangible risks: an office fire that could destroy essential documents; a flood that could short-circuit expensive equipment.

But now, the biggest threats facing Canadian businesses are invisible, and trickier to manage, according to insurance company Aviva Canada's annual Risk Insights Report, which draws on interviews with 1,500 business leaders to rank the things that keep Canadian business leaders awake at night.

COVID-19 ranked as the biggest threat; no surprise, given it caused an epic global recession in 2020 and continues to torment businesses around the world. The second item on the list, cyber-security, also was on the radar of executives a few years ago, even if relatively few were unsure about how to guard against malicious hackers. Labour shortages and supply disruptions — fourth and fifth, respectively — have been widely reported as the driving forces behind a troubling burst of inflation for more than a year.

The biggest surprise might be the risk at No. 3 on Aviva's list: mental health, which was rarely discussed as an economic issue ahead of the pandemic. That's changed. Employee satisfaction declined when COVID-19 hit and employees began working remotely. Experts believe Canadians are living with low-grade trauma from the events of the past two years, which, from a purely business perspective, increases absenteeism and adds to costs associated with treating mental health.

"The impact of lost productivity on our economy from new mental health challenges since COVID measures in the billions," Akela Peoples, chief executive officer of Mental Health Research Canada, wrote in an op-ed published last week in the Financial Post.

Essential workers continued to work with increased restrictions during the pandemic, while other employees began working from home, isolating them from co-workers and increasing the risk of loneliness and depression. This initial transition, as well as the return to work, has created a great deal of anxiety. Overall, 45 per cent of businesses saw an impact on employee well-being and mental health, according to the report.

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While some staff enjoy working from home, there are definite "downsides to the pressures of working from home and the stress of being 'always-on,'" the report said.

Not all business sectors are equally concerned about mental health. Businesses that are dependent on face-to-face client interactions, such as real-estate, retail, and the service industry are more inclined to fret for employees' well-being.

"Putting aside the human element, we have an economic rationale for continued focus on mental health," Peoples said. "Our data indicates that eight per cent of the school or working population are losing days every week to mental health issues."

The risk to businesses is not negligible. But most of the smaller companies surveyed by Aviva were still reeling from the impact of the pandemic, and said they were focused on staying in business rather than mitigating risks such as mental health.

Small businesses are already adept at risk management, whether they realize it or not, said Susan Penwarden, chief technical underwriter at Aviva Canada, the local unit of London-based Aviva PLC. "Small businesses do risk management every day, because risk management is basically running your business, and being aware of all the things that are going on that you have to manage."

As the pandemic continues, the way Canadian businesses view risk is changing. In moving business operations online, the pandemic increased the potential for cyber-security threats, and has created new challenges for employees with regard to mental health. It has also made supply chain vulnerabilities painfully clear.

"We need to be able to see beyond the next curve in the road and identify future risks before they're already upon us — because we know they're coming," Jason Storah, CEO of Aviva Canada, said in the report.

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Some might argue that it is impossible to accurately predict what the next five or 10 years may hold, and concerns about mental health will pass. However, there is reason to doubt that work will return to normal. Protiviti, a global consulting firm with an office in Canada, predicts that the risks of 2031 could include managing the hybrid work environment, keeping up with the breakneck speed of innovation, and more.

"COVID-19 has fundamentally challenged how businesses assess, manage and mitigate risk," the Aviva report said. "However, they're meeting those challenges head-on and with clarity."

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February 15, 2022

Mr. Mark White, CEO; and
Financial Services Regulatory Authority of Ontario
5160 Yonge St., 16th Floor
Toronto, ON M2N 6L9

RE: ***CAFII Feedback on Information Guidance on Complaints Resolution: Policy Framework and Best Practices***

Dear Mr. White:

The Canadian Association of Financial Institutions in Insurance (CAFII) thanks the Financial Services Regulatory Authority (FSRA) of Ontario for the opportunity to provide comments on FSRA's *Information Guidance on Complaints Resolution: Policy Framework and Best Practices.*

Given the importance of complaints handling to businesses' ability to satisfy and retain their customers, we support FSRA's development of a "principles-based, cross-sectoral framework designed to guide FSRA's policy work on complaints resolution."

Fair treatment in all aspects of an organization's dealings with customers is critical, and complaints resolution is a key component of this. CAFII members dedicate considerable resources to ensuring that proper resources, training, and support exist to ensure that customers who have a complaint are dealt with in a fair, timely, transparent, and effective manner. We therefore fully support FSRA's expectation that complaints processes need to be consumer-focused and accessible, fair, timely, transparent, and effective.

We also support the G20/OECD definition of "complaint" which FSRA has adopted, for purposes of this Guidance, as follows:

> *a statement of a consumer's dissatisfaction with the action, service or product of a financial services provider or an authorized agent.*

With respect to the nine best practices in complaints resolution identified by FSRA, we agree with and support each of them, save and except for #7.

Below, we offer a feedback comment on each of the nine best practices; and then address the four feedback questions posed by FSRA.

#1: Complaints resolution is an element of consumer protection frameworks. CAFII wholeheartedly agrees with this best practice statement. Our members have robust complaints handing systems in place for precisely that reason. Regulations in this area should be principles-based and outline expected customer outcomes rather than specify internal processes and business models to be followed.

#2: Consumers have access to IDR through their financial service providers. CAFII agrees that an internal dispute resolution (IDR) process must be in place as a first avenue of redress for consumers who have a complaint; and that it should be rooted in fair treatment of customers and best practices.

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CAFII is also strongly of the view that businesses should always have the opportunity to manage a complaint outside of a formal complaint handling process. In fact, most complaints today are effectively handled and resolved in an informal manner at Level 1. If formal complaint management procedures were to be required for all types of complaints, including those at Level 1, their redress and resolution would become needlessly complicated, without tangible additional benefit to customers.

#3: IDR processes are required to have certain consumer-focused features. CAFII agrees with all of the consumer-focused features which FSRA itemizes as being integral to internal dispute resolution (IDR) – including accessibility, fairness, timeliness, transparency, and effectiveness – and which should be at the core of the IDR process in every organization. With these principles addressed in a company's IDR process, its complaint management protocol should also be structured to support the best possible customer experience. All of CAFII's members have an IDR mechanism in place.

#4: Consumers have access to EDR when their complaint cannot be adequately resolved through IDR. CAFII agrees with and supports the best practices premise that if a consumer complainant is not satisfied with the outcome of an IDR process, there then needs to be an external dispute resolution (EDR) service made available. All of CAFII's members have an EDR service in place. We are of the view, however, that it is more effective to allow financial institutions to determine for themselves the optimal mechanism for offering EDR to their customers. As such, we do not support the model used in Australia, where the Australian Securities and Investments Commission (ASIC) requires financial institutions to participate in and fund the Australian Financial Complaints Authority (AFCA) as a one-body-fits-all approach.

#5: EDR mechanisms are independent from financial service providers and consumer groups: CAFII agrees with the best practice precept that the independence of EDRs is essential to their impartiality.

#6: EDR mechanisms have the ability to reliably secure redress for consumers: CAFII agrees with the best practice precept that EDR bodies need to be able to reliably secure redress for consumers, with strong emphasis placed on the operative word "reliably" as opposed to "always." In that connection, it is our Association's view that current EDR mechanisms and processes in Ontario and Canada should not be changed or made more onerous – for regulated entities or for consumer complainants -- in the absence of clear evidence that such change is necessary to address an existing shortcoming. In Canada, GIO, OBSI, and OLHI are all non-binding EDR bodies; and they have been largely successful at resolving consumer complaints which have been escalated to them, and at securing redress for consumers where warranted.

In many cases, an EDR is able to provide further information to an insurer which may support a change in position. In cases where an insurer disagrees with the recommendation from an EDR, there are recourse measures for the EDR (public reports, etc.) and for the customer (potential legal action). If EDR programs were to have the power to issue binding recommendations, then an avenue of appeal for the insurer would have to be put in place, which would complicate the overall process. Currently, cases in which a non-binding recommendation from an EDR is rejected by an insurer are rare.

We believe that the current system of EDR bodies in Canada works well and does not require substantive change or replacement.

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#7: There is only one EDR body for a particular financial services sector. CAFII takes issue with and does not support this proposition, as we do not view it as being evidence-based. While the system of EDR bodies in Canada has evolved to a state where there is more than one EDR utilized by the country's major banks, the current situation has not in our view resulted in any of the potential problems identified in this section of the Guidance. As noted above, our Association does not support a one-body-fits-all approach. To that end, we concur with FSRA's astute observation in the Guidance that trying to have one EDR for the entirety of the financial service industry in Canada would not work, given the reality of different jurisdictional authorities over different sectors (e.g.s, federal jurisdiction over banks in general, but provincial/territorial jurisdiction over insurance including insurance offered by federally regulated financial institutions).

#8: Regulators have access to complaints data from their regulated sectors and use the data to strengthen their regulatory efforts: CAFII strongly supports data/evidence-based financial services regulatory and policy-making decision-making. Every year, CAFII member insurers, and their FI distributor business partners, provide an extensive array of data to regulators, through CCIR's Annual Statement on Market Conduct (ASMC) and through the Financial Consumer Agency of Canada (FCAC)'s complaints reporting requirements. In that connection, we are strongly of the view that it is far more efficient for complaints resolution information and other data points to be collected nationally by the CCIR ASMC, as opposed to having separate provincial/territorial data-gathering initiatives. All of the data provided through the ASMC are capable of being segregated on a provincial/territorial basis; and, as such, ASMC data should be just as informative for FSRA as data gathered through a repetitive and burdensome, for industry, FSRA-independent initiative would be.

#9: Regulators serve an oversight role in the complaints resolution process: CAFII agrees with and supports this best practice statement on the importance of regulatory oversight. We view the important FSRA Guidance being discussed here as an example of that oversight role in practice.

Feedback Questions Posed By FSRA

1. Best practices: are there additional best practices that FSRA should explore or consider in the context of its work on complaints resolution?

CAFII believes that FSRA has a role to play in informing consumers about their rights and about relevant EDR mechanisms. Fostering consumer financial literacy by helping consumers to better understand the insurance marketplace would also help to reduce complaints and misunderstanding.

2. Policy Framework: does the Policy Framework include the appropriate principles? Are there any other principles that merit consideration in FSRA's Policy Framework?

CAFII believes that FSRA's Policy Framework does include the appropriate principles.

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3. FY2022-23 work: are there specific topics or issues that FSRA should explore during its upcoming work to strengthen its understanding of the current complaints resolution system?

CAFII recommends that FSRA play a leadership role in achieving a harmonization among provincial/territorial and federal approaches to regulatory oversight of the complaints resolution process. There is no consumer or regulatory benefit to the existence of different regulatory approaches to the monitoring of complaint handling in Canada. All provincial/territorial and federal regulatory authorities should have a common view of the way complaints should be managed. The existence of different approaches across the country does not deliver greater consumer protection benefits, and it also creates unnecessary confusion for Canadians and increased regulatory burden for CAFII member companies and the financial services industry at large.

As a further response to this question, we refer FSRA back to the CCIR ASMC as a robust source of data insights that may suggest specific topics or issues to be explored, and for strengthening understanding of the current complaints resolution system.

4. General feedback: are there other topics, issues, or themes that FSRA should consider in the context of its work on complaints resolution?

We do not have any particular topics, issues, or themes to suggest. However, CAFII is strongly of the view that in pursuing its work on complaints resolution, FSRA should start from the evidence-based foundational premise that there is no major gap or issue to fix regarding complaint handling at this time. Enhancements and refinements can certainly be considered, but the current complaint resolution system operating in the financial services and insurance industries in Ontario, and throughout Canada, is not broken.

Conclusion
CAFII again thanks FSRA for the opportunity to provide key industry stakeholder feedback on the Authority's *Information Guidance on Complaints Resolution.* We extend our Association's appreciation for FSRA's continued commitment to open and transparent communication and consultation. Should you require further information from CAFII or wish to meet with representatives from our Association on this submission or any other matter at any time, please contact Keith Martin, CAFII Co-Executive Director, at keith.martin@cafii.com or 647-460-7725.

Sincerely,

Rob Dobbins
Board Secretary and Chair, Executive Operations Committee

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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 credit protection, travel, life, health, and property and casualty insurance across Canada. In particular, credit protection 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 which helps ensure that Canadian consumers have access to insurance products that suit their needs. Our aim is to ensure that appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII's members include the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Insurance; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant; Canada Life Assurance; Canadian Premier Life Insurance Company; Canadian Tire Bank; CUMIS Services Incorporated; Manulife (The Manufacturers Life Insurance Company); Sun Life; and Valeyo.

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February 18, 2022

Corporate Secretary
Financial and Consumer Services Commission
85 Charlotte Street, Suite 300
Saint John, New Brunswick E2L 2J2
E-mail: secretary@fcnb.ca
c.c. David Weir, Senior Technical Advisor, FCNB
Ella-Jane Loomis, Senior Legal Counsel, FCNB

Dear Sir or Madam:

Re: CAFII Feedback On FCNB's Proposed Rule INS-002 Insurance Fees

The Canadian Association of Financial Institutions in Insurance (CAFII) appreciates the opportunity to offer feedback comments on FCNB's proposed *Rule INS-002 Insurance Fees*.

Overall, we support the fee amounts and related provisions set out in the proposed Rule. We are pleased to see that there will be no distinction in the fee amounts between resident and non-resident licence applicants.

Our single recommended change to the proposed Rule relates to *Part 4 Refunds*.

The way that Clause 4 in Part 4 of the proposed Rule is drafted – with a Refund of a licence application fee being totally dependent on the Superintendent's discretion and determination as to "fair and reasonable" – makes this provision seem vulnerable to subjective and arbitrary decision-making.

We therefore recommend that this Refunds provision should instead state the circumstances in which the Superintendent/FCNB would routinely and automatically provide a Refund of a licence application fee, given that doing so would only be fair and reasonable under those circumstances.

As a key industry stakeholder, CAFII again thanks the FCNB for the opportunity to offer feedback comments on proposed *Rule INS-002 Insurance Fees*. Should you require further information from CAFII or wish to meet with representatives from our Association on this submission or any other matter at any time, please contact Brendan Wycks, CAFII Co-Executive Director, at brendan.wycks@cafii.com or 647-218-8243.

Sincerely,

Rob Dobbins
Board Secretary and Chair, Executive Operations Committee

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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. 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 credit protection, travel, life, health, and property and casualty insurance across Canada. In particular, credit protection 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 which helps ensure that Canadian consumers have access to insurance products that suit their needs. Our aim is to ensure that appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII's members include the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Insurance; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant; Canada Life Assurance; Canadian Premier Life Insurance Company; Canadian Tire Bank; CUMIS Services Incorporated; Manulife (The Manufacturers Life Insurance Company); Sun Life; and Valeyo.

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Le 18 février 2022

Maître Philippe Lebel
Secrétaire et directeur général des affaires juridiques
Autorité des marchés financiers
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Objet : Commentaires de l'ACIFA concernant le projet de Ligne directrice de l'AMF sur la gestion des incitatifs de novembre 2021

Maître,

L'ACIFA remercie l'AMF de lui avoir donné l'occasion de formuler des commentaires sur le projet de Ligne directrice sur la gestion des incitatifs.

Commentaires préliminaires

L'ACIFA croit fermement que les réglementations et les lignes directrices fondées sur la conduite du marché doivent souligner les attentes des régulateurs en matière de protection des consommateurs en ce qui concerne les résultats, mais ne doivent pas entrer dans les détails prescriptifs quant à la manière dont ces résultats peuvent ou doivent être atteints.

Nous sommes donc heureux de vous aviser que nous trouvons que le projet de Ligne directrice sur la gestion des incitatifs de l'AMF est généralement fondé sur des principes et axé sur les résultats, décrivant les attentes de l'Autorité de manière suffisamment détaillée sans prescrire la façon dont les entités réglementées peuvent ou devraient répondre à ces attentes.

Cela dit, nous trouvons que certaines parties du projet de Ligne directrice tendent vers un langage plus prescriptif. Par exemple, le document utilise systématiquement des termes qui sont de nature plus impérative et rigide - tels que « assurer », « satisfaire » et « identifier » - plutôt qu'un langage davantage fondé sur des principes, tel que « raisonnablement conçu pour », qui donnerait des meilleures orientations de haut niveau.

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L'ACIFA croit fermement qu'une approche fondée sur des principes et axée sur les résultats - que l'AMF a, pour l'essentiel, adoptée dans le cadre de l'élaboration du projet de Ligne directrice sur la gestion des incitatifs - donne lieu à de meilleurs résultats en matière de réglementation, car elle offre aux entreprises la latitude nécessaire pour utiliser leur connaissance du marché et de leurs clients, ainsi que leur expertise opérationnelle, afin de répondre de manière efficace et efficiente aux attentes de l'organisme de réglementation en matière de traitement équitable des clients.

Commentaires sur les principes généraux de la gestion des mécanismes incitatifs

L'ACIFA reconnaît que la consultation actuelle de l'AMF sur le projet de Ligne directrice sur la gestion des incitatifs - ainsi que la mise à jour de Ligne directrice sur les saines pratiques commerciales sur laquelle l'Autorité a récemment mené des consultations; et les examens de surveillance connexes pour la conformité, dont la Ligne directrice sur la gestion des incitatifs a émané - trouvent leur origine dans les préceptes de gestion des conflits d'intérêts fondés sur les incitatifs, énoncés dans le principe de base 19 de l'Association internationale des contrôleurs d'assurance (AICA) : *Conduite des activités*. Notre Association se réfère souvent au principe de base 19 comme repère pour discuter des meilleures pratiques de l'industrie et de la manière dont les entreprises peuvent faire encore mieux en matière de traitement équitable des clients.

En ce qui concerne la situation ici au Canada, nous offrons l'observation suivante tirée du très pertinent document de réflexion de l'ACCAP de février 2016 intitulé « *Distribution d'assurance au Canada : Promouvoir un système axé sur le client* » :

L'ACIFA appuie fermement l'affirmation de l'ACCAP selon laquelle « Au Canada, les conflits d'intérêt potentiels (ou perçus) sont gérés de deux façons. D'une part, les conseillers sont encouragés à axer la vente sur les besoins et à formuler des recommandations répondant à ces besoins et d'autre part, ils doivent indiquer aux clients quels assureurs ils représentent et comment ils sont rémunérés. Cela est renforcé par les principes du CCRRA pour la gestion des conflits d'intérêt, et par les pratiques et les lignes directrices de l'industrie. »

Les membres de l'ACIFA soutiennent, et font tout leur possible pour intégrer dans leur culture organisationnelle, les meilleures pratiques de l'industrie en ce qui a trait au traitement équitable des clients et à la gestion des conflits d'intérêts que le CCRRA et les CISRO ont fournis dans leur guide : *Conduite des activités d'assurance et traitement équitable des clients* - à savoir que l'intérêt du client doit primer sur celui du vendeur/conseiller; que le vendeur/conseiller doit divulguer les conflits d'intérêts ou les conflits d'intérêts potentiels; et que le produit vendu doit être adapté aux besoins du client.

Les membres de l'ACIFA se conforment également à toutes les lignes directrices applicables de l'ACCAP; en particulier, nous formulons les observations suivantes sur la ligne directrice 13, *Structures de rémunération – Gestion des conflits d'intérêts*; et la ligne directrice 14, *Confirmation de la communication de renseignements concernant les conseillers*, qui sont des exemples éloquents de la façon dont l'industrie a répondu aux préoccupations des organismes de réglementation.

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Notre Association est d'accord avec les prémisses fondamentales de la ligne directrice 13 selon lesquelles « Un solide mécanisme de rémunération est nécessaire si l'on veut attirer et retenir des professionnels qualifiés qui offriront et placeront des produits d'assurances de personnes répondant aux besoins des consommateurs et qui s'occuperont du service après-vente. En outre, tout mécanisme de rémunération bien conçu doit prendre en compte le risque de conflit d'intérêts que présente la rémunération liée aux ventes » et que « l'un des éléments du traitement équitables des clients est que les stratégies de rémunération et de récompense donnent des résultats équitables pour les clients. »

En ce qui concerne la ligne directrice 14, nos membres appuient et respectent toutes les dispositions applicables relatives à la divulgation de renseignements par les conseillers, mais en particulier - en tant que distributeurs d'assurance crédit, d'assurance voyage et d'autres types d'assurance vie et maladie - la disposition selon laquelle « Lorsqu'un assureur accepte une proposition provenant d'un centre d'appels ou obtenue en ligne par un agent détenteur d'un permis d'assurance vie ou d'assurance accident et maladie, ou les deux, les mécanismes dont dispose l'assureur devraient garantir également que les renseignements pertinents ont été communiqués au client. » Nous notons également que le projet de Ligne directrice sur la gestion des incitatifs stipule ce qui suit :

L'Autorité s'attend notamment à ce que le conseil d'administration :

- *Veille à ce que les comités chargés de suivre l'évolution de la culture d'entreprise et d'identifier les risques de pratiques pouvant nuire au traitement équitable des clients aient également la responsabilité de s'assurer que les intérêts des clients sont pris en compte dans la gestion des mécanismes incitatifs ;*
- *Veille à ce que des changements aux mécanismes incitatifs soient apportés rapidement lorsque le traitement équitable des clients ne peut être assuré ;*
- *Veille à ce que des mesures appropriées soient prises à l'égard des clients concernés lorsqu'une pratique qui nuit au traitement équitable des clients est identifiée.*

Bien que nous soyons d'accord avec le fait que le conseil d'administration d'une entité réglementée devrait donner le ton général en ce qui concerne la culture d'entreprise - y compris l'importance centrale du traitement équitable des clients - nous ne sommes pas d'accord avec le fait que les détails concernant les dispositions relatives aux incitatifs seraient du ressort du conseil d'administration d'une grande institution financière, étant donné que les décisions tactiques/opérationnelles de cette nature seraient de la responsabilité de la haute direction.

Commentaires et observations spécifiques sur le projet de Ligne directrice sur la gestion des incitatifs

Nous admettons que les incitatifs variables, qu'ils soient qualitatifs ou quantitatifs, peuvent présenter un risque et doivent être gérés. Mais nous ne considérons pas que de tels incitatifs soient intrinsèquement problématiques, en particulier lorsqu'un incitatif, telle qu'une prime, est structuré comme une composante d'un programme de rémunération global qui est basé sur un certain nombre d'objectifs et non seulement sur les ventes ou le volume des primes - par exemple, un programme qui inclut des objectifs liés au traitement équitable des clients et de satisfaction de la clientèle.

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À titre d'information sur les méthodes de rémunération et les contrôles généralement utilisés par nos membres, les représentants du service à la clientèle des membres de l'ACIFA - dont la majorité sont des employés salariés - sont hautement supervisés tant dans les succursales que dans les centres de contact avec la clientèle. Les représentants du service à la clientèle de nos membres suivent la formation complète et continue sur les produits afin de pouvoir fournir aux consommateurs des informations précises et fiables. Ils reçoivent également la formation sur l'éthique et l'intégrité qui souligne l'importance d'un traitement équitable des clients. Il existe également des mesures considérables de surveillance de la gestion et d'assurance de la qualité utilisées par les membres du l'ACIFA.

Cette formation permet aux représentants du service à la clientèle qui offrent de l'assurance d'acquérir les connaissances, les compétences et les outils nécessaires pour effectuer leur travail et bien servir les clients. Elle permet également d'assurer que nos sociétés membres, en tant qu'employeurs, agissent conformément aux lois et règlements fédéraux, provinciaux et territoriaux applicables en matière d'assurance et aux lignes directrices de l'industrie.

À cet égard, nous souscrivons à l'énoncé d'introduction du projet initiale de Ligne directrice sur la gestion des incitatifs selon lequel « Parmi les attentes qui y sont énoncées, l'Autorité indique notamment qu'elle s'attend à ce que tout conflit d'intérêts réel ou potentiel soit évité ou géré de façon à assurer le traitement équitable des clients. »

Cependant, nous ne sommes pas d'accord avec l'affirmation suivante : « Les incitatifs consentis aux membres du personnel d'une institution financière, aux intermédiaires ou à toute autre personne qui agit pour son compte et qui intervient dans l'offre de ses produits et services constituent une source importante de conflits d'intérêts. » A notre avis, si un incitatif est correctement géré et soumis à des contrôles suffisants, ce n'est absolument pas le cas.

Enfin, nous sommes d'accord avec les grands principes énoncés dans les sections du projet de Ligne directrice sur la gestion des incitatifs portant sur la gouvernance, la gestion des mécanismes incitatifs, l'identification et l'évaluation des risques de pratiques pouvant nuire autraitement équitable des clients, et les contrôles de la qualité.

<u>Conclusion</u>
Les membres de l'ACIFA sont très conscients du fait qu'une proportion importante de Québécois, et de Canadiens en général - généralement ceux qui appartiennent à des ménages à revenu faible ou moyen - est largement non assurée ou sous-assurée en ce qui concerne la couverture d'assurance vie et maladie. Selon une étude LIMRA 2019 sur la souscription à une assurance vie au Canada, 50 % des adultes canadiens n'ont aucune couverture d'assurance vie. L'assurance vie n'est pas une préoccupation pour la plupart des gens et, par conséquent, il est difficile de proposer ces produits. Une approche équilibrée des incitatifs qui accorde aux représentants des services financiers une reconnaissance, financière ou autre, pour avoir offert ces produits importants - dans le cadre d'une conversation sur la gestion des risques que la plupart des gens souhaitent éviter - peut mener à la mise en place d'une protection importante pour les Québécois, protection qu'ils n'auraient peut-être pas obtenue autrement.
En tant qu'intervenant clé de l'industrie, CAFII remercie à nouveau l'AMF de lui avoir donner l'occasion de présenter ses commentaires sur le projet de Ligne directrice sur la gestion des incitatifs. Si vous

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souhaitez obtenir de plus amples renseignements de la part de l'ACIFA ou rencontrer des représentants de notre Association au sujet de cette soumission ou de toute autre question, veuillez communiquer avec Keith Martin, codirecteur général de L'ACIFA, à keith.martin@cafii.com ou au numéro 647-460-7725.

Veuillez agréer, Maître, l'expression de mes sentiments les meilleurs.

Rob Dobbins
Secrétaire du Conseil d'administration et président du Comité exécutif des opérations

c.c. M. Éric Jacob, surintendant de l'assistance aux clientèles et de l'encadrement de la distribution
M. Patrick Déry, surintendant de l'encadrement de la solvabilité
Mme Louise Gauthier, directrice principale des politiques d'encadrement de la distribution
M. Mario Beaudoin, directeur des pratiques de distribution alternatives en assurance

À propos de l'ACIFA

L'ACIFA est une association sectorielle à but non lucratif qui se consacre au développement d'un marché de l'assurance ouvert et flexible. Notre association a été créée en 1997 pour donner une voix aux institutions financières qui vendent des assurances par l'entremise de divers canaux de distribution. Nos membres proposent des assurances par le biais de centres d'appels, d'agents et de courtiers, d'agences de voyage, de publipostage, de succursales d'institutions financières et d'Internet.

L'ACIFA croit que les consommateurs sont mieux servis lorsqu'ils ont un choix significatif dans l'achat de produits et services d'assurance. Nos membres offrent l'assurance voyage, l'assurance vie, l'assurance maladie, l'assurance dommages et l'assurance-crédit collective dans tout le Canada. En particulier, l'assurance-crédit collective et l'assurance voyage sont les lignes de produits sur lesquelles se concentre l'ACIFA, car nos membres ont un point commun.

La diversité des membres de l'ACIFA permet à notre association d'avoir une vue d'ensemble du régime réglementaire qui régit le marché de l'assurance. Nous travaillons avec les gouvernements et les organismes de réglementation (principalement provinciaux et territoriaux) afin d'élaborer un cadre législatif et réglementaire pour le secteur de l'assurance qui contribue à garantir que les consommateurs canadiens obtiennent les produits d'assurance qui répondent à leurs besoins. Notre objectif est

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d'assurer la mise en place de normes appropriées pour la distribution et la commercialisation de tous les produits et services d'assurance.

Les membres de l'ACIFA comprennent les branches d'assurance des principales institutions financières du Canada - BMO Assurance, Assurance CIBC, Desjardins Assurances, Banque Nationale Assurances, RBC Assurances, La Financière ScotiaVie et TD Assurance - ainsi que les principaux acteurs de l'industrie : Assurant, Assurance-vie Canada, Compagnie d'assurance-vie Première du Canada, CUMIS Services Incorporated, la Banque Canadian Tire, Manuvie (La Compagnie d'Assurance-Vie Manufacturers), Sun Life et Valeyo.

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18 February, 2022

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c.c. Mr. Éric Jacob, Superintendent, Client Services and Distribution Oversight
Mr. Patrick Déry, Superintendent, Solvency
Ms. Louise Gauthier, Senior Director, Distribution Policies
Mr. Mario Beaudoin, Director, Alternative Insurance Distribution Practices

Re: CAFII Feedback On AMF's Incentive Management Guideline November 2021

Dear Mr. Lebel:

CAFII thanks the AMF for the opportunity to provide feedback comments on the Autorité's draft Incentive Management Guideline.

Opening Comments

CAFII strongly believes that market conduct-based regulations and guidelines should outline regulators' consumer protection expectations in terms of outcomes, but should not get into prescriptive details as to how those outcomes can or should be achieved.

We are therefore pleased to advise that we find the AMF's draft Incentive Management Guideline to be generally principles-based and outcomes-focused, outlining the Autorité's expectations in reasonable detail without prescribing how regulated entities can or should meet those expectations.

However, that said, we do find that there are parts of the draft Guideline that stray into more prescriptive language. For example, the document consistently uses terms that are more imperative and rigid in nature – such as "ensure," "satisfy," and "identify" – rather than more principles-based language such as "reasonably designed to" which would convey the optimal high-level guidance.

CAFII strongly believes that a principles-based and outcomes-focused approach -- which the AMF has, for the most part, taken in developing the draft Incentive Management Guideline -- leads to better regulatory outcomes because it gives businesses the latitude to use their knowledge of the marketplace and their customers, and their operational expertise, to achieve the regulator's fair treatment of customers (FTC) expectations efficiently and effectively.

Feedback On Incentive Management General Principles

CAFII recognizes that the AMF's current Incentive Management Guideline consultation -- as well as the updated Sound Commercial Practices Guideline which the Autorité recently consulted on; and the related supervisory examinations for compliance, from which the Incentive Management Guideline has emanated -- have their root in the management of incentives-based conflicts of interest precepts set out in the International Association of Insurance Supervisors' (IAIS) *Insurance Core Principle 19: Conduct of Business*. Our Association often refers to ICP 19 as a benchmark for discussing industry best practices and ways that companies can do an even better job on FTC.

With respect to the situation here in Canada, we offer the following observation derived from CLHIA's very relevant February 2016 Issues Paper titled *"Insurance Distribution In Canada: Promoting A Customer-Focused System*":

CAFII strongly supports CLHIA's assertion that "in Canada, the potential for conflicts of interest (or the perception of such) is managed in a twofold way – first, by fostering needs-based selling and making recommendations that are suitable to the customer; and second, by advisor disclosure about the insurers that they represent and how they are paid. This is reinforced through CCIR's principles for managing conflicts of interest, and supported by industry practices and guidelines."

CAFII members support, and make every effort to embed in their organizational cultures, the industry best practices guidance with respect to FTC and managing conflicts of interest which CCIR/CISRO provided in their *Guidance: Conduct of Insurance Business and Fair Treatment of Customers* – namely that the customer's interest must take precedence over the salesperson's/advisor's; that the salesperson/advisor must disclose conflicts or potential conflicts of interest; and that the product sold must be suitable for the needs of the customer.

CAFII members also comply with all applicable CLHIA Guidelines; and in particular, we offer the following observations on *Guideline G13, Compensation Structure: Managing Conflicts of Interest*; and *Guideline G14, Confirming Advisor Disclosure*, which are prime examples of how the industry has responded to regulators' concerns.

Our Association concurs with G13's fundamental premises that "a robust compensation system is needed to attract and retain qualified professionals to offer, place and service life and health insurance products that meet the needs of the consumer. At the same time, it is important that well-designed compensation systems be alert to the risk that sales-related compensation could create conflicts of interest" and that "one element of FTC is that remuneration and reward strategies take account of fair customer outcomes."

With respect to G14, our members support and comply with all applicable provisions related to Advisor Disclosure but particularly -- as distributors of credit protection insurance, travel insurance, and other types of life and health insurance -- its provision that "where an insurer accepts an application through a call centre or online process using a licensed life and/or accident & sickness insurance agent, the insurer's processes should also ensure that appropriate disclosure has been made."

We also note that the draft Incentive Management Guidance states the following:

Among other things, the AMF expects the board of directors to:

- *Ensure that the committees responsible for monitoring changes in the business culture and identifying risks of practices that could adversely affect FTC are also responsible for ensuring that clients' interests are taken into account in managing incentive arrangements*
- *Ensure that changes are quickly made to incentive arrangements when FTC cannot be ensured*
- *Ensure that appropriate measures are taken with respect to the clients concerned when a practice that adversely affects FTC is identified*

While we agree that a regulated entity's Board of Directors should set the overall tone with respect to business culture -- including the central importance of fair treatment of customers -- we do not concur that details around incentives arrangements would be within the purview of the Board of Directors of a large financial institution, as tactical/operational decisions of that nature would be the responsibility of senior management.

Specific Comments and Observations On Draft Incentive Management Guideline

We agree that variable incentives, whether qualitative or quantitative, could raise a risk and need to be managed. But we do not view such incentives as inherently problematic, particularly where an incentive, such as a bonus, is structured as a component of an overall compensation package that is based on a number of objectives and not just sales or premium volume – for example, a package that includes FTC and related customer satisfaction objectives.

By way of background on the compensation methods and controls typically used by our members, CAFII member client service representatives – the majority of whom are salaried staff – are highly supervised both in branch and in client contact centres. Our members' client service representatives undergo comprehensive and recurring product training to enable them to provide consumers with accurate and reliable information; as well, they receive ethics and integrity training which underscores the importance of fair treatment of consumers (FTC). There is also considerable management oversight and quality assurance measures used by CAFII members.

That training provides client service representatives offering insurance with the knowledge, skills, and tools to do their jobs and serve clients well and that they and our member companies, as their employers, act in accordance with applicable federal and provincial/territorial insurance legislation and regulations; and industry guidelines.

In that connection, we concur with the draft Incentive Management Guideline's introductory statement that "Among the expectations set out in the Guideline, the AMF indicates that it expects any real or potential conflicts of interest to be avoided or managed in a manner that ensures the fair treatment of clients (FTC)."

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However, we do not agree with the following statement: “The incentives awarded to a financial institution’s staff, intermediaries or any other person acting on its behalf who is involved in offering its products and services are a major source of conflicts of interest.” In our view, if properly managed and subject to sufficient controls, that is definitely not the case.

Finally, we agree with and support the broad principles outlined in the draft Incentive Management Guideline’s sections on Governance, Managing Incentive Arrangements, Identification and Assessment of Risks and Practices that Could Adversely Affect FTC, and Quality Monitoring.

Conclusion

CAFII members are very aware that a significant proportion of Quebeckers, and Canadians overall – typically those from lower and middle income households -- is vastly uninsured or under-insured with respect to life and health insurance coverage. According to a 2019 LIMRA Canadian Life Insurance Ownership Study, 50% of adult Canadians do not have any life insurance coverage. Life insurance is not something most people want to think about; and, as a result, these products are challenging to offer. A balanced approach to incentives that appropriately gives financial services representatives recognition, financial or otherwise, for offering these important products -- as part of a risk management conversation that most people wish to avoid -- can lead to important coverage being put in place for Quebeckers, protection which they otherwise might not secure.

As a key industry stakeholder, CAFII again thanks the AMF for the opportunity to offer feedback comments on the draft Incentive Management Guideline. Should you require further information from CAFII or wish to meet with representatives from our Association on this submission or any other matter at any time, please contact Keith Martin, CAFII Co-Executive Director, at keith.martin@cafii.com or 647-460-7725.

Sincerely,

Rob Dobbins
Board Secretary and Chair, Executive Operations Committee

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About CAFII

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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 which helps ensure that Canadian consumers have access to insurance products that suit their needs. Our aim is to ensure that appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII's members include the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Insurance; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant; Canada Life Assurance; Canadian Premier Life Insurance Company; Canadian Tire Bank; CUMIS Services Incorporated; Manulife (The Manufacturers Life Insurance Company); Sun Life; and Valeyo.

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March 1, 2022

Ms. Saskia Tolsma
Vice President, Stakeholder Engagement
BC Financial Services Authority
600-750 West Pender Street
Vancouver, B.C. V6C 2T8
policy@bcfsa.ca

Dear Ms. Tolsma:

Re: CAFII Feedback on BCFSA *Discussion Paper: Information Security Incident Reporting*

CAFII thanks BCFSA for the opportunity to provide feedback comments on the Authority's *Discussion Paper: Information Security Incident Reporting.*

We also thank you, Rob O'Brien, and Steven Wright for the information exchange meeting on the Discussion Paper which our Association had with you as BCFSA staff executives on February 24. The more than 15 CAFII representatives who participated found the meeting to be very informative and valuable. The insights and perspectives we exchanged prompted our Association to amend our written feedback comments in this final version of our submission. We also thank you and your colleagues for granting CAFII's request for a brief submission deadline extension of two business days to March 1, 2022.

CAFII understands and supports the important regulatory outcomes which BCFSA is seeking to achieve through its Information Security Incident Reporting initiative.

Our feedback below is divided into two sections: beginning with general *High Level Feedback and Resulting Recommendations*; followed by *Specific Feedback On Matters Raised In The Discussion Paper*.

<u>High Level Feedback and Resulting Recommendations</u>

CAFII has a critically important point of feedback to convey to BCFSA related to its desired outcome of being notified of information security incidents, one which arises from the intersection and overlapping which exists between provincial/territorial regulation of insurance and federal regulation of products and services offered by federally regulated financial institutions (FRFIs).

CAFII members, which are mainly the insurance arms of Schedule I Canadian banks and their insurer/underwriter partners, operate across the country in the life and health insurance sector; and, as such, they are provincially/territorially regulated. However, as federally regulated financial institutions (FRFIs), banks, some credit unions, and many insurers are also subject to federal regulation, including by the Office of the Superintendent of Financial Institutions (OSFI).

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Due to the fact that our Association's members are subject to both federal and provincial/territorial regulation (some 17 regulatory authorities in total, across the country), CAFII constantly requests of regulators that they harmonize their expectations of regulated entities to the maximum extent possible.

Often, regulators in different provinces introduce regulatory requirements which have the exact same intent as existing requirements in another province or federally, but yet which differ slightly in the details of how those expectations are defined, or are to be implemented and/or reported on by regulated entities.

In such cases, regulated entities have to allocate significant resources to deciphering and adjusting to the nuanced differences from jurisdiction to jurisdiction. This time-consuming, costly, and attention-sapping "exception management" process diverts resources away from the essential consumer protection aspects of regulators' expectations; and, in the case of an information security incident, away from investigating and resolving the incident for the benefit of affected consumers.

CAFII views BCFSA's *Discussion Paper: Information Security Incident Reporting* to be an example of the above-noted problem that significantly affects our members and other regulated entities.

There already exists a well-established, widely accepted and complied with, and effective OSFI Technology and Cyber Security Incident Reporting Advisory. OSFI's current Advisory came into force on August 16, 2021, replacing a predecessor version which was published on March 31, 2019. The OSFI Advisory includes all of the Information Security Incident Reporting dimensions which BCFSA covers in its Discussion Paper, including the following: definition of an information security incident; initial reporting requirements (which, identical to BCFSA's proposal, requires reporting within 24 hours of the regulated entity's determination that an information security incident has occurred); subsequent reporting requirements; the consequences of failure to report; examples of reportable incidents; and a form to use for reporting incidents.

Based on the foregoing relevant background context (and, as well, on the issues, concerns, and opportunities discussed in our February 24 meeting with BCFSA), CAFII makes the following inter-related recommendations to the Authority:

- Recommendation #1: BCFSA should lead an initiative at the Canadian Council of Insurance Regulators (CCIR), the national co-ordinating body of provincial/territorial insurance regulators, to develop one national Guideline/Guidance dealing with Information Security Incident Reporting, which would contain clearly specified triggers and requirements for the reporting of material, significant information security incidents.

  That Guideline/Guidance would be developed on a harmonized, national basis akin to the "Guidance: Conduct of Insurance Business and Fair Treatment of Customers" which was jointly developed by CCIR and CISRO and released publicly in September 2018, with shared, multi-jurisdiction compliance monitoring mechanisms built-in which give the Guidance the force and effect of a national Rule.

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The reporting template/vehicle developed to support the Guideline/Guidance would be akin to CCIR's very successful and nationally harmonized Annual Statement on Market Conduct (ASMC), except that reporting would be triggered immediately by a material information security incident, rather than being an annual, aggregation-type of reporting. This nationally standardized reporting mechanism would provide significant harmonization and efficiency benefits for regulated entities, and at the same time create a central and comprehensive repository of national information security incident data for regulators, data which could readily be used to conduct aggregated trends analyses and facilitate any regulatory follow-up that may be required.

The reporting requirements set out in this new Guideline/Guidance would prevail under and be beneficial for all provincial/territorial regulators, regardless of whether a particular jurisdiction has Rule-Making Authority or not.

- Recommendation #2: That the Guideline/Guidance to be developed by CCIR, under BCFSA's leadership/initiative, should utilize OSFI's current Technology and Cyber Security Incident Reporting Advisory and its related reporting form, to the maximum extent possible, as its model and template.

  Any additional information security incident data which provincial/territorial regulators may require to be reported, such as the number of provincial/territorial consumers affected by the incident, in order to meet their market conduct oversight responsibilities – given that OSFI's reporting template is concerned only with prudential regulatory issues – can be addressed simply by adding additional fields to the OSFI reporting template.

In keeping with the above-noted Recommendations, CAFII's view is that BCFSA ought not to use its Rule-Making Authority to introduce a BC-unique/specific Information Security Incident Reporting Rule when a nationally harmonized Guideline/Guidance approach – akin to the already proven CCIR/CISRO FTC Guidance and CCIR ASMC mechanisms – would be much more optimal for all stakeholders including -- indirectly but undoubtedly -- consumers.

In that connection (and to elaborate on a point briefly discussed in our February 24 meeting), CAFII and its members strongly disagree with the proposition that Guidelines are viewed as optional by the industry. We believe that Guidelines – whether regulator-issued Guidelines or industry Guidelines and voluntary commitments such as CLHIA Guidelines and the Canadian Bankers Association (CBA) Code of Conduct For Authorized Insurance Activities – constitute requirements. Compliance with Guidelines is a must and CAFII members strive to comply fully.

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Turning now to contingency options, should BCFSA find that taking on the leadership mantle at CCIR in developing a nationally harmonized Guideline/Guidance is not something that it can contemplate at this time, CAFII would recommend that (i) BCFSA strongly encourage another well-resourced regulator at the CCIR table – such as Ontario's FSRA or Quebec's AMF – to lead that national harmonization initiative; and (ii) should advocacy for a nationally harmonized initiative not find fertile ground at CCIR, then BCFSA should still seek to adopt the essence of CAFII's Recommendation #2 and our related commentary: i.e. the Authority should utilize OSFI's Technology and Cyber Security Incident Reporting Advisory and its related reporting form as its model and template, replicating it in an updated BC Guideline/Guidance on Information Security Incident Reporting to the maximum extent possible. Any additional data which BCFSA may require to be reported in order to meet the Authority's market conduct oversight responsibilities, such as the number of BC consumers affected by an incident, can be addressed simply by adding additional fields to the OSFI reporting template.

In summary, both the optimal nationally harmonized approach which CAFII advocates and the somewhat less optimal *harmonized-with-OSFI-only* approach would allow BCFSA to achieve its regulatory objectives with respect to information security incident reporting without imposing a largely new set of requirements upon regulated entities doing business in BC; and would thereby spare them from the costly inefficiencies which duplicative, yet slightly different regulations create.

Specific Feedback On Matters Raised In The Discussion Paper

CAFII is comfortable with BCFSA sharing information on patterns or trends which it may detect through an analysis of IS incident reports, via an aggregated, anonymized report. However, in that connection, our strongly held view is that the optimal approach for such information-sharing would be through an ASMC-like nationally standardized reporting mechanism as described in our Recommendation #1 above. We also believe that CCIR's sharing (optimal) or BCFSA's sharing (less optimal) of such reports periodically with the industry should be an important component of market conduct activities in this area.

While we are comfortable with BCFSA differentiating between two classes of institutions with respect to information security incidents, we question why the reporting requirements would be different for the two classes of institutions. We acknowledge that BCFSA's supervisory authority may differ between the two classes of institutions, but we fail to see why that fact should give rise to differentiated incident reporting requirements.

With respect to the sanctions and penalties that BCFSA proposes to have at its disposal with respect to information security incident reporting, CAFII strongly recommends that the Authority take a more measured approach than is outlined in the Discussion Paper. Particularly with respect to first/initial instances of non-compliance, we recommend that non-compliant financial institutions not be subject to possible administrative penalties of up to $50,000. We believe that a more collaborative and phased approach would be appropriate; and, in that connection, we note OSFI's approach to non-compliance:

> *Failure to report incidents as outlined above may result in increased supervisory oversight including but not limited to enhanced monitoring activities, watch-listing or staging of the FRFI. (Page 3.)*

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Conclusion
CAFII again thanks BCFSA for the opportunity to provide input and feedback on the Authority's *Discussion Paper: Information Security Incident Reporting.* Should you require further information from CAFII or wish to meet with representatives from our Association on this or any other matter at any time, please contact Keith Martin, CAFII Co-Executive Director, at keith.martin@cafii.com, or 647.460.7725.

Sincerely,

Rob Dobbins
Board Secretary and Chair, Executive Operations Committee

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. 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 credit protection, travel, life, health, and property and casualty insurance across Canada. In particular, credit protection insurance and travel insurance are the product lines of primary focus for CAFII as our members' common ground.

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CAFII's members include the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Insurance; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant; Canada Life Assurance; Canadian Premier Life Insurance Company; Canadian Tire Bank; CUMIS Services Incorporated; Manulife (The Manufacturers Life Insurance Company); Sun Life; and Valeyo.

	Summary of CAFII Board and EOC Action Items				
	Source	Action Item	Responsible	Deadline	Status March 18, 2022
		Association Strategy and Governance			
1	EOC and Board: October 2019	Launch CAFII EOC Working Group to Explore a New Lower Dues Category of CAFII Membership, via a first meeting and a draft Terms of Reference for this Working Group.	B. Wycks/K. Martin	31-Dec-22	In progress/ See #2
2	BOD: June 9, 2020	Revisit the launch of the CAFII Working Group On A Proposed Lower Dues Category Of CAFII Membership once the economic environment stabilizes, via a first meeting and a draft Terms of Reference for this Working Group.	K. Martin	31-Dec-22	In progress
3	EOC May 29, 2018	Develop a summary job description for the CAFII EOC Chair role and circulate it to EOC Members.	B. Wycks/K. Martin	31-Dec-22	In progress
4	EOC February 27, 2018	Document in writing the process for reviewing, approving, and admitting applicants for CAFII Members and Associate status	B. Wycks	31-Dec-22	In progress

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CAFII 2022 Schedule of Meetings and Events (Approved By Board of Directors on October 5/21)
Assumes Restart of In-Person Meetings in May 2022 for EOC; and June 2022 for Board

EOC Meetings: *To be held for 2 hours or 1.5 hours, in alternating months*

- **Tuesday, January 18, 2022** *(2:00–4:00 p.m. via MS Teams)*
- **Tuesday, February 15, 2022** *(2:00–3:30 p.m. via MS Teams)*
  (Family Day Stat Holiday in Ontario: Monday, February 21)
- **Tuesday, March 22, 2022** *(2:00–4:00 p.m. via MS Teams)*
  (Quebec Spring Break: March 7 – March 11. Ontario March Break: March 14 – March 18. Purim: March 17 – March 18)
- **Tuesday, April 26, 2022** *(2:00–3:30 p.m. via MS Teams)*
  (Good Friday: Friday, April 15. Easter Monday: Monday, April 18)
- **Tuesday, May 17, 2022** *(3:00-5:00 p.m. in-person, followed by EOC Annual Appreciation Dinner at 5:30 p.m.)*
  (Victoria Day Stat Holiday: Monday, May 23)
- **Tuesday, June 28, 2022** *(2:00–3:30 p.m. via MS Teams)*
  (St. Jean Baptiste Day in Quebec: Friday, June 24. Canada Day: Friday, July 1)
- ***Tuesday, July 26, 2022****, tentative summer meeting (2:00–3:30 p.m. via MS Teams)*
- ***Tuesday, August 16, 2022,*** *tentative summer meeting (2:00–3:30 p.m. via MS Teams)*
  (Civic Stat Holiday: Monday, August 1)
- **Tuesday, September 20, 2022** *(2:00-4:00 p.m. in-person)*
  (Labour Day: Monday, September 5. Rosh Hashanah: September 26 & 27. National Day for Truth and Reconciliation: Friday, September 30)
- **Tuesday, October 25, 2022** *(2:00–3:30 p.m. via MS Teams)*
  (Yom Kippur: October 4 – October 5. Thanksgiving Stat Holiday: Monday, October 10. Diwali: Monday, October 24)
- **Tuesday, November 22, 2022** *(2:00-4:00 p.m. in-person)*
  (Remembrance Day: Friday, November 11)
- **EOC Annual Appreciation Dinner:** Proposed for **Tuesday, ~~May 17,~~ September 20, 2022** at 5:30 p.m. at a downtown Toronto restaurant, immediately following a 3:00 to 5:00 p.m. EOC meeting, if public health restrictions allow.

Board Meetings:

- **Tuesday, April 12, 2022** *(2:00–4:00 p.m. via MS Teams)*
  (Good Friday: Friday, April 15. Easter Monday: Monday, April 18)
- **Tuesday, June 7, 2022** *(2:20-5:00 p.m., preceded by 2022 Annual Meeting of Members; and followed by CAFII 25th Anniversary Celebration at same or nearby downtown Toronto venue).* **HOST: CAFII**
- **Tuesday, October 11, 2022** *(2:20-4:00 p.m., immediately following liaison lunch and Industry Issues Dialogue with AMF staff executives)* **HOST: Desjardins Insurance in Levis/Quebec City** *(This is the day immediately following Thanksgiving Monday; however, Tuesday, October 4, 2022 is Yom Kippur)*
- **Tuesday, December 6, 2022** *(3:00-5:00 p.m.; followed by Holiday Season/Year-End Reception).*
  HOST: CIBC Insurance

2022 Annual Members and Associates Luncheon:

- *Tentative Date: Tuesday, September 13, 2022 from 11:45 a.m. EST to 2:15 p.m. EDT at St. James Cathedral Centre Event Venue , 65 Church St., Toronto*

2021 Board meetings Hosted by:
None, due to COVID-19 pandemic situation
2020 Board meetings Hosted by:
None, due to COVID-19 pandemic situation
2019 Board meetings Hosted by:
CUMIS (National Club), Manulife Financial, National Bank Insurance, TD Insurance
2018 Board Meetings Hosted by:
CAFII; ScotiaLife Financial; BMO Insurance; The Canada Life Assurance
2017 Board Meetings Hosted by:
TD Insurance; CAFII; Desjardins; CIBC Insurance
2016 Board Meetings Hosted by:
CUMIS Group; Assurant Solutions; RBC Insurance; BMO Insurance

<u>Recent Years' Annual Members and Associates Luncheons</u>
2021 Annual Members and Associates Virtual Luncheon Webinar
Date: Tuesday, November 9, 2021 from 1:00 p.m. – 2:30 p.m. EDT
Topic: "The Changing Regulatory Environment – Challenges, Risks and Opportunities"
Panelists: Jill McCutcheon, Partner, Torys LLP; Stuart Carruthers, Partner, Stikeman Elliott LLP; Marc Duquette, Partner, Norton Rose Fulbright Corporation. Panel Moderator: Keith Martin, CAFII,
Venue: Virtual-Only Webinar

2020 Annual Members and Associates Virtual Luncheon Webinar
Date: Wednesday, October 21, 2020 from 12 Noon to 1:00 p.m. EDT
Topic: "Setting the Bar Higher: How the Financial Consumer Protection Framework Sets a New Standard for Fairness and Transparency"
Speaker: Frank Lofranco, Deputy Commissioner, Supervision and Enforcement, Financial Consumer Agency of Canada (Remarks actually delivered by Teresa Frick, Director, FCAC who was subbed in for Frank Lofranco at the last minute)
Venue: Virtual-Only Webinar

2019 Annual Members and Associates Luncheon
Date: Tuesday, February 19, 2019 from 11:45 a.m. to 2:15 p.m.
Topic: "The Changing Regulatory Environment – Challenges, Risks and Opportunities"
Panelists: Stuart Carruthers, Partner, Stikeman Elliott LLP; Koker Christensen, Partner, Fasken; Jill McCutcheon, Partner, Torys LLP. Panel Moderator: Nicole Benson, CEO, Canadian Premier Life/Valeyo
Venue: Arcadian Loft, 401 Bay St., Simpson Tower, 8th Floor, Toronto, ON

2018 Annual Members and Associates Luncheon
Topic: "Leading For Success in A Volatile World"
Speaker: Richard Nesbitt, CEO, the Global Risk Institute
Venue: Arcadian Loft, 401 Bay St., Simpson Tower, 8th Floor, Toronto, ON

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 3(a)
Financial Management Matters--CAFII 2021 Audited Financial Statements and Independent Auditor's Report Thereon

Purpose of this Agenda Item – *Update*

To update the EOC on the outcomes of KPMG's audit of CAFII's full 2021 fiscal year financial statements.

Background Information

Treasurer Tony Pergola will provide an update on CAFII's 2021 Financial Statements, on which KPMG has just completed its audit and issued and Independent Auditor's Report Thereon.

Recommendation / Direction Sought – Endorsement

The EOC will be asked to endorse CAFII's 2021 audited financial statements and the Independent Auditor's Report Thereon, for presentation to the Board of Directors for approval at its meeting on April 12/22.

Attachments Included with this Agenda Item

2 attachments.

DRAFT
March 18, 2022

Financial Statements of

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

And Independent Auditors' Report thereon

Year ended December 31, 2021

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Statement of Financial Position

December 31, 2021, with comparative information for 2020

	2021		2020	
	General Fund	Restricted Fund	General Fund	Restricted Fund
Assets				
Current assets:				
Cash	$ 582,805	$ 12,151	$ 410,902	$ 12,151
Prepaid expense	5,513	–	14,037	–
	588,318	12,151	424,939	12,151
Capital assets (note 4)	2,864	–	1,136	–
	$ 591,182	$ 12,151	$ 426,075	$ 12,151
Liabilities and Fund Balances				
Current liabilities:				
Accounts payable and accrued liabilities	$ 82,282	$ –	$ 42,216	$ –
Fund balances (note 2)	505,900	12,151	383,859	12,151
	$ 591,182	$ 12,151	$ 426,075	$ 12,151

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 Fund Balances

Year ended December 31, 2021, with comparative information for 2020

	2021		2020	
	General Fund	Restricted Fund	General Fund	Restricted Fund
Revenue:				
Membership dues	$ 955,970	$ –	$ 884,721	$ –
Luncheon		–	–	–
Interest	236	–	399	–
Special assessment		–	–	–
	956,206		885,120	–
Expenses:				
Association operating	649,019	–	574,246	–
Research and education committee	143,273	–	117,915	–
Market conduct committee	0	–	983	–
Networking and events committee	1,822	–	8,920	–
Licensing efficiency issues committee	0	–	540	–
Media and advocacy strategy committee	40,051	–	28,880	–
Legal		–	–	–
	834,165	–	731,484	–
Excess (deficiency) of expenses over revenue	122,041	–	153,636	–
Fund balances, beginning of year (note 2)	383,859	12,151	230,223	12,151
Transfer to General Fund	–	–	–	–
Fund balances, end of year	$ 505,900	$ 12,151	$ 383,859	$ 12,151

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

Commented [NJK1]: Should this not be excess of revenue over expenses?

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021		2020	
	General Fund	Restricted Fund	General Fund	Restricted Fund
Cash provided by (used in):				
Operating activities:				
Excess (deficiency) of expenses over revenue	$ 122,041	$ –	$ 153,635	$ –
Amortization of capital assets	1,136	–	1,136	–
Change in non-cash operating working capital	48,726	–	(97,297)	–
Cash provided by operating activities	171,903		57,474	–
Financing activities:				
Inter-fund transfers	–	–	–	–
Increase in cash	171,903	–	57,474	–
Cash, beginning of year	410,902	12,151	353,428	12,151
Cash, end of year	$ 582,805	$ 12,151	$ 410,902	$ 12,151

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

CANADIAN ASSOCIATION OF FINANCIAL INSTITUTIONS IN INSURANCE

DRAFT Notes to Financial Statements

Year ended December 31, 2021

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 Chartered Professional Accountants of Canada Handbook.

(b) Revenue recognition:

CAFII derives its revenue primarily through membership dues. Dues are recognized as revenue in the membership period (January 1, 2021 to December 31, 2021) 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. Fund balances - General Fund:

The General Fund reports unrestricted resources. If resources are to be used for special purpose, these would be reported in restricted fund.

CAFII's Board of Directors aims to maintain unrestricted net assets (financial reserves) within a 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:

2021	Cost	Accumulated amortization	Net book value
Computer equipment	$ 10,878	$ 8,014	$ 2,864

2020	Cost	Accumulated amortization	Net book value
Computer equipment	$ 8,013	$ 6,877	$ 1,136

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 2020.

(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.

6. Implications of COVID-19:

In first quarter of 2020, the viral outbreak of COVID-19 rapidly developed into a global pandemic. In response, worldwide emergency measures were taken, and continue to be taken, to combat the spread of the virus, including the imposition of travel restrictions, business closure orders, and physical distancing requirements. Governments have also implemented unprecedented monetary and fiscal policy changes aimed to help stabilize economies and financial markets. At this time, CAFII has experienced no significant impact from COVID-19.

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INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Association of Financial Institution in Insurance

Opinion

We have audited the financial statements of Canadian Association of Financial Institution in Insurance

(the Entity), which comprise:

- the statement of financial position as at 31st December 2021
- the statement of operations for the year then ended
- the statement of changes net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at 31st December, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
[Date]

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 3(b)
Financial Management Matters— Critical Path for KPMG Audit of CAFII 2021 Fiscal Year Financial Statements

Purpose of this Agenda Item – *Update*

To update the EOC on KPMG's progress on its audit of CAFII's 2021 financial statements.

Background Information

A development that CAFII will need to manage is that CAFII's long-time accountant at Managing Matters, Tara Moran, has left, and two replacements in a row did not work out. A new accountant, Jorge Acosta, is now on this file, but he now needs to be trained at precisely the time when a series of important financial matters need to be advanced, including working with KPMG to audit CAFII's financial statements for 2021.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

1 attachment.

February 25, 2022

Critical Path With KPMG For CAFII 2021 Audited Financial Statements

Task	Responsible	Timing/Deadline
Prepare Draft CAFII 2021 Financial Statements	T. Mu/P. Chen, Managing Matters	February 4/22 (Completed)
Conduct audit of Draft CAFII 2021 Financial Statements	KPMG	February and early March 2022
Provide Draft 1 of CAFII 2021 Audited Financial Statements for circulation prior to March 22/22 CAFII EOC Meeting	KPMG (assisted/facilitated by J. Acosta)	March 14/22
Provide feedback on Draft 1 of CAFII 2021 Audited Financial Statements	EOC	March 22/22
Provide Draft 2 of CAFII 2021 Audited Financial Statements for circulation prior to April 12/22 CAFII Board Meeting	KPMG (assisted/facilitated by J. Acosta)	April 4/22
Approve Draft 2 of CAFII 2021 Audited Financial Statements for presentation to membership at 2022 Annual Meeting of Members	CAFII Board	April 12/22
Provide Final Draft of CAFII 2021 Audited Financial Statements for inclusion in CAFII 2022 Annual Meeting of Members Materials Package	KPMG (assisted/facilitated by J. Acosta)	April 25/22
Circulate CAFII 2022 Annual Meeting of Members Materials Package	J. Becker	April 26/22
Approve CAFII 2021 Audited Financial Statements At 2022 Annual Meeting of Members	Membership	June 7/22

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 3(c)
Financial Management Matters— Dissemination of 2022 Member Renewal Letters and First Instalment Dues Invoices; and 2022 Associate Renewal Letters and Dues Invoices

Purpose of this Agenda Item – *Update*

To update the EOC on the dissemination of 2022 member dues letters and related invoices.

Background Information

CAFII has sent out its 2022 Membership Renewal Letters and associated First Instalment Dues Invoices; and its 2022 Associate Renewal Letters and related dues invoices.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(a)(i)
Committee Updates: Travel Insurance Experts: Issues Discussed and Insights Gained from Two Recent Meetings of Travel Insurance Experts Committee

Purpose of this Agenda Item – *Update*

To update the EOC on issues discussed at recent meetings of the Travel Insurance Experts Committee.

Background Information

Katia Umutoniwase, Chair of the Travel Insurance Experts Committee, will provide an update on the insights gained at two recent meetings of the Committee, including on the issue of insurance companies being expected to reimburse customers of airlines whose flights were cancelled but whose payments were not reimbursed.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(a)(ii)
Committee Updates: Travel Insurance Experts: Insights Gained From CAFII/CLHIA/THIA BiWeekly Calls Re Impact Of COVID-19 On Travel Insurance Industry

Purpose of this Agenda Item – *Update*

To update the EOC on recent meetings on COVID-19 and the travel insurance industry.

Background Information

To update the EOC on issues discussed at recent meetings of the CAFII/CLHIA/THIA biweekly calls on the impact of COVID-19 on the travel insurance industry.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(b)(I)
Committee Updates: Networking & Events: Insights Gained from January 31/21 CAFII Webinar on "The Ins and Outs of Life Insurers' Health and Wellness Incentivization Programs"

Purpose of this Agenda Item – *Update*

To update the EOC on insights gained at a recent webinar.

Background Information

CAFII held a webinar on life insurers' health and wellness incentivization programs on 31 January, 2022. Panellists were:

- Patti Annable, Assistant Vice-President, Marketing Communications, Lumino Health, Sun Life;
- Lisa Heath, CEO, MediResource Inc, business partner to Canada Life's Health Connected; and
- Paul Savage, Head of Product and Pricing, including for Vitality, Manulife.

The following regulators registered for the event:

The Financial Services Regulatory Authority of Ontario, or FSRA;
The Government of Alberta ;
The Ontario Ministry of Finance;
BC Financial Services Authority, or BCFSA;
The Insurance Council of BC;
The Financial and Consumer Services Commission of New Brunswick, or FCNB;
The Insurance Councils of Saskatchewan;
The Canadian Insurance Services Regulatory Organizations, or CISRO; and
The Ontario Ministry of Finance.

A summary of the event can be found in the March, 2022 Regulatory Update.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

1 attachment.

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Agenda Item 4(b)(i)
March 22/22 EOC Meeting

Subject: You're Invited: Upcoming CAFII Webinar On The Ins and Outs of Life Insurers' Health and Wellness Incentivization Programs

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Rendre l'assurance simple et accessible pour les Canadiens

Hello Brendan,

You're Invited!

We are pleased to invite you to attend our first CAFII Webinar of 2022

The Ins and Outs of Life Insurers' Health and Wellness Incentivization Programs

Monday, January 31, 2022
from 1:00 to 2:00 pm ET
via Zoom Webinar

A CAFII-Moderated Panel Discussion with

Patti Annable, Assistant Vice-President, Marketing Communications, Lumino Health, Sun Life
(For capsule biography, click here)

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Lisa Heath, CEO, MediResource Inc, business partner to Canada Life's Health Connected
(For capsule biography, click here)

Paul Savage, Head of Product and Pricing, including for Vitality, Manulife
(For capsule biography, click here)

This dialogue with representatives from the health and wellness incentivization programs offered by three CAFII member life and health insurers will address the following aspects of these programs:

- Current and future target markets;
- Goals and objectives;
- Key program features;
- Internal management versus outsourcing;
- Importance and influence of plan sponsors in customizing programs;
- Importance of "gamification' to design, engagement, and success;
- Importance of technology: wearables; Artificial Intelligence; Internet of Things (IoT);
- Privacy concerns around "privately-held individual health data";
- Challenges and impediments, including from the regulatory environment;
- Prevalence, success, and ROI of such programs to date;
- Program modifications made based on in-market experience;
- Further growth or plateauing ahead; and
- Other learnings and "words to the wise."

Register Here

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We look forward to welcoming you to this first CAFII webinar of 2022.

Sincerely,

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(b)(ii)
Committee Updates: Networking & Events: Insights Gained from March 7/22 CAFII Webinar on "Mental Health Issues and Challenges in the Workplace, At Home, and In Society: Coping With The Persistent Pandemic's Impact"

Purpose of this Agenda Item – *Update*

To update the EOC on insights gained at a recent webinar.

Background Information

CAFII held a webinar on mental health issues and challenges in the workplace, at home, and in society on 7 March, 2022. Panelists were:

- Paula Allen, Global Leader and SVP, Research and Total Wellbeing, LifeWorks, the successor to the business formerly know as Morneau Sobeco;
- Irene Keller, Director, Group Benefits Product and Solutions, Sun Life;
- Shawna Oliver, AVP, Head of Global Benefits, Manulife.

The following regulators registered for the event:

The Alberta Insurance Council;
The British Columbia Financial Services Authority, or BCFSA ;
The Financial and Consumer Services Commission of New Brunswick;
The Government of Alberta;
The Insurance Council of Manitoba; and
The Insurance Councils of Saskatchewan.

A summary of the event can be found in the March, 2022 Regulatory Update.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

1 attachment.

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Agenda Item 4(b)(ii)
March 22/22 EOC Meeting

Subject: Reminder You're Invited: Upcoming CAFII Webinar On Mental Health Issues and Challenges in the Workplace, At Home, and In Society: Coping With The Persistent Pandemic's Impact

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Making Insurance Simple and Accessible for Canadians
Rendre l'assurance simple et accessible pour les Canadiens

Hello Brendan,

You're Invited!

We are pleased to invite you to attend our CAFII Webinar on;

Mental Health Issues and Challenges in the Workplace, At Home, and In Society: Coping With The Persistent Pandemic's Impact

Monday, March 7, 2022
from 1:00 to 2:00 pm ET
via Zoom Webinar

A CAFII-Moderated Panel Discussion with

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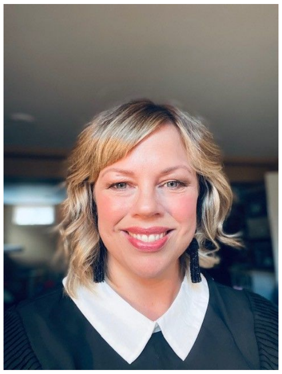
Paula Allen, Global Leader and SVP, Research and Total Wellbeing, LifeWorks
(For capsule biography, click here)

Irene Keller, R.N., C.O.H.N (C)
Director, Group Benefits Product and Solutions, Sun Life
(For capsule biography, click here)



Shawna Oliver, AVP, Head of Global Benefits, Manulife
(For capsule biography, click here)

This webinar will feature three expert panelists who will address the following in a virtual Fireside Chat with moderator Keith Martin:

- Impact of the pandemic on the mental health of employees and customers;
- Emerging societal recognition that just as anyone can get physically sick, mental health issues and challenges are no different;
- Has the stigma around mental health issues really gone away?, or can a person's career still be negatively impacted if they reveal that they suffer from mental health issues?;

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- Not all mental health issues have to be major incidents—the pandemic has caused low-level, chronic stress and anxiety in a lot of people's lives—is this currently a major concern, and/or something with potential long-lasting implications?;
- In addition to helping their own employees, are CAFII member companies and/or industry peers trying to help customers cope with mental health issues and challenges caused by the persistent pandemic?

Register Here

We look forward to welcoming you to this first CAFII webinar of 2022.

Sincerely,

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(b)(iii)
Committee Updates: Networking & Events: Plans for CAFII 25th Anniversary Celebration in 2022

Purpose of this Agenda Item – *Update / Discussion*

To update the EOC on plans for the CAFII 25th anniversary celebration.

Background Information

Plans for the CAFII 25th Anniversary celebration are being complicated by the continuing uncertainty around when in-person events can be held again. BMO Insurance has offered to host this event, but the exact time and nature are still uncertain.

Recommendation / Direction Sought – *Update / Discussion*

This is an update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(c)
Committee Updates: Market Conduct & Licensing

Purpose of this Agenda Item – *Update*

To update the EOC on CAFII regulatory submissions.

Background Information

CAFII has faced an unprecedented level of regulatory submissions. Brad Kuiper will update the EOC on CAFII's efforts to stay on top of this heavy number of regulatory submissions, including the implications for the volunteer leaders who are engaged with CAFII on this effort.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

1 attachment.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(c)(i)
Committee Updates: Market Conduct & Licensing: CCIR/CISRO Consultation With Industry Stakeholders On Incentives Management (Submission Deadline: April 4/22)

Purpose of this Agenda Item – *Update*

To update the EOC on a regulatory submission.

Background Information

CAFII is intending to make a written submission to the CCIR/CISRO Consultation With Industry Stakeholders On Incentives Management (Submission Deadline: April 4/22).

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

2 attachments.

NEWS RELEASE

For Immediate Release

Canadian Council of Insurance Regulators
Canadian Insurance Services Regulatory Organizations

CCIR and CISRO Release Proposed Guidance on Incentives Management for Consultation

February 17, 2022

TORONTO – The Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) have released for public consultation a proposed guidance that sets out expectations for insurers and intermediaries that pay compensation and/or design incentive arrangements related to the sales and servicing of insurance products.

The proposed *Incentive Management Guidance* [LINK] (guidance) is intended to complement *CCIR-CISRO Guidance: Conduct of Insurance Business and Fair Treatment of Customers* (FTC Guidance) [LINK], and ensure incentive arrangements align with principles set out in that document.

Like the FTC Guidance, this guidance is principles-based and provides insurers and intermediaries with the discretion necessary to devise strategies, policies and controls in support of fair customer outcomes based on the nature, size and complexity of their business activities. While both insurers and intermediaries have a shared responsibility, the insurer bears the ultimate responsibility for fair treatment of customers through to the end of a product's lifecycle.

CCIR and CISRO invite all interested parties to review and comment on this guidance. The guidance is available on the CCIR and CISRO websites (ccir-ccrra.org, cisro-ocra.com). The consultation period will be 45 days in length and the deadline to provide written submissions is April 4, 2022. Please send comments to the CCIR Secretariat at ccir-ccrra@fsrao.ca.

Please note that CCIR and CISRO may publish on their respective websites all submissions received pursuant to this consultation process.

"Fair treatment of customers has quickly become the key focus of financial services regulatory authorities in Canada and abroad," said Robert Bradley, Chair of CCIR. "The proposed guidance builds on the foundation set by *CCIR-CISRO Guidance: Conduct of Insurance Business and Fair Treatment of Customers* by addressing a specific set of industry practices and how they can best support fair treatment of customers," he added.

"Insurance intermediaries play an important role in the fair treatment of insurance customers," said Éric Jacob, Chair of CISRO. "While insurance intermediaries are compensated for the services they provide, the proposed guidance will help to ensure that the risks that arise from compensation are properly managed," he added.

Background

In 2018, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) implemented *CCIR-CISRO Guidance: Conduct of Insurance Business and Fair Treatment of Customers* (FTC Guidance). The FTC Guidance supports the strategic priorities of both CCIR and CISRO.

After the release of the FTC Guidance, CCIR and CISRO continued to meet with insurers and intermediaries on its implementation. In these meetings, stakeholders requested further direction on the application of fair treatment principles to incentives, and shared information about common industry practices in this area. CCIR and CISRO concluded that some incentive practices may present risks to the fair treatment of customers, and that there was insufficient evidence that these risks were being properly managed. As a result, CCIR and CISRO undertook to develop additional guidance specific to the alignment of compensation and incentives structures with FTC Guidance principles. The *Incentive Management Guidance*, now released for public consultation, is the product of that work.

About CCIR

The 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. CCIR members work together to develop solutions to common regulatory issues.

About CISRO

The Canadian Insurance Services Regulatory Organizations is a forum of Canadian regulatory authorities who are dedicated to consistent qualifications and conduct of business standards for insurance intermediaries. CISRO members collaborate on initiatives that support a consistent approach to consumer protection through the regulation of insurance intermediaries.

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Incentive Management Guidance

TABLE OF CONTENTS

A. Definitions/Concepts

In this guidance, the following terms are used as defined below:

“**Insurer**” includes the various entities registered to do insurance business within any jurisdiction.

“**Intermediary**” is given a broad meaning. It encompasses individual agents, brokers and representatives (“representatives”) as well as the business entities that are authorized to distribute insurance products and services, including managing general agencies, third party administrators and national accounts, as the case may be.

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, whether licensed, registered or exempted from registration.

“**Customer**” refers to policyholder (which, as the case may be, includes certificate holder) or prospective policyholder with whom an Insurer or an Intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy.

“**Incentives”** are monetary and non-monetary compensation offered by Insurers or Intermediaries to their employees (including front line staff and management) and other persons or entities acting on their behalf in the sale and servicing of insurance products.

Monetary Incentives include, but are not limited to, commissions paid based on sales and services expected and provided (e.g. initial sales, renewals, trailers) and bonuses paid on achievement of performance targets (e.g. number/dollar volume of sales, retention, growth, fair treatment of Customers).

Non-monetary Incentives include, but are not limited to, non-cash benefits, rewards and privileges such as travel, goods and hospitality, entertainment, memberships, contest entry, Insurer client referrals and access to services that are related to performance targets.

Incentives arise primarily from established compensation and performance management programs and relationships between Insurers and Intermediaries and any other person acting on their behalf.

“**Performance management programs**” are measures, targets and criteria established by Insurers and Intermediaries to evaluate the performance of an individual or an entity in the sales and servicing of products in order to grant Incentives. Criteria can be quantitative reflecting financial contribution (e.g. sales volumes, profitability, productivity) or qualitative reflecting the fair treatment of Customer (e.g. results of post-sale controls, quality of behaviour with Customers, Customer satisfaction, number and types of complaints received and other key indicators).

“Incentive arrangements” means primarily the Incentive itself, the Performance management program associated with it and various features related, for example, to payment or deduction of the Incentive.

B. Preamble

This guidance sets out the expectations of the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) for the management of Incentive arrangements related to the sale and servicing of insurance products. It is intended to complement the *CCIR and CISRO Guidance Conduct of Insurance Business and Fair Treatment of Customers* (CCIR/CISRO FTC Guidance)[1], and ensure Incentive arrangements implemented by Insurers and Intermediaries align with fair treatment of Customer (FTC) principles. The guidance aims to ensure that Insurers and Intermediaries develop Incentive arrangements that achieve FTC. Insurers and Intermediaries are expected to put in place risk management policies, procedures and controls in order to meet their obligations in this regard.

Although this guidance sets out expectations to ensure Incentive arrangements do not undermine FTC, it recognizes that Insurers and Intermediaries compensate employees and other persons or entities acting on their behalf in the sale and servicing of insurance products.

This guidance provides Insurers and Intermediaries with the necessary latitude to determine the requisite strategies, policies, processes, procedures and controls in order to facilitate achieving such results and to apply them based on the nature, size and complexity of their activities, while taking into account representatives' regulatory obligations in order to facilitate achieving the Customer outcomes reflected in this guidance.

In Canada, the conduct of business in insurance is regulated by individual provinces and territories, where each jurisdiction has its own regulatory approach based on its legal framework and culture. The expectations in this guidance do not supersede the legislative and regulatory imperatives of jurisdictions; they are intended to support Insurers and Intermediaries in achieving FTC and while respecting existing laws and regulations.

---

1 See section 6.2 of the CCIR/CISRO FTC Guidance.

C. Scope

This guidance applies to Insurers and Intermediaries that pay compensation and/or design Incentive arrangements.

The Insurer is responsible for FTC throughout the life-cycle of the insurance product, as it is the Insurer that is the ultimate risk carrier. The Insurer's ultimate responsibility does not absolve Intermediaries of their own responsibilities for which they are accountable. Treating Customers fairly is a shared responsibility when Insurers and Intermediaries are both involved.

Representatives who operate under an Incentive arrangement are expected to comply with their obligations to manage conflicts of interest and their duty to prioritize Customers' interests as described in the CCIR/CISRO FTC Guidance.

This guidance applies to all insurance products, types of insurance, and distribution channels.

1. Governance

> CCIR and CISRO expect Insurers and Intermediaries' governance and business culture to place FTC at the center of decisions concerning the way Incentive arrangements are designed and managed.

Incentive arrangements reflect the values and objectives Insurers and Intermediaries want to achieve and are key elements in establishing a business culture. They can demonstrate the importance that an Insurer or Intermediary places on FTC. Incentive arrangements should not be detrimental to FTC.

Overall responsibility for FTC is at the level of the board and/or senior management, who design, approve, implement and monitor adherence to policies and procedures aimed at ensuring that Customers are treated fairly.[2]

Expectations to achieve this outcome (Insurers and Intermediaries)

1.1 Oversee strategy, risk appetite and culture in relation to the design and implementation of Incentive arrangements.

1.2 Develop policies, procedures and controls which ensure FTC outcomes are integrated into Incentive arrangements.

1.3 Ensure the policies, procedures and controls take into consideration the identification and assessment of the risks of unfair outcomes to Customers which may arise from Incentive arrangements.

1.4 Ensure the policies, procedures and controls are monitored periodically for continued effectiveness in identifying, assessing, monitoring and mitigating risks of unfair outcomes to Customers.

1.5 Review Incentive arrangements periodically and implement any changes required to manage risks related to the FTC. This should take into consideration input from the appropriate business functions (e.g. risk management, compliance, legal and human resources).

2 See section 6.1 of the CCIR/CISRO FTC Guidance.

2. Design and management of Incentive arrangements

CCIR and CISRO expect Insurers and Intermediaries to design and implement Incentive arrangements that include criteria ensuring FTC.

Insurers and Intermediaries are responsible for the Customer experience. If Incentive arrangements are properly designed and implemented, they can reduce the risk of unfair outcomes to Customers.

Expectations to achieve this outcome (Insurers and Intermediaries)

Design

2.1 The design process of Incentive arrangements ensures that:

2.1.1 any Incentive paid is consistent with the level of service expected and provided throughout the product's life cycle.

2.1.2 quantitative and qualitative performance targets and criteria are clearly defined, measurable and are aligned to ensure FTC.

2.1.3 the cost of the product to the Customer does not vary based on the distribution method.

2.2 Assessments of risks of unfair outcomes to Customers and results of controls are taken into consideration in the approach to and procedures for designing Incentive arrangements.

Management

2.3 Ensure that employees and other persons and entities involved are aware of Incentive arrangements applicable to them.

2.4 Use sufficient information/key indicators[3] in order to be able to identify potential risks of unfair outcomes to Customers as a result of Incentive arrangements.

2.5 Periodically review and when necessary improve controls taking into account the features of Incentive arrangements that increase the risks of unfair outcomes to Customers (e.g. post-sale controls based on customer files, controls to identify inappropriate practices that may occur during interactions with Customers).

2.6 Ensure corrective measures are taken when the controls detect inappropriate practices with Customers.

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[3] For example, sales patterns before and after a target has, or has not, been met, variations in the mix of products sold (to see if the commission grid influences the selection of product sold, if they consistently select one product over another); penetration rates for cross-selling, where indirect interest can be distinct from the client's interest; high lapse rates on new business; poor persistency rates comparing to persistency targets; accumulated chargeback debt; claims repudiation rates and the reasons for rejected claims; recurring sales related complaints; bias towards selling products that carry a higher level of incentive.

2.7 Establish appropriate consequences or deterrents to actively discourage behaviours that could cause unfair outcomes to Customers.

2.8 Provide arrangements for recovering, when appropriate, the compensation once it has been paid.

2.9 Promptly adjust or modify Incentive arrangement features when risks of unfair outcomes to Customers cannot be managed or monitored without ensuring FTC.

2.10 Subject any Incentive arrangements that may reasonably have an impact on FTC to the management of potential conflicts of interest.[4]

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4 CCIR/CISRO FTC Guidance, section 6.2.

3. Risks of unfair outcomes to Customers

CCIR and CISRO expect Insurers and Intermediaries to regularly identify and assess the risks of unfair outcomes to Customers that may arise from Incentive arrangements so that either appropriate controls can be introduced or the Incentive arrangements can be adjusted.

Unfair outcomes are more likely to be present when Insurers, Intermediaries or any persons and entities acting on their behalf pay or receive Incentives for practices that fail to achieve expected FTC outcomes.[5]

Such risks may arise from the design of Incentive arrangements, issues specific to distribution methods and systems for reporting and controlling Customer outcomes.

The Appendix provides examples where components of Incentive arrangements which, without proper design, management and post-sale controls, may increase the risk of unfair outcomes for Customers.

Expectations to achieve this outcome (Insurers and Intermediaries)

3.1 Review on a regular basis and as needed Incentive arrangements with sufficient attention given to identify, understand and assess their specific features that may increase the risks of unfair outcomes to Customers.

3.2 Consider the risk that an unfair outcome may occur and its potential impact on Customers.

3.3 Include a proper consideration of the impact of Incentive arrangements that are primarily or solely based on quantitative performance criteria.

3.4 Consider Incentive arrangements granted by persons and entities acting on their behalf and if their combination with those from the Insurer or the Intermediary increases the risk of unfair outcomes, and share information with respect to the same transactions in order to enable Insurers and Intermediaries to meet this expectation.[6]

3.5 Consider the addition of different types of Incentives (commissions, bonuses, non-cash benefits, rewards and privileges) for the same basket of sales.

3.6 Consider the effects of time-limited sales campaigns and product promotions.

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5 CCIR/CISRO FTC Guidance

6 CCIR/CISRO FTC Guidance, Insurers are expected to have written agreements in place established in respect of their business dealings with each other, to clarify their respective roles and facilitate the achievement of expected outcomes in matters of FTC (Section 4 – Relationships between Insurers and Intermediaries). Insurers are accountable for distribution strategies and ultimately responsible for oversight aspects pertaining to the distribution of their products (Section 6.5 – Distribution strategies). Insurers and intermediaries' expectations related to Outsourcing (Section 6.3).

4. Post-sale controls

CCIR and CISRO expect Insurers and Intermediaries to establish effective post-sale controls to identify inappropriate sales resulting from Incentive arrangements.

Effective post-sale controls should facilitate Insurers and Intermediaries in:

- detecting unsuitable sales resulting from Incentive arrangements in order to make the required corrective action.
- determining residual risks of unfair outcomes to Customers.
- ensuring the design and implementation of Incentive arrangements achieve expected outcomes for FTC.

As the degree of risks in Incentive arrangements increases, the need for Insurers and Intermediaries to demonstrate the effectiveness of their controls in detecting unsuitable sales will also increase.

Expectations to achieve this outcome (Insurers and Intermediaries)

4.1 Ensure that persons conducting post-sale monitoring:

4.1.1 have the required competence and experience to understand the features of the applicable Incentive arrangements and the appropriate procedures to identify risks of unfair outcomes to Customers.

4.1.2 are sufficiently independent from the sales functions they are required to monitor to avoid being unduly influenced.

4.2 Ensure that risk-based post-sale controls are consistent with:

4.2.1 the assessment of risks of unfair outcomes to Customers that may arise from Incentive arrangements.

4.2.2 any high-risk concerns (e.g., persons, teams, entities, lines of business, geographic areas, departments, distribution channels, unusual sales spikes, sales practices) identified in the monitoring of information/key indicators.

4.3 Regularly review the results of post-sale controls to ensure that:

4.3.1 sales suitability is monitored closely.

4.3.2 post-sale monitoring focuses on significant risks of unfair outcomes to Customers.

4.3.3 Customer outcomes are assessed.

4.3.4 areas of concern or common issues that must be addressed are identified.

Appendix

Below are examples of components of Incentive arrangements which, without proper design, management and post-sale controls, may increase the risk of unfair outcomes to Customers.

Incentives

1. Bonus rates that increase with predetermined sales volumes thresholds without adequate consideration to FTC.

2. Excessive Incentives for cross-selling optional products compared to the Incentive for selling only the primary product.

3. Commissions linked to the premium level or the investment amount.

4. Renewal commission amounts that underestimate the level of continuing services, or discrepancies between commissions for initial sale and continuing services, which can cause Intermediaries to propose a replacement transaction in order to increase compensation.

5. Lifetime vesting of renewal commissions to Intermediaries which can result in eventual client orphaning.

6. Incentive arrangements which can result in fees or penalties, (e.g., exit fees) for the Customer.

7. Incentives paid to Intermediaries who are not involved in the sale and servicing, either provided or expected.

Performance criteria

8. Performance criteria primarily aligned with quantitative objectives.

9. Qualitative criteria that is ineffective or insufficient in aligning the interests of the Insurer and Intermediary with those of the Customer.

10. Sales contests, sales quotas, bonuses and non-monetary benefits that are based on sales of specific products over limited period of time.

11. Contests, campaigns, promotions, loyalty or recognition programs that are designed to increase sales volumes or meet other quantitative targets to obtain bonuses, rewards (e.g., titles, gifts, goods, hospitality, trips) or privileges (e.g., access to services).

Other features

12. Incentive paid in advance of the service expected or the achievement of performance targets.

13. Chargeback mechanism influencing the Intermediary to advise the Customer to maintain a product that is inappropriate, so that the Intermediary is not required to repay compensation.

14. Agreements with Intermediaries (e.g., distribution, contingent, financial support, access to IT platforms/software, profit-sharing programs, call centre), which may allow Insurers to influence the decisions, operations and practices of Intermediaries and restrict access to markets. For example, they could:

    - impose a minimum volume or a deadline for complying with a volume, include a bonus or a share in the profits based on contract experience or productivity-based loyalty programs that may affect the independence of advice given by Intermediaries or incentivize them to place all, or a majority, of their new business with a particular Insurer.

    - serve not only as trigger for receiving an Incentive, but also a gateway for signing a distribution agreement or obtaining financial assistance or a wide range of benefits over the long term.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(c)(ii)
Committee Updates: Market Conduct & Licensing: FCNB Informal *Joint Sounding Board Consultation* With CLHIA and CAFII On Imminent Amendments to Life and Health Sections of New Brunswick Insurance Act: David Weir Request For Smaller CAFII Review/Input Group, Given Confidential/Embargoed Terms of Release

Purpose of this Agenda Item – *Update*

To update the EOC on a regulatory submission.

Background Information

CAFII is intending to make a written submission to the FCNB, with CLHIA, on some changes to the New Brunswick Insurance Act. David Weir of FCNB has requested that a smaller group than the full EOC and Market Conduct & Licensing Committee have access to the confidential documents under discussion, and the possibility of striking such a group and its composition will be reviewed and discussed in conjunction with this agenda item.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

1 attachment.

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Agenda Item 4(c)(ii)
March 22/22 EOC Meeting

From: Weir, David (FCNB) <david.weir@fcnb.ca>
Sent: Wednesday, March 2, 2022 10:08:31 AM
To: Kate Walker <KWalker@clhia.ca>; Brendan Wycks <brendan.wycks@cafii.com>; Keith Martin <keith.martin@cafii.com>
Subject: Policy Proposals for Changes to the Insurance Act respecting Life Insurance and Accident and Sickness Insurance

Hello Kate, Brendan and Keith,

As you are aware, the Financial and Consumer Services Commission (FCNB) is working on proposals to modernize New Brunswick's Insurance Act. This would include proposals for changes to Part V Life Insurance and Part VI Accident and Sickness Insurance.

FCNB proposes to provide CLHIA and CAFII with draft policy proposals for your review to receiver your technical feedback and to know whether you foresee any potential issues with the draft proposals.

We want to be clear that the draft proposals do not represent the official position of the New Brunswick Government or Government policy.

Given the sensitive nature of the information, before providing the documents for review, FCNB requires your confirmation that you will agree to keep confidential all information provided to you by FCNB related to draft proposals including the daft documents. And that you agree to only circulate the documents to, and discuss the proposals with, a limited number of participants within your organization who will assist with providing feedback and that they be made aware of the confidential nature of these documents.

Could you kindly acknowledge via return email your understanding that the information provided is strictly confidential and may not be discussed, shared or circulated outside of your organization. Please provide us the names of the individuals who will be participating in the review. Upon receiving your confirmation and the names, we will forward the documents to you.

We propose that that CLHIA and CAFII coordinate their responses in a single document. If you would prefer to provide separate documents, please let us know.

Best regards,
David Weir
Tel/Tél : 866-933-2222
Fax/Téléc : 506-453-7435
Financial and Consumer Services Commission
Commission des services financiers et services aux consommateurs

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From: Kate Walker <KWalker@clhia.ca>
Sent: Wednesday, March 2, 2022 2:36 PM
To: Brendan Wycks <brendan.wycks@cafii.com>; Keith Martin <keith.martin@cafii.com>; Weir, David (FCNB) <david.weir@fcnb.ca>
Subject: Re: Policy Proposals for Changes to the Insurance Act respecting Life Insurance and Accident and Sickness Insurance

Hi David,

Thank you very much for your email and for the opportunity to review FCNB's draft policy proposals. I can confirm that CLHIA will keep the information strictly confidential and will only discuss and share the information with a limited number of people within our organization , all of whom will be identified to you in advance.

With respect to that last point, can you confirm if "within your organization" means only CLHIA employees or does this encompass named individuals from our member companies (i.e. the same people who have been assisting with the questions to date)?

I am away in Victoria BC until the end of the week but I can get back to you on Monday with the names of the individuals and an answer to the question regarding us working jointly with CAFII.

Thanks again, I look forward to hearing from you.

Kate.

From: Brendan Wycks <brendan.wycks@cafii.com>
Sent: Friday, March 11, 2022 3:15:44 PM
To: Kate Walker <KWalker@clhia.ca>; Weir, David (FCNB) <david.weir@fcnb.ca>
Cc: Keith Martin <Keith.Martin@cafii.com>
Subject: RE: Policy Proposals for Changes to the Insurance Act respecting Life Insurance and Accident and Sickness Insurance

Hi, David and Kate.

Our Association would be happy to participate in the process David has proposed, by working with Kate and her CLHIA colleagues to provide a joint CLHIA/CAFII response submission to FCNB.

David: our governance process at CAFII will require that Member input be provided by – and a review of the penultimate draft of the joint submission be made by – the representatives on both our Market Conduct & Licensing Committee and our Executive Operations Committee (EOC), which together constitute about 55 individuals at this time.

Please see attached for the names and company affiliations of our Market Conduct & Licensing Committee and EOC members at this time.

CAFII is certainly willing to undertake this joint/collaborative work under the Confidentiality Undertaking/Non-Disclosure terms which you have set out, David.

Please forward the relevant document(s) to Keith Martin and me at your earliest convenience, and we will reach out to Kate and co-ordinate with her promptly thereafter.

Can you specify your expected timelines or a deadline for our joint response submission?

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From: Weir, David (FCNB) <david.weir@fcnb.ca>
Sent: March-11-22 2:45 PM
To: Brendan Wycks <brendan.wycks@cafii.com>
Cc: Keith Martin <Keith.Martin@cafii.com>
Subject: Re: Policy Proposals for Changes to the Insurance Act respecting Life Insurance and Accident and Sickness Insurance

Hi,

Is it possible that CAFII strike a smaller group for this review. Although these are only draft proposals, given the sensitive nature of the material, FCNB would like to limit the number of people reviewing and discussing the proposals.

As for when we would like to hear back, the first week of May would be ideal.

Regards,

David

From: Brendan Wycks
Sent: March-15-22 9:57 AM
To: Weir, David (FCNB) <david.weir@fcnb.ca>
Cc: Keith Martin <Keith.Martin@cafii.com>
Subject: RE: Policy Proposals for Changes to the Insurance Act respecting Life Insurance and Accident and Sickness Insurance

Thanks, David.

Your proposal that CAFII strike a smaller review group for this assignment is a plausible/possible one.

However, we will need to propose it to our CAFII Executive Operations Committee which next meets on Tuesday, March 22/22, and get back to you promptly thereafter.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(c)(iii)
Committee Updates: Market Conduct & Licensing: FSRA Consultation on Principles-Based Regulation (Submission Deadline: April 29/22)

Purpose of this Agenda Item – *Update*

To update the EOC on a regulatory submission.

Background Information

CAFII is intending to make a written submission to the FSRA in its consultation on a new guideline on principles-based and outcome-focused regulation.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

2 attachments.

Date
March 16, 2022
Comment Due Date
April 29, 2022

The Financial Services Regulatory of Ontario (FSRA) is setting out its approach to principles-based regulation, which will enhance consumer protection, facilitate innovation and ultimately lead to more efficient and effective regulation.

Where possible, FSRA is moving away from "prescriptive checklists" and encouraging entities to internalize regulatory requirements and work towards achieving desired regulatory outcomes based on their size, complexity, and risk profile.

Adopting principles-based regulation represents an important cultural change for both the regulator and the regulated, now putting the emphasis on communication, collaboration and transparency on both sides of the regulatory relationship.

FSRA is consulting on its proposed Principles-Based Regulation Approach Guidance that sets out:

- FSRA's Framework Principles for principles-based and outcomes-focused regulation ("Framework Principles")
- how principles-based regulation is reflected in FSRA's approach to regulation and supervision
- how FSRA's Framework Principles will be implemented

FSRA invites stakeholders and the public to provide feedback until April 29, 2022.

Useful links

- Proposed Principles-Based Regulation Approach Guidance

Approach

Effective Date: TBD
Identifier: No. GR0014APP

Proposed principles-based regulation

Purpose

This Approach guidance (“Guidance”) outlines the Financial Services Regulatory Authority of Ontario’s (“FSRA”) approach to principles-based regulation (“PBR”). This Guidance sets out:

- FSRA’s ‘Framework Principles’
- how PBR is reflected in FSRA’s approach to regulation and supervision
- how FSRA’s Framework Principles will be implemented
- how FSRA’s PBR approach and Framework Principles will impact FSRA regulated entities and individuals

Scope

This Guidance is applicable to all entities and individuals regulated by FSRA.

Rationale and background

FSRA was established an independent regulatory agency, replacing the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario. FSRA was created to improve consumer and pension plan beneficiary protections in Ontario. FSRA is self-funded and designed to respond to a rapidly evolving financial services sector by, amongst other things:

- promoting high standards of business conduct
- fostering strong, sustainable, competitive and innovative financial services sectors
- responding to changes in the financial services landscape on a timely basis where possible
- promoting good administration of pension plans

FSRA has embraced a principles-based and outcomes-focused approach to regulation from its inception. FSRA is focused on risk-based supervision and is guided by its statutory objects established in the *Financial Services Regulatory Authority of Ontario Act, 2016,* S.O. 2016, c. 37, Sched. 8 ("*FSRA Act*").

Even prior to its official launch on June 8, 2019, FSRA committed to being a "principles-based regulator". PBR is consistent with FSRA's Mission of "public service through dynamic, principles-based and outcomes-focused regulation."[1]

PBR is a regulatory and supervisory approach used by leading financial services regulators around the world. In addition to being an effective and efficient way to regulate and supervise regulated entities and individuals, PBR facilitates a regulator's ability to:

- respond more quickly to technological changes, consumer and beneficiary needs, and disruptions in the financial services landscape

- more effectively focus on desired regulatory outcomes and objectives to be achieved

- reduce regulatory burden through a more flexible regulatory approach, which allows regulated entities to determine how to best achieve adherence with outcomes based on their size, complexity, and risk profile

[1] Mission, Vision and Values

Framework principles

FSRA has developed a set of Framework Principles to guide its regulatory approach. The Framework Principles reflect FSRA's Mission as well as its statutory objects in the *FSRA Act.*[2]

The Framework Principles are general statements, which outline how FSRA will regulate and supervise regulated entities and individuals.

1. **Outcome-Focused** – FSRA will focus its regulatory activities on the outcomes we seek to achieve for consumers and pension plan beneficiaries, regulated entities and the sectors based on the statutory objects in the *FSRA Act,* which will be used as an overlay to the interpretation of the sector statutes.

2. **Innovative** – FSRA will continue to develop its own culture and capabilities in a manner that enables it to fulfill its objects, which specifically includes facilitating innovation and transformation in the sectors it regulates.

3. **Consumer-Centric** – In formulating its regulatory approach toward regulated entities and individuals, FSRA will focus on impact on consumers and pension plan beneficiaries. Our Rules[3] and guidance strive to reflect the interests and needs of consumers.

4. **Risk-Based** – FSRA will direct its resources to the issues and regulated entities and individuals that pose the highest risk. FSRA's risk assessment will consider the size, complexity, nature of the regulated entity, and where non-compliance or the inability to achieve the desired outcomes, will result in the most harm to consumers or pose the greatest threat to FSRA's ability to execute against its statutory objects.

5. **Transparent** – FSRA will communicate its expectations and/or requirements, as well as its activities and performance to stakeholders.[4] We will design Rules and guidance that reference the applicable principles against which FSRA will supervise, and identify the

[2] *See* sections 3 and 3.1.
[3] Rules has the meaning as defined under Section 21(1) of the *FSRA Act*.
[4] The term stakeholders includes regulated entities, the Government of Ontario, as well as consumers.

specific outcomes FSRA is seeking to achieve.

6. **Collaborative** – FSRA will engage with all stakeholders and leverage public consultations to ensure that its regulatory activities reflect the viewpoints and needs of its stakeholders, which include the interests of consumers and pension plan beneficiaries.

Regulated entities and individuals should familiarize themselves with FSRA’s Framework Principles since they are intended to:

- communicate to the regulated entities and individuals, referencing underlying principles, which set out the highest-level outcomes FSRA is seeking having regard to the statutory objects in the *FSRA Act*
- guide FSRA in the development of its Rules and guidance
- assist FSRA in identifying key areas of focus to prioritize its regulatory, supervisory and compliance activities and to more efficiently and effectively allocate resources
- facilitate appropriate outcomes and ensure that FSRA’s regulatory responses are reasonable and proportionate

The Framework Principles do not themselves create expectations for regulated entities or individuals.

FSRA’s regulatory approach

The sectors that FSRA regulates form a significant component of the larger economy in Ontario, delivering a vast array of financial products and services to Ontarians, which are integral to their day-to-day lives. FSRA is responsible for ensuring that Ontarians who purchase or rely on these products and services are appropriately protected whilst ensuring that the sectors remain competitive and responsive to consumer and pension plan beneficiary needs. In general, FSRA believes that a regulatory approach which focuses on the use of PBR is a more effective and efficient way to regulate its sectors and achieve the desired regulatory outcomes in a manner consistent with the FSRA statutory objects.

When using a PBR approach, FSRA will reference high-level, broadly stated principles, either in its guidance or its Rules, and identify desired outcomes to communicate its expectations of regulated entities.

When applying a PBR and outcomes-focused approach to a credit union, pension plan or insurer, FSRA will place greater reliance on a regulated entity's senior management[5] and board of directors to internalize the requirements in order to achieve desired outcomes.[6] The regulated entity or individual will be responsible for demonstrating how its identified approach is effective in achieving adherence to the principles articulated. In the context of a credit union, pension plan or insurer, senior management and the board of directors of the regulated entity should communicate transparently and in a timely manner the policies, processes and practices, which have been adopted and implemented to demonstrate how the regulated entity is achieving the desired outcomes and show how it is validating that the desire outcomes are being achieved. FSRA's assessment of adherence will entail whether the regulated entity has taken reasonable and good faith efforts to meet and be aligned with the desired outcome(s).

Well-controlled and governed, and effectively managed regulated entities that engage positively and openly with FSRA should realize real benefits from FSRA's PBR and outcomes-focused approach. For example, these benefits may be demonstrated by showing that the regulated entity's own management and controls are functioning effectively to validate that the desired outcomes are being achieved. This can result in less intensive supervision or a less intensive risk mitigation program. However, this is predicated on the senior management and boards of regulated entities fully engaging in achieving the desired regulatory outcomes identified by FSRA and working with FSRA in a constructive and transparent manner to ensure that these outcomes are being achieved.

FSRA will consider all aspects of the relevant regulatory issue, as well as exercise appropriate supervisory judgment when evaluating the policies, processes and practices established by the regulated entity to achieve adherence with principles as reflected in identified outcomes. Where a regulated entity or individual identify potential issues, which may result in an inability to achieve

[5] In the case of a registered pension plan, FSRA will rely on the plan administrator, which is subject to a fiduciary duty.
[6] In the case of a registered pension plan, the reliance would be placed on the administrator and its board of directors.

the desired regulatory outcomes, open and early communication with the regulator will better enable both parties to identify appropriate solutions, mitigate risk incidents or develop remediation strategies.

FSRA may leverage industry best practices when assessing the regulated entity or individual's chosen approach. These industry practices should not be interpreted or implemented as a compliance "checklist." Rather, best practices will be used to provide regulated entities with valuable insights regarding the identified approaches used by industry peers and provide a baseline from which to identify practices that are best suited to their own organization

FSRA believes it is more efficient and effective to regulate using a PBR approach rather than a regulatory approach that focuses on whether prescriptive requirements are complied with and/or satisfied. As such, the use of a PBR and outcome-focused approach to regulation and supervision will continue to form a foundational component of FSRA's regulatory strategy moving forward. It should be evident that this method of regulation and supervision requires the exercise of judgment by both the regulator and the regulated entity, a collaborative approach and open communication.

However, it is important to note that this does not mean that FSRA will be a purely principles-based regulator in its regulatory and supervisory approach. In certain areas, FSRA will need to continue to rely on detailed Rules and prescriptive requirements, sometimes referred to as "bright-line" requirements, to ensure adequate consumer and pension beneficiary protection. This is because the use of principles to identify the outcomes that FSRA is seeking to achieve will need to be underpinned by prescriptive requirements, but, to the extent possible, those requirements will be interpreted through guidance and reference specific principles which apply to support the desired outcomes.

FSRA will be guided by its Framework Principles when it adopts either a PBR or a prescriptive approach. Factors that will impact the regulatory approach adopted by FSRA will include the relevant legal framework (i.e., statute, regulations, FSRA rules and case law), the complexity, magnitude and impact of the regulatory problem, and the sophistication and resources of the regulated entity to effectively address the issue.

Each FSRA core regulatory function may develop and implement a supervisory methodology which reflects the unique regulatory issues as well as the size, complexity, and risk profile of the sector it regulates. That said, all supervisory processes developed and implemented across FSRA's regulated sectors will be aligned with the Framework Principles as well as all other elements of FSRA's PBR approach as outlined in this Guidance.

FSRA guidance and its Rules are intended to be constructed in a manner that reflects the Framework Principles. Each piece of guidance and/or Rule may also identify a distinct set of principles and/or desired outcomes with respect to the specific issue being addressed (e.g., fair treatment of consumers, IT risk management etc.), and may also identify the regulatory "means" to achieve the desired outcomes. The use of guidance[7] and Rules will thus be key mechanisms through which FSRA will outline its expectations and requirements (i.e. applicable principles and desired outcomes).

Enforcement

Enforcement remains an integral component of FSRA's principles-based and outcome-focused approach. FSRA will utilize Interpretation Guidance to identify the principles that relate to its interpretation of sector statutes and regulations, or a Rule. Its interpretation of compliance obligations will be based upon its statutory objects, which serve as an interpretative "overlay" to each sector statute.

FSRA will be formulating specific guidance to outline its approach to investigations and enforcement to provide enhanced transparency around its enforcement processes and practices. This will assist regulated entities and individuals (and their counsel where applicable), in responding to and participating in initial assessments and investigations conducted by the Legal & Enforcement function of FSRA.

FSRA's Framework Principles will inform FSRA's approach to enforcement. FSRA takes a progressive, measured and proportional approach to enforcement. This means that where a regulated entity or individual has not complied with regulatory requirements, FSRA will determine the appropriate action after considering the evidence and the unique circumstances of the non-compliance or non-adherence to a particular obligation, including the seriousness and nature of the contravention, risk to consumers and pension plan beneficiaries, potential impact on

[7] FSRA's Guidance Framework will continue to be used to communicate information, its approach to supervision, regulatory compliance obligations and/or regulatory decisions.

stakeholders, nature of regulated entity or licensee, past behaviour, efforts to remediate and mitigate, and the need for deterrence. FSRA will strive to be measured in its approach to compliance and enforcement, assuming good faith by the regulated entity.

Effective date and future review

This Guidance became effective on **(insert date here)** and will be reviewed no later than **(insert future date here).**

About this guidance

This Guidance is an Approach. Approach Guidance describes FSRA's internal principles, processes and practices for supervisory action and application of Chief Executive Officer discretion. Approach Guidance may refer to compliance obligations but does not in and of itself create a compliance obligation. Visit FSRA's Guidance Framework to learn more.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 4(d)(i)
Committee Updates: Research & Education Committee: Next Steps for Deloitte Canada Thought Leadership Paper on Trends, Consumer Demands/Expectations, and Best Practices in Digitization of CPI; Including Possible Public Release of Results

Purpose of this Agenda Item – *Update / Endorsement*

To update the EOC on the next steps around the Deloitte Canada research project, and request that the EOC endorse a recommendation being made to it.

Background Information

Deloitte Canada has now made a powerpoint presentation to the Board on its high-level research findings around best practices in digitization of CPI; and has released to CAFII members its more detailed, in-depth word version of the research.

The Research & Education Committee has met to review these documents and next steps and is making the following recommendations to the EOC, for endorsement and presentation to the Board:

1. A slightly modified version of the powerpoint should be presented in a webinar by Deloitte Canada to regulators;
2. A slightly modified version of the powerpoint should be presented to friendly sister Associations (CLHIA, THIA, CBA);
3. A slightly modified version of the powerpoint should be publicly posted on the CAFII website, along with a press release to industry press; and the highlights of that powerpoint should also be displayed on our website in more visually-pleasing info-graphics designed by a graphic designer;
4. The detailed word document should be only for CAFII members and Associates and should not be publicly released or shared with non-CAFII members;
5. At the time of the news release, CAFII will explore having Deloitte share the public documentation through its marketing platforms;
6. Deloitte will make an entirely volunteer offer to CAFII members to make customized presentations to them of how the research best applies to their organization.

The Media Advocacy Chair, Jacqlyn Marcus, has reviewed these recommendations and supports them.

If the EOC agrees to endorse this recommendation, it will be presented for approval to the Board at the upcoming 12 April, 2022 Board meeting.

Recommendation / Direction Sought – *Update / Endorsement*

This is an update and endorsement request.

Attachments Included with this Agenda Item

2 attachments.

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Digitization of CPI | Board Presentation

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Objectives and Agenda

Objective

Present the CAFII Board with a summary of the Digitization of CPI research report prior to its publication

Agenda

Section	Timing
Introductions	*5 minutes*
Report Background, Context & Approach	*10 minutes*
Deloitte Perspective on Digitizing CPI	*30 minutes*
Next Steps	*5 minutes*
Q&A	*10 minutes*

Our Team

Melissa Carruthers

Partner,
Insurance Strategy

Role: Project Leadership

Marc Lewis

Senior Manager,
Insurance Strategy

Role: Research Lead

Simon Knops

Senior Manager,
Insurance Strategy

Role: Research Lead

Context & Objectives

Background & Context

CAFII has engaged Deloitte to share an independent perspective on what it will take to offer 'best-in-class' digital experiences to CPI consumers in response to the evolving needs and preferences of Canadians

Background

- The Canadian Association of Financial Institutions in Insurance ("CAFII") is a not-for-profit industry association that **represents financial institution distributors and insurance company underwriters** involved in selling insurance in Canada
- CAFII is dedicated to fostering an open and flexible marketplace that is efficient and effective and **allows Canadian consumers an expanded choice** in the purchase of insurance products and services.
- In support of its mission & mandate to advance the interests of financial institutions in insurance and affiliated organizations, **CAFII regularly conducts consumer and market research** relevant to the business & offerings of its members
- Credit protection insurance **(CPI) is a primary focus of CAFII** as its members' common ground

Why are we here?

- Across all industries we have experienced an **accelerated shift towards digital** purchasing and servicing following the events of COVID-19, however the **insurance industry has been historically slow** at transforming its traditional business models to be more customer centric
- In March 2021, **CAFII conducted a consumer research report** aimed at understanding the impact to the sales & servicing preferences of Canadians in light of COVID 19 with a specific focus on CPI
- Key insights from the research report research suggests that Canadian consumers have not only become more likely, to use virtual channels for CPI sales & servicing and in turn have **higher expectations of their financial institutions** to provide improved multi-channel experiences
- Given the importance of CPI in providing accessible and affordable protection to Canadians, CAFII engaged Deloitte to develop an **independent research report focused on *'Digitizing CPI'*** and what it will take for the CPI industry to offer 'best-in-class' digital experiences for CPI
- The objective of the report is to identify opportunities for the **CPI industry to improve the digital experience offered to CPI consumers** in response to increased expectations and advancements in digital tools and technologies
- The subsequent sections of this document outline Deloitte's research approach and its perspective on the key success factors for Digitizing CPI as a means to **help inform the CPI Industries' digital priorities for the future**

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Report Approach & Research Methodology

In order to develop its perspective, Deloitte conducted a combination of primary and secondary research, including engagement with CAFII members across 14 organizations that included both underwriters[1] and distributors of CPI

Deloitte Research and Accelerators

Industry External Research
Secondary research was focused on Global insurance markets to help inform key success factors associated with leading digital insurance organizations, including the capabilities contributing to leading digital client experiences

Deloitte's Digital Maturity Model
Deloitte's Digital Maturity Model defines the key capabilities required for an organization to be digital and was used as an input in identifying the summary of functional capabilities required to enable the digitization of CPI

CAFII Members Surveyed and Interviewed

ScotiaLife Financial
National Bank
CIBC
BMO Insurance
TD Insurance
RBC Insurance
Desjardins Insurance
CUMIS
valeyo
Assurant
Canadian Tire Bank
canadian premier – A Securian Financial company
Manulife
canada life

Survey & Interview Scope

CPI Digital Maturity - *Sample Questions*

- *What does **'Digitizing CPI' mean to your organization** and how important do you believe digitizing CPI is to the **future of CPI**?*
- *How would you describe the current digital **maturity of the Canadian CPI industry**? How would you rank your maturity relative to your peers & your desired future state?*

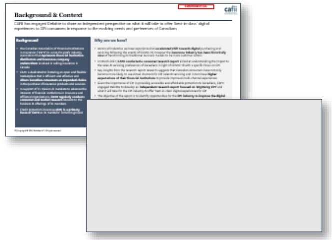
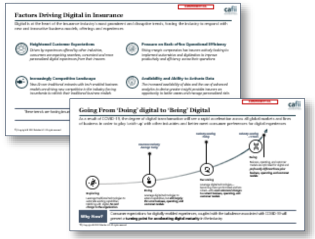
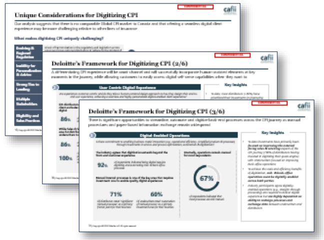
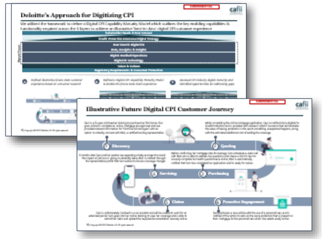
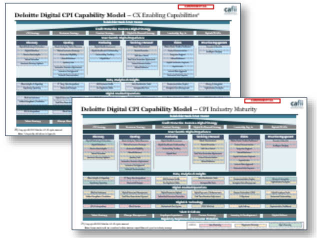
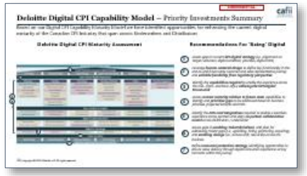
Challenges & Opportunities in Digitizing CPI - *Sample Questions*

- *What do you believe are the **primary friction points / inefficiencies** that exist within CPI operations?*
- *Where do you believe digitizing CPI may present an **opportunity to improve** these inefficiencies?*
- *What do you believe is the **biggest challenge in digitizing CPI**?*

Notes:
1) Underwriters include all CPI product manufacturers

Digitization of CPI Report Contents

The following table summarizes the contents and structure of our presentation and the research report

Objective	This research report focuses on identifying the key capabilities required to enable a leading digital CPI client experience in order to help inform digital investments and priorities for the future					
Sections	**1. Context & Objectives** 	**2. Deloitte's Perspective on 'Being' a Digital Insurer** 	**3. Key Research Insights** 	**4. Sample 'Best-in-Class' Digital CPI Experience** 	**5. Deloitte's Digital CPI Capability Maturity Model** 	**6. Looking Forward** 
Overview	*Summary of the background & context that led to the report, its rational, as well as description of the approach & methodology followed*	*Deloitte's perspective of key factors leading to the need for digital in insurance and the key characteristics associated with market-leading digital insurers*	*Key takeaways from research, including member interviews and surveys across distributors and underwriters*	*Showcase an illustrative leading digital CPI client experience to demonstrate the approach to identifying enabling capabilities*	*Review of functional capabilities required to enable "Best-in-Class" digital CPI experience, with associated industry maturity assessment*	*Summary of opportunities for CPI Underwriters & Distributors to consider as they embark on their digital transformation journeys*

Note: Regulatory considerations are not confined to a single section and are present throughout the report where applicable

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Digitizing Canadian CPI – Key Takeaways

The need to digitize and improve the end-to-end CPI client experience is becoming an imperative for CPI underwriters and distributors in order to keep pace with consumer expectations and the accelerating move to digital lending

Overall Takeaways

1. Digitizing CPI is a **strategic priority for Canadian financial institutions**
2. Relative to other insurance industries, **Canadian CPI has unique challenges with** regards to **its digitization,** accentuated by the multiple stakeholders involved
3. **The CPI digital experience** offered is **highly dependent** upon the **lending journey** (i.e., mortgages, lines of credit)
4. **The regulatory environment** surrounding CPI can be **difficult to navigate digitally,** especially due to lack of harmonization across provinces
5. **The digital maturity of providers is inconsistent** across the industry
6. **Adoption** from sales representatives as well as clients **in digital experiences continues to be an inhibitor to realizing the benefits of digital investments**
7. **Successful digitization of CPI extends beyond client-facing experiences,** and includes back / mid-office operations
8. Digital experiences enabled by **automation across the value chain with partners** (e.g., underwriting, claims) were the **most cited friction points**
9. **Collaboration** across **Distributors, Underwriters and Regulators** will be key to **delivering "Best-in-Class" experiences**

Survey Highlights

100% *Of Underwriters and Distributors indicated digitizing CPI as a strategic priority*[2]

43% *Of members surveyed believe that up to 40% of applications will be fully digital by 2025*

75% *Of CPI Underwriters and Distributors stated lack of alignment with lenders as leading risk to penetration rates and sales*[2]

80% *Of Underwriters identified multiple stakeholders owning various aspects of the CPI experience was the greatest challenge to digitizing CPI*

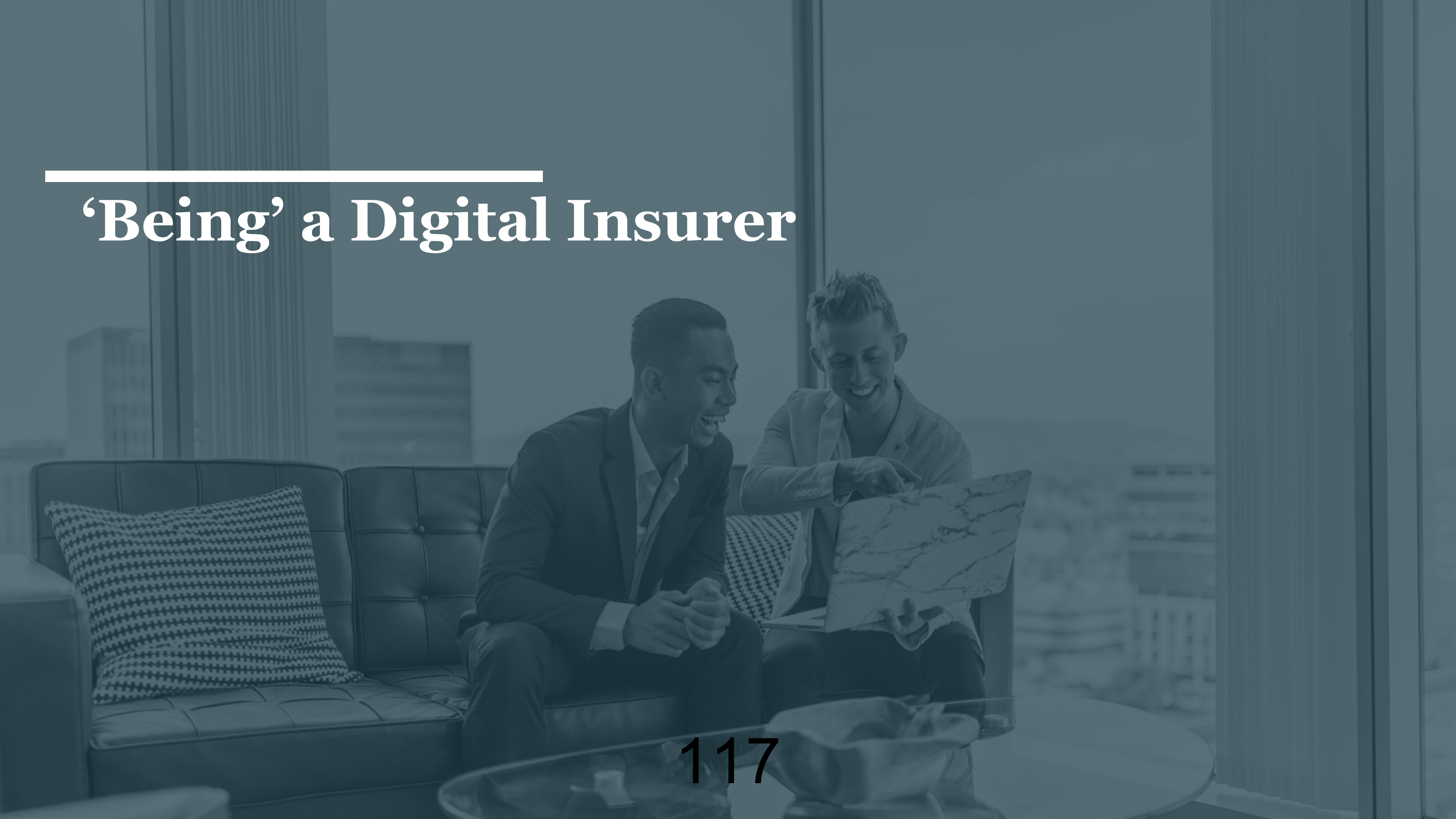
57% *Of Distributors ranked their current digital maturity as being 'somewhat behind'*

~5% *Cited penetration rates of CPI for personal loans can be as low as 5% for some members*

67% *Of respondents indicated that most back / mid-office processes remain manual despite investments*

86% *Of Distributors have indicated that cross-channel integration is key for successful digital CPI experiences*[2]

Source: 1) CAFII Polara Study 2) Deloitte Digitizing CPI Survey



‘Being’ a Digital Insurer

Factors Driving Digital in Insurance

Digital is at the heart of the insurance industry's most prominent and disruptive trends, forcing the industry to respond with new and innovative business models, offerings and experiences

Heightened Customer Expectations

Driven by experiences offered by other industries, consumers are expecting seamless, convenient and more personalized digital experiences from their insurers

Pressure on Back-office Operational Efficiency

Rising margin compression has insurers actively looking to implement automation and digitization to improve productivity and efficiency across their operations

Increasingly Competitive Landscape

New & non-traditional entrants with tech-enabled business models are driving new competitive in the industry forcing incumbents to rethink their traditional business models

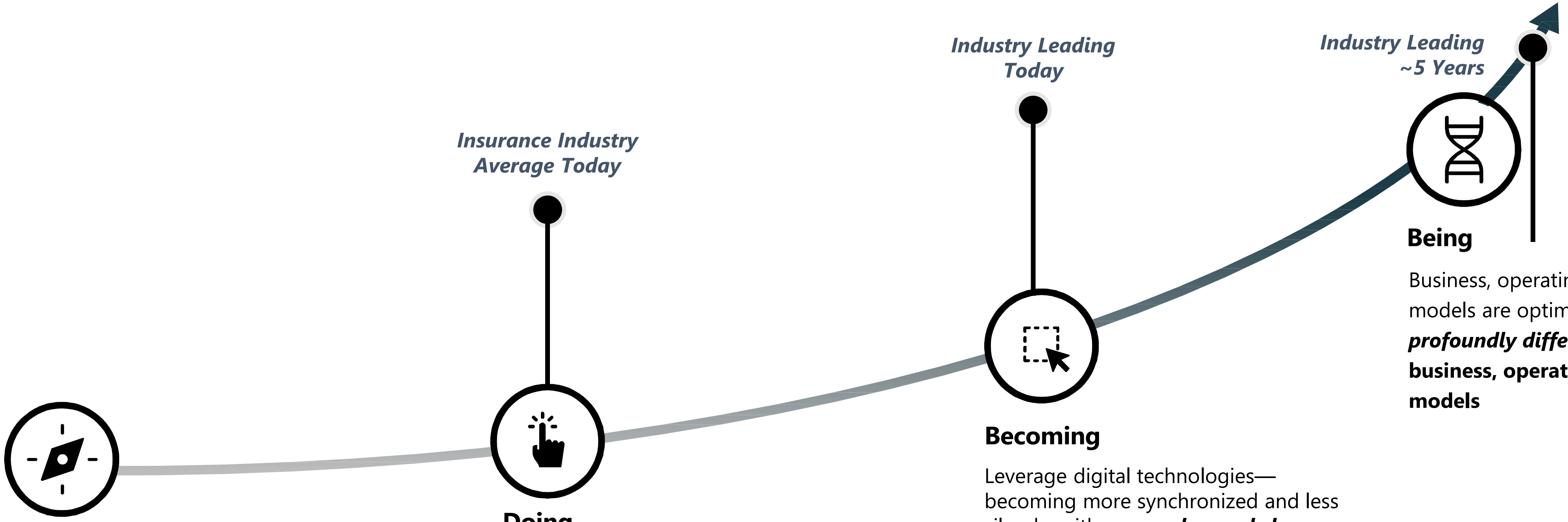
Availability and Ability to Activate Data

The increased availability of data and the use of advanced analytics to derive greater insight provides insurers an opportunity to better assess and manage personalized risks

These trends are forcing insurers to **rethink and transform their experiences, offerings, operations, distribution, and enabling technologies** – all in ways that are **truly more *digital***

Going From 'Doing' digital to 'Being' Digital

As a result of COVID-19, the degree of digital transformation will see a rapid acceleration across all global markets and lines of business in order to play 'catch-up' with other industries and better meet consumer preferences for digital experiences



Exploring

Leverage traditional technologies to automate existing capabilities. Dabbling with digital. ***No real change*** **to the organization**

Doing

Leverage digital technologies to extend capabilities, but **still *largely the same* business, operating, and customer models**

Becoming

Leverage digital technologies—becoming more synchronized and less siloed—with ***more advanced changes*** **to current business, operating, and customer models**

Being

Business, operating, and customer models are optimized for digital and ***profoundly different*** **from prior business, operating, and customer models**

Why Now?

Consumer expectations for digitally-enabled experiences, coupled with the turbulence associated with COVID-19 will present a **turning point for accelerating digital maturity** in the industry

6 Key Attributes of 'Being' a Digital Insurer

Through our research & experience, we've observed that leading digital insurance organizations exhibit the following 6 attributes and respective underlying capabilities which contribute to offering leading digital experiences

Articulated Strategy & Digital Ambition
High performing digital organizations have a well articulated business and supporting digital strategy with clarity on the supporting customer, product and channel strategy

Sophisticated Data, Analytics & Insights
Inform business priorities, product development, and customer experiences all based on data-driven insights - allowing for hyper personalization of experiences, features, pricing and risk assessment

User Centric Digital Experiences
Highly customer-oriented in how they do business and take a human centered design approach to designing their end-to-end user journey allowing for seamless and highly personalized digital experiences

Scalable Technology Architecture
Utilize modern (e.g., cloud based, APIs) technology architecture to support flexibility, modularity and speed to market allowing for seamless integration with ecosystem partners through APIs

Hyper Focused on Operational Efficiency
Digital-enabled insurers have a commitment to relentless expense efficiency, optimizing investments in technology & data through process automation and digitization and business model innovation

Digital Talent & Culture
Digital culture, skills and ways of working (e.g., agile) are embedded throughout the organization driving a holistic culture of innovation and moving away from isolating digital as a standalone team

These ***6 foundational attributes*** are core to Deloitte's Framework for ***'Being' Digital In Insurance*** & will serve as the ***basis for which we will identify the requirements to digitize CPI in Canada***

Digitizing CPI - Research Insights

Unique Considerations for Digitizing CPI

Our analysis suggests that there is no comparable Global CPI market to Canada and that offering a seamless digital client experience may be more challenging relative to other lines of insurance

What makes digitizing CPI uniquely challenging?

Evolving & Regional Regulation	A lack of harmonization in the regulatory and legislation across provinces forces national distributors to adhere to the strictest of digital sales practices which can be difficult to deliver as a scalable & seamless digital experience
Inability for Personalization & Advice	As CPI needs to be group underwritten, it does not create an opportunity to provide greater personalization in pricing and product design relative to individual insurance; similarly, differentiating based on personalized advice will be difficult under the current sales regulations
Strong Ties to Lending	CPI sale is highly connected to the lending journey, which are increasingly moving towards digital and human-assisted channels; strong collaboration is required with lending partners
Multiple Stakeholders	The client journey is owned by multiple stakeholders at varying stages of the policy lifecycle and requires significant alignment on roles, priorities and capabilities amongst underwriters & distributors
Eligibility and Sales Practices	Distributors must ensure that a customer purchasing a CPI product goes through a specific eligibility and exclusion assessment, adding steps & therefore friction to the purchasing journey

"Finding the right approach to mirror a face-to-face experience into digital channels is and will remain our biggest challenge"

- Distributor

"Traditionally you got a mortgage, so we offered mortgage protection, now it needs to be customer centric, based on all your needs here are the best options for you"

- Underwriter

"Each partner has their own Loan Origination System (LOS) and it's archaic, we can't integrate so a lot of the interactions are done over the phone"

- Underwriter

Deloitte's Framework for Digitizing CPI

Utilizing the 6 attributes for 'Being' a digital insurer and our analysis on the Canadian CPI industry, we have defined a framework outlining our perspective on what it will take to Digitize CPI and assess the industry's current digital maturity

Stakeholder Needs & Best Interest

1 CPI Digital Strategy

Is there a well articulated business strategy with clarity on the customer strategy & needs to inform the products, channels and digital ambition to support the vision with well-defined KPIs that are routinely monitored and assessed?

2 User Centric Experiences

Are experiences customer-centric and do they take a human-centered design approach to how they design their end-to-end user experience, achieving a seamless and highly personalized digital-enabled client experience?

3 Digital-Enabled Operations

Is there commitment to enabling business model innovation (e.g., operational efficiency, simplified products & processes) through investments in end-to-end process optimization, automation & digitization?

4 Data, Analytics & Insights

Are data-driven insights derived and utilized to inform business priorities (e.g., product design, digital priorities, customer experiences) to achieve hyper personalization of experiences, products and pricing?

5 Digital & Technology

Is there modern and scalable technology infrastructure in place to support flexibility, speed to market and ecosystem integration (e.g., digital platforms, APIs)?

6 Talent & Culture

Are digital skills, culture and ways of working (e.g., agile, change, learning, etc.) embedded throughout the organization and is there a talent & partnership strategy in place to address any capability & expertise gaps?

Regulatory Requirements & Consumer Protection

*Key research findings have been summarized across each of the **6 layers in Deloitte's Digital CPI framework** to inform a set of **distinct capabilities** that apply to CPI distributors and underwriters*

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Future Best in Class CPI Experience

Deloitte’s Approach for Digitizing CPI

We utilized the framework to define a Digital CPI Capability Maturity Model which outlines the key enabling capabilities & functionality required across the 6 layers to achieve an illustrative ‘best-in-class’ digital CPI customer experience

Stakeholder Needs & Best Interest

Credit Protection Insurance Digital Strategy

Report Focus

User Centric Digital CX

Data, Analytics & Insights

Digital-Enabled Operations

Digital & Technology

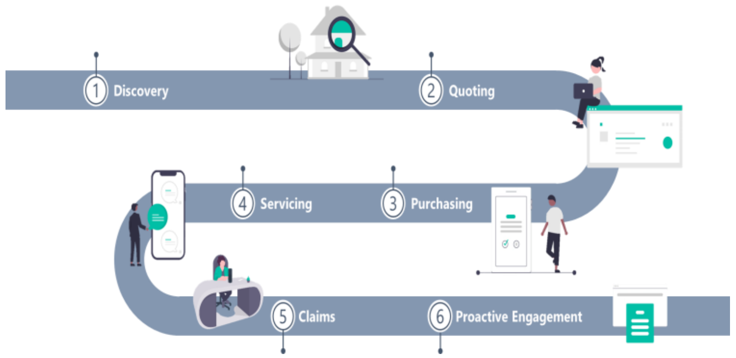
Talent & Culture

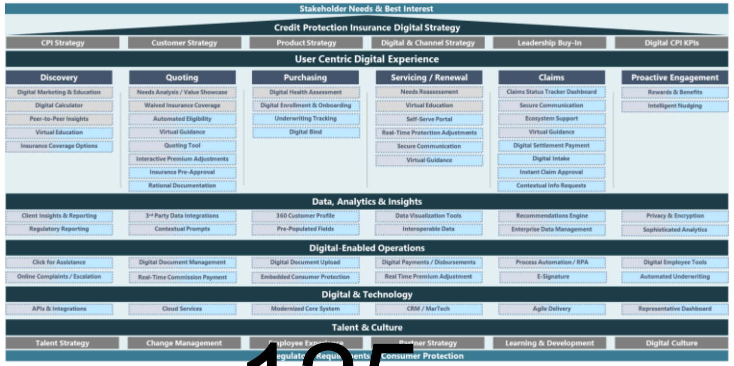
Regulatory Requirements & Consumer Protection

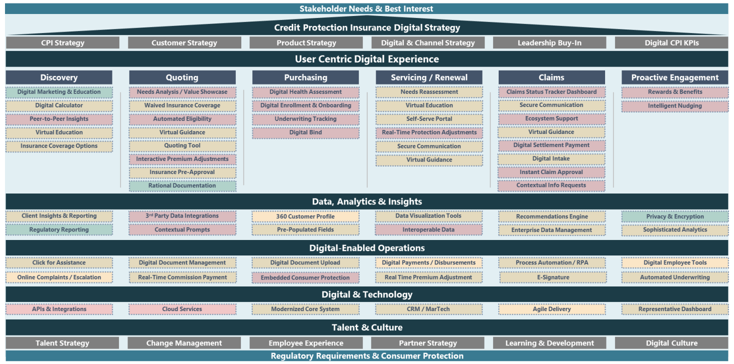
A *Defined illustrative future state customer experience based on consumer research*

B *Defined a Digital CPI Capability Maturity Model to enable the future state client experience*

C *Assessed CPI industry digital maturity and identified opportunities for addressing gaps*







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Insights From Previous CAFII Consumer Research

CAFII previously conducted consumer research in order to identify the post-COVID-19 implications to how CPI clients needs & preferences for sales, servicing and claims have evolved to inform the development of a customer-centric future journey

Discovery

~95%

*Of customers want **to plain language information** available **through the website**, as well as having the **opportunity to easily connect** with someone in **real-time to get answers***

- 65% of customers are **now more likely to obtain CPI** on their mortgage or line of credit **as a result of the pandemic**
- **Online services** such as education, quotes and coverage information **will be table stakes to support client discovery of CPI**

Advisory

~60%

*Of customers would like to have **real-time virtual assistance** when it comes to obtaining CPI*

~40%

*Of customers will want **in-person assistance** at some point **in the CPI purchasing journey***

- Customer preferences are almost evenly split between virtual and in-person assistance, highlighting the need for **building omnichannel capabilities**
- 93% of CPI holders value easily **connecting with an advisor in real time**

Purchase

72%

*State that the **pandemic has changed the way** they want to **conduct financial transactions***

79%

Prefer** the **convenience** of **conducting** financial **transactions online

- While channel preferences have evolved due to COVID, the **overall CPI journey should remain an omnichannel experience**
- Improving the **sales representative experience** will be critical to improving the end-to-end client experience

Claims & Servicing

33%

*Only 1/3rd of customers prefer to meet someone in person to make a **CPI claim***

40%

*Indicate that they **prefer to file a CPI claim over the phone or online** (website or web-based platform)*

- When it comes to filing a claim, the large **majority of customers are comfortable with virtual channels**
- Significant number of clients indicated they **prefer to submit their claim online (18%) over mobile (4%)**

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Source: CAFII: Credit Protection Insurance - Process and Methods – Research Report, 2021 (N=1002), CAFII: Travel Medical Insurance Study - Wave 2 Report, 2018 (N=1200), Deloitte analysis

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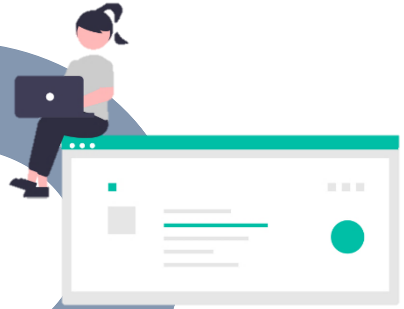
Illustrative Future Digital CPI Customer Journey

Sam is a 33-year-old Teacher looking to purchase her first home; She goes online to complete an online mortgage pre-approval and was provided relevant information for 'first time home buyers' with an option to virtually connect with Blair, a certified lending representative

1 Discovery

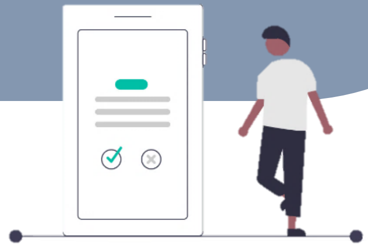
While completing the online mortgage application, Sam is notified she's eligible for Credit Protection and is provided with relevant 'what if' scenarios that demonstrate the value of having protection in the event something unexpected happens, along with the estimated additional cost of adding the coverage.

2 Quoting



Before confirming her mortgage rate & coverage, Sam schedules a video call with Blair who is able to address her questions and shares a link for Sam to securely complete her health questionnaire online; Blair is automatically notified that Sam has completed her application and its ready for review

3 Purchasing



6 months later Sam and her partner are expecting a baby and want to revisit the impact of job loss or going on disability leave. Blair is notified through the representative portal that Sam wishes to discuss coverage changes

4 Servicing

5 Claims

Sam is unfortunately involved in a car accident and will be unable to work for an extended period. Sam goes into her online banking to view her coverage and is able to submit her claim and upload the required documentation securely online

6 Proactive Engagement

Sam purchases a new vehicle with the use of a personal loan, and is notified of the option to add-on the same protection that is present on their mortgage on the personal loan which she selects easily online

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Required Capabilities & Maturity

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Deloitte Digital CPI Capability Model – CX Enabling Capabilities[1]

Stakeholder Needs & Best Interest

Credit Protection Insurance Digital Strategy

CPI Strategy | Customer Strategy | Product Strategy | Digital & Channel Strategy | Leadership Buy-In | Digital CPI KPIs

User Centric Digital Experience

Discovery	Quoting	Purchasing	Servicing / Renewal	Claims	Proactive Engagement
Digital Marketing & Education	Needs Analysis / Value Showcase	Digital Health Assessment	Needs Reassessment	Claims Status Tracker Dashboard	Rewards & Benefits
Digital Calculator	Waived Insurance Coverage	Digital Enrollment & Onboarding	Virtual Education	Secure Communication	Intelligent Nudging
Peer-to-Peer Insights	Automated Eligibility	Underwriting Tracking	Self-Serve Portal	Ecosystem Support	
Virtual Education	Virtual Guidance	Digital Bind	Real-Time Protection Adjustments	Virtual Guidance	
Insurance Coverage Options	Quoting Tool		Secure Communication	Digital Settlement Payment	
	Interactive Premium Adjustments		Virtual Guidance	Digital Intake	
	Insurance Pre-Approval			Instant Claim Approval	
	Rational Documentation			Contextual Info Requests	

Data, Analytics & Insights

Client Insights & Reporting	3rd Party Data Integrations	360 Customer Profile	Data Visualization Tools	Recommendations Engine	Privacy & Encryption
Regulatory Reporting	Contextual Prompts	Pre-Populated Fields	Interoperable Data	Enterprise Data Management	Sophisticated Analytics

Digital-Enabled Operations

Click for Assistance	Digital Document Management	Digital Document Upload	Digital Payments / Disbursements	Process Automation / RPA	Digital Employee Tools
Online Complaints / Escalation	Real-Time Commission Payment	Embedded Consumer Protection	Real Time Premium Adjustment	E-Signature	Automated Underwriting

Digital & Technology

APIs & Integrations	Cloud Services	Modernized Core System	CRM / MarTech	Agile Delivery	Representative Dashboard

Talent & Culture

Talent Strategy | Change Management | Employee Experience | Partner Strategy | Learning & Development | Digital Culture

Regulatory Requirements & Consumer Protection

LEGEND: Key Success Factor | Distributor Capability | Underwriter Capability | Joint Capability

Note: 1) Capability definitions in Appendix

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Deloitte Digital CPI Capability Model – CPI Industry Maturity

Stakeholder Needs & Best Interest

Credit Protection Insurance Digital Strategy

CPI Strategy	Customer Strategy	Product Strategy	Digital & Channel Strategy	Leadership Buy-In	Digital CPI KPIs

User Centric Digital Experience

Discovery
- Digital Marketing & Education
- Digital Calculator
- Peer-to-Peer Insights
- Virtual Education
- Insurance Coverage Options

Quoting
- Needs Analysis / Value Showcase
- Waived Insurance Coverage
- Automated Eligibility
- Virtual Guidance
- Quoting Tool
- Interactive Premium Adjustments
- Insurance Pre-Approval
- Rational Documentation

Purchasing
- Digital Health Assessment
- Digital Enrollment & Onboarding
- Underwriting Tracking
- Digital Bind

Servicing / Renewal
- Needs Reassessment
- Virtual Education
- Self-Serve Portal
- Real-Time Protection Adjustments
- Secure Communication
- Virtual Guidance

Claims
- Claims Status Tracker Dashboard
- Secure Communication
- Ecosystem Support
- Virtual Guidance
- Digital Settlement Payment
- Digital Intake
- Instant Claim Approval
- Contextual Info Requests

Proactive Engagement
- Rewards & Benefits
- Intelligent Nudging

Data, Analytics & Insights
- Client Insights & Reporting
- Regulatory Reporting
- 3rd Party Data Integrations
- Contextual Prompts
- 360 Customer Profile
- Pre-Populated Fields
- Data Visualization Tools
- Interoperable Data
- Recommendations Engine
- Enterprise Data Management
- Privacy & Encryption
- Sophisticated Analytics

Digital-Enabled Operations
- Click for Assistance
- Online Complaints / Escalation
- Digital Document Management
- Real-Time Commission Payment
- Digital Document Upload
- Embedded Consumer Protection
- Digital Payments / Disbursements
- Real Time Premium Adjustment
- Process Automation / RPA
- E-Signature
- Digital Employee Tools
- Automated Underwriting

Digital & Technology
- APIs & Integrations
- Cloud Services
- Modernized Core System
- CRM / MarTech
- Agile Delivery
- Representative Dashboard

Talent & Culture

Talent Strategy	Change Management	Employee Experience	Partner Strategy	Learning & Development	Digital Culture

Regulatory Requirements & Consumer Protection

LEGEND: Low Maturity | Disparate Maturity | High Maturity

Note: Assessment should be considered relative between capabilities and upon the industry average

Looking Forward

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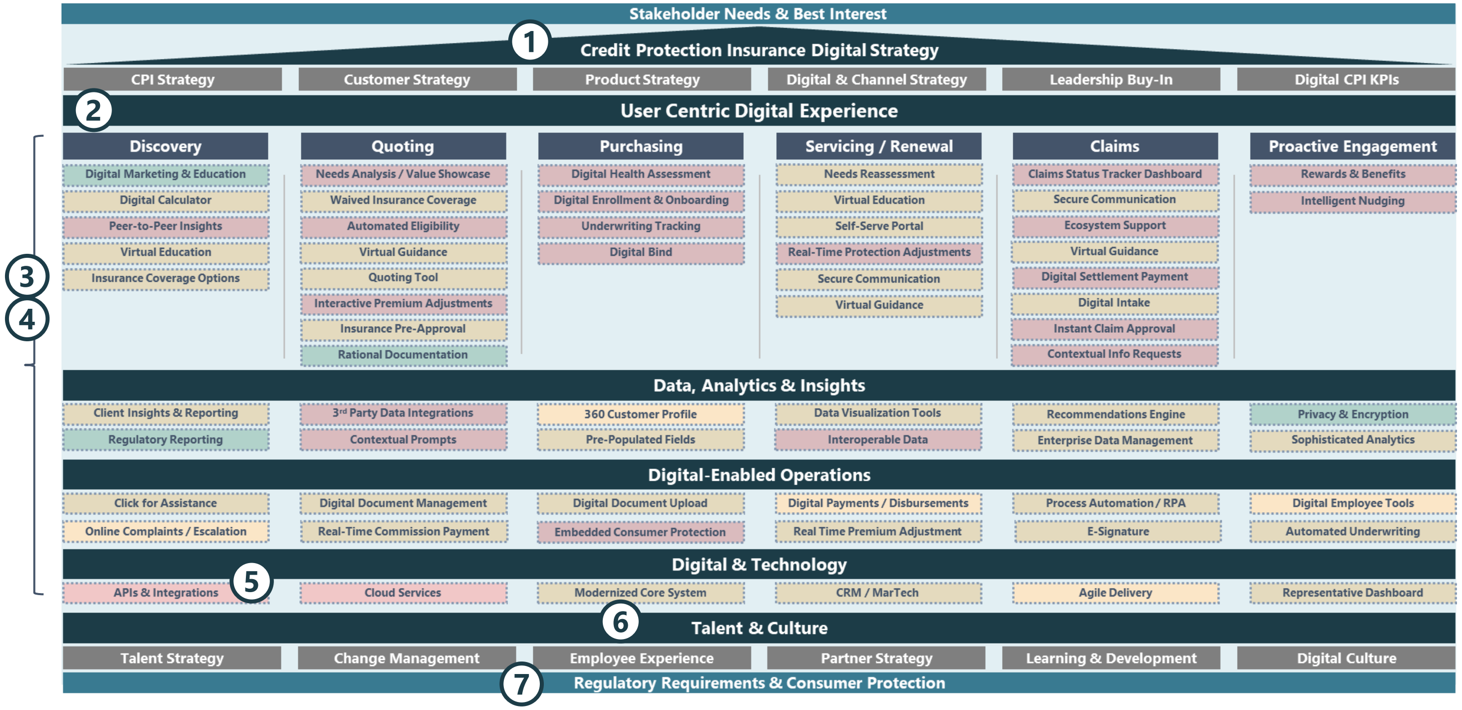
Deloitte Digital CPI Capability Model – Priority Investments Summary

Based on our Digital CPI Capability Maturity Model we have identified opportunities for enhancing the current digital maturity of the Canadian CPI Industry that span across Underwriters and Distributors

Deloitte Digital CPI Maturity Assessment



Recommendations For 'Being' Digital

1. *Assess gaps in current **CPI digital strategy** (i.e., alignment on target customers, digital ambition, priorities, digital KPIs)*
2. *Leverage **human centered design** to define key functionality in the end-to-end future state customer and sales representative journey and **validate feasibility from regulatory perspective***
3. *Identify the **capabilities required** to enable the experience across the mid-, front- and back-office **utilizing the CPI Digital Framework***
4. *Assess **current maturity relative to future state** capabilities to identify and **prioritize gaps** to be addressed based on business priorities, projected benefits and KPIs*
5. *Identify the **APIs and Integrations** required to enable a seamless experience across partners and align **on partner collaboration model** across distributors / underwriter*
6. *Assess gaps in **enabling Talent & Culture**, with plan for addressing Talent gaps (i.e., upskilling, hiring, partnering, acquiring) and **enabling change** (i.e., culture shift, new skills) across the business*
7. *Refine **consumer protection strategy**, identifying opportunities to ensure value delivery through digital consumer experiences at key moments within the journey*

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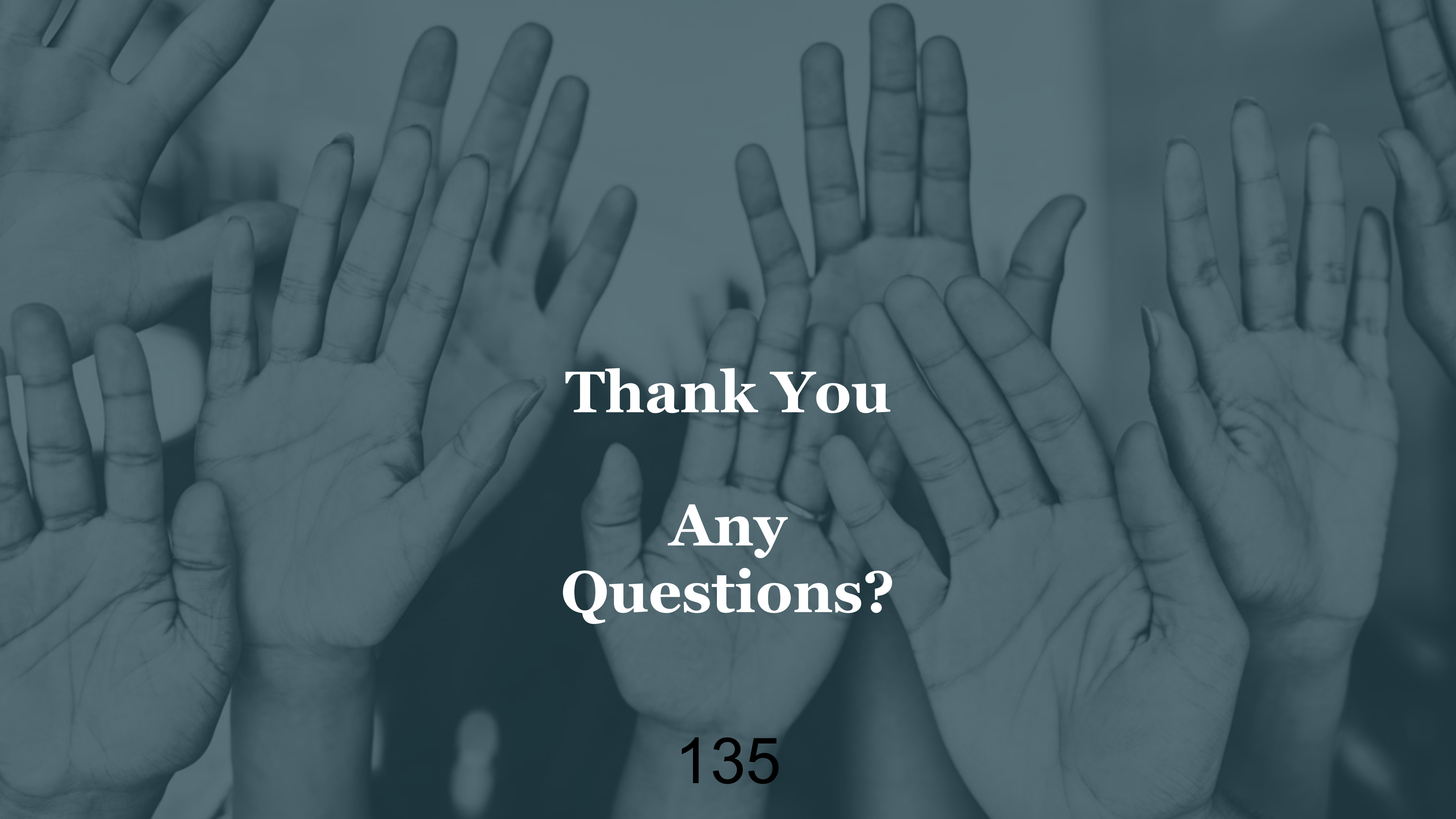
Next Steps

Next Steps

Following the presentation of the report insights summary to the CAFII Board, Deloitte will work collaboratively with the core CAFII working team and R&E committee to achieve the following

1. **Present report summary insights to regulators** (to be scheduled)
2. **Present report summary insights to key CAFII stakeholders** (to be scheduled)
3. **Publish formal Digitization of CPI Report** (February 2022)



Thank You

Any Questions?

Appendix

Appendix A – Additional Insights

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The Canadian Association of Financial Institutions in Insurance

Deloitte's Framework for Digitizing CPI (1/6)

While participants unanimously identify digitizing CPI as a key strategic priority, the alignment with lending experiences and the required executive buy-in across the organization create a risk in delivering on the digital ambition

1 CPI Digital Strategy

Is there a well articulated business strategy with clarity on the customer strategy & needs to inform the products, channels and digital ambition to support the vision with well-defined KPIs that are routinely monitored and assessed?

The industry agrees that digitization is a strategic imperative moving forward

100% *of respondents indicated digitizing CPI as strategically important*

CPI distributors recognize the need to digitize but feel they are behind

57% *of distributors ranked their current digital maturity relative to their peers as being 'somewhat behind'*

Ambitions for future digital fulfillment vary significantly by distributor

43% *of distributors expect 25%-40% of new CPI insurance applications to be completed fully online by 2025*

Risks commonly sited to achieving these ambitions were alignment with lending partners and continued regulatory changes

75% *of members marked the lack of alignment with lending & mortgage digitization as the greatest risk*

71% *of distributors expect new compliance and regulatory interventions*

Internal and external partnerships will play a key role to achieving the industries digital ambitions

80% *Of underwriters identified multiple stakeholders owning various aspects of the CPI experience was the greatest challenge to digitizing CPI*

Key Insights

- *While all participants identified digitizing CPI as a priority, most referenced the need to **compete with broader enterprise priorities** & investment as a challenge in accelerating their progress*
- *Future **ambitions for digital varied significantly** amongst distributors with digital leaders aspiring towards an end-to-end **fully digital client experience by 2025***
- *Many distributors referenced their **structure influencing the degree of collaboration** with their lending partners*
- *Digital transformation will require strong **alignment across multiple organizations** (banks, distributors, underwriters) and **business partners***

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Deloitte’s Framework for Digitizing CPI (2/6)

A differentiating CPI experience will be omni-channel and will successfully incorporate human-assisted elements at key moments in the journey, while allowing customers to easily access digital self-serve capabilities when they want to

2 User Centric Digital Experience

Are experiences customer-centric and do they take a human-centered design approach to how they design their end-to-end user experience, achieving a seamless and highly personalized digital-enabled client experience?

CPI distributors recognize the need to augment client and sales representative experience through digital

86% *of distributors want to offer digital tools to their sales representative*

While Sales & Servicing is the primary investment area for distributors, they are turning to underwriters to enable digital claims

86% *of distributors ranked ‘inefficient advisor sales process’ as a primary friction point*

100% *Of distributors identified digital claims portals & processes as the biggest opportunity for CPI underwriters to support their digitization efforts*

Distributors selected the following as the features they plan to invest in the client experience

Key Insights

- *To date, most distributors (>50%) have prioritized their investments in improving the systems and **digital tools for sales representatives** rather than client-facing digital experiences*
- *Replicating the human-guided purchasing experience in digital continues to be a challenge as demonstrated by **low digital client-led penetration rates** (less than 5%)*
- *Digital **experiences reliant on underwriting partners** (e.g., underwriting, claims) were **commonly sited friction points** in the end-to-end client journey*
- *Distributors also referenced the opportunity for **automation of client eligibility** at point of sale and the **need for health questions via advisors** negatively impacting the purchasing experience*

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Creation of eligibility & needs assessment & recommendation engine

Deloitte's Framework for Digitizing CPI (3/6)

There is significant opportunities to streamline, automate and digitize back-end processes across the CPI journey as manual procedures and paper-based information exchange remain widespread

3 Digital-Enabled Operations

Is there commitment to enabling business model innovation (e.g., operational efficiency, simplified products & processes) through investments in end-to-end process optimization, automation & digitization?

The industry agrees that digitization extends beyond the front-end customer experience

92% *of respondents indicated being digital requires digitizing and automating mid- & back-office processes*

Manual internal processes is one of the key area that requires investment now to enable quality digital experiences

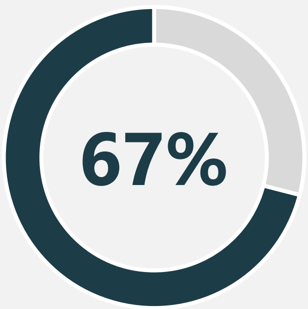
71%

Of distributors rated "significant manual processes" as a primary friction point for their business

60%

Of underwriters rated "automation of manual process" as a primary investment area for their business

Internally, operations remain manual for most respondents



of respondents indicated that most processes are still manual

Key Insights

- *To date investments have primarily been* ***focused on improving the external facing sales & servicing*** *aspects of the CPI journey (100% of distributors having invested in digitizing their quote engine) with Underwriters focused on improving back-office operations*
- *To achieve the scale and efficiency benefits of digitization,* ***mid- & back-office operations must be digitally enabled across both parties***
- *Industry participants agree digitally-enabled operations (e.g., straight-through processing) are required to deliver digital experiences but* ***are highly dependent on ability to redesign processes and exchange data*** *between underwriters and distributors*

Deloitte's Framework for Digitizing CPI (4/6)

Customer acquisition and retention are two areas where leading institutions are already actively leveraging data, but companies also have an opportunity to better use data-driven insights to prioritize digital investments

4 Data, Analytics & Insights

Are data-driven insights derived and utilized to inform business priorities (e.g., product design, digital priorities, customer experiences) to achieve hyper personalization of experiences, products and pricing?

Data and insight generation will be a key enabler to inform digital experience design and execution

86% *of distributors aspire to offer digital targeted marketing as part of their CPI digitization efforts*

Today, few representatives have access to real-time data about the CPI products they sell

60% *of underwriters stated have no current capability with regards to providing representatives with real-time data*

Distributors and underwriters intend to leverage data-driven insights to help streamline their operations

67% *of respondents indicated that digitizing CPI meant increasing the use of data insights in their operations*

Most distributors do not have capabilities in place to allow a representative to leverage a holistic view of relevant customer data

50% *of distributors do not offer their representative the ability to access a unified profile of the consumer they are quoting (incl. loan and client data)*

Key Insights

- ***Digital and data capabilities** offer new **opportunities** to better **understand** customers and their **protection needs***
- *Hyper personalization is scarce in CPI due to regulation (e.g., group underwriting), **lead generation and digital marketing** are areas where companies can leverage new sources of data & analytics*
- *Increase in **sales penetration** is still the main metric that is tracked to determine the success of an initiative, but many providers indicated desire to **expand the range of data** they collect and analyze to **inform digital investment decisions***
- *New & 3rd party data sets are expected to continue to help improve underwriting and risk assessment but **regulatory limitations on data usage** was cited by Underwriters as a challenge*

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Deloitte's Framework for Digitizing CPI (5/6)

Technology modernization stands out as a key investment priority across participants, together with a continuous focus on capabilities that enable better integration across systems, organizations and channels

5 Digital & Technology

Is there modern and scalable technology infrastructure in place to support flexibility, speed to market and ecosystem integration (e.g., digital platforms, APIs)?

Underwriters are aligned that they need to invest in modernizing their core technology

100% *of underwriters indicated technology modernization as a priority investment area*

And distributors agree, believing it's the #1 action underwriters should take

80% *of distributors indicated that Modernized technology (e.g., APIs, claims or UW engines) is how underwriters can support digitization of CPI*

Improving technical integration between underwriters and distributors systems is a priority

100% *of underwriters have identified the integration with CPI distributors systems as a primary friction point*

As well as developing the technological infrastructure to enable cross-channel integration

86% *of distributors indicated that integrating multiple channels into a single customer journey is a key success factor in digitizing CPI*

Key Insights

- ***Legacy technologies*** *are still limiting the ability of underwriters and distributors to seamlessly transfer data and information, which creates* ***friction in the customer journey***
- *As the CPI journey will remain an omni-channel experience, companies will need to excel at* ***integrating multiple channels and systems*** *to remove pain points for customers and sales representatives*
- ***Technology modernization*** *and* ***system integration*** *are key investment priorities for the industry with a focus on developing* ***external facing APIs***
- *Underwriters quote challenges with the need to* ***integrate with multiple different loan origination systems*** *of distributors*
- ***Marketing Technology*** *was cited as an investment area opportunity for enabling more client-centric experiences & insights*

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Deloitte's Framework for Digitizing CPI (6/6)

To successfully deliver on the digitization of their CPI business, organizations will need to attract and retain new types of talent while promoting digital ways of working within their teams and with their partners

6 Talent & Culture

Are digital skills, culture and ways of working (e.g., agile, change, learning, etc.) embedded throughout the organization and is there a talent & partnership strategy in place to address any capability & expertise gaps?

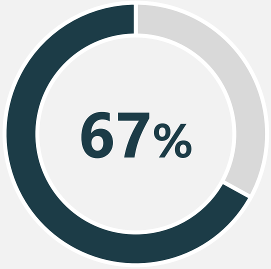
As organizations evolve, so do their talent requirements, amidst growing concerns of skilled talent scarcity in the insurance industry

43% *Of respondents to its global insurance survey stated finding and retaining skilled candidates a key concern*[1]

While Information Technology talent was ranked as the greatest concern, the top 5 areas were from a diverse set of functions

1. *Information Technology*
2. *Marketing*
3. *Cybersecurity*
4. *Risk Management*
5. *Finance*

Embedding agile ways of working internally and with partners will foster alignment and support continuous improvement in CPI journeys



of respondents marked the strong alignment to digital lending processes from bank and credit unions as key for successful CPI digitization

Key Insights

- *As insurance knowledge and expertise are critical to best position the value of CPI, organizations should leverage digital to **facilitate access to training and education** for CPI sales representatives*
- *Understanding the **value of CPI** and the **how client segments can benefit from the protection** must embedded across the organization and will likely **require a culture shift from current state***
- *Embarking on a digital transformation will **require new digital skillsets** for insurance and lending organizations (e.g., UX, data & analytics, developers, etc.)*
- *A more **collaborative mind-set and approach** across Distributors & Underwriters will be a key success factor to meeting the expectations of CPI clients throughout their policy life cycle*

Notes:
1) Deloitte 2022 Global Insurance Outlook Survey

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

Digitizing Credit Protection Insurance

Offering best-in-class digital experiences for Credit Protection Insurance clients

Canadian Financial Services

The Canadian Association of Financial Institutions in Insurance engaged Deloitte Canada to share an independent perspective on what it will take to offer best-in-class digital experiences for Creditor Protection Insurance (CPI) clients.

Deloitte Canada conducted primary and secondary research to inform its point-of-view on what it will take to successfully digitize CPI, including the front, mid- and back-office capabilities, and key success factors required to enable leading digital experiences for CPI clients, employees, and partners.

This report shares the findings, and key insights, from Deloitte's analysis and identifies key considerations that the Canadian industry should consider in its evolution to a digitally enabled business model for CPI.

Table of Contents

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

The Canadian Association of Financial Institutions in Insurance ("CAFII") is a not-for-profit industry association that represents financial institution distributors and insurance company underwriters involved in selling insurance in Canada.

CAFII is dedicated to fostering an open and flexible marketplace that is efficient and effective and allows Canadian customers an expanded choice in the purchase of insurance products and services.

In support of its mission & mandate to advance the interests of financial institutions in insurance and affiliated organizations, CAFII regularly conducts customer and market research relevant to the business & offerings of its members.

Executive Summary

Although the bar for digital experiences has been set by industries outside of financial services, a recent study performed by CAFII reinforced the idea that consumers have the same expectations when it comes to their financial protection and insurance needs. Given the important role that Credit Protection Insurance (CPI) plays in providing accessible and affordable insurance protection to Canadians, CAFII engaged Deloitte to conduct an independent research study focused on understanding the current digital maturity of the Canadian CPI industry to help inform what it will take for the industry to offer 'best-in-class' digital experiences.

As part of its research efforts, Deloitte engaged 14 CAFII member institutions through a combination of surveys and in-depth interviews, as well as external market analysis, which led to the following nine key findings:

Digitizing CPI is a strategic priority for Canadian financial institutions. The industry feels digitization will be critical in ensuring its ability to deliver affordable protection to Canadians who are currently under-advised & under-protected. In fact, 100% of CAFII members stated digitizing CPI is one of their highest strategic priorities.

Relative to other insurance industries, Canadian CPI has unique challenges with regards to its digitization. The client journey is owned by multiple stakeholders at varying stages of the policy lifecycle and requires significant alignment on roles, priorities, and capabilities amongst underwriters and distributors.

The CPI digital experience offered is highly dependent upon the lending journey (i.e., mortgages, lines of credit). The lending journey tends to take ownership in driving the digital experience for CPI. In many cases the optimal experience and use of digital within the mortgage lending journey may not align with the inclusion of a digital CPI experience.

The regulatory environment surrounding CPI can be difficult to navigate digitally. The lack of harmonization in the regulatory environment across provinces forces national distributors to adhere to the strictest of digital sales practices, which increases the complexity of delivering a scalable and seamless digital experience.

The digital maturity of providers is inconsistent across the industry. Many CPI distributors and underwriters are mid-way through multi-year digital transformation journeys while others are still in the early stages of defining their digital ambition with respect to CPI. However, almost half (43%) of distributors believe that up to 40% of all CPI applications will be fully digital by 2025.

Adoption from sales representatives as well as clients continues to be an inhibitor to realizing the benefits of digital investment. Digital CPI penetration rates have been as low as 5% for personal loans, highlighting the importance of enhancing the human-led (i.e., sales representative) experience by leveraging digital as opposed to replacing with a digital-only client experience.

Digitizing CPI extends beyond client-facing experiences. Investments in digital-enabling mid / back-office operations and technology were cited as being the most challenging and cost prohibitive. 67% of CAFII members indicated that most mid / back-office processes are still manual today.

Digital experiences enabled by underwriting partners (e.g., underwriting, claims) were the most cited friction points in the end-to-end client journey. Distributors commonly referenced the opportunity for automation of client eligibility at point of sale and online claims portals for submission, exchange of documentation and status tracking.

Collaboration across Distributors, Underwriters and Regulators will be key to delivering "Best-in-Class" experiences. 90% of CAFII members identified integration with multiple partners being a primary friction point and challenge in digitizing the CPI experience. Support from regulators for new enabling processes will be key to responding to meet the evolving needs and preferences of CPI consumers.

Based on the research, Deloitte developed a *Digital CPI Framework*. The framework is comprised of the following 6 capability layers and 65 sub-capabilities which collectively capture a CPI provider's ability to offer 'best-in-class' digital experiences.

1. **CPI Digital Strategy**
2. **User Centric Experiences**
3. **Data Analytics & Insights**
4. **Digital-Enabled Operations**
5. **Digital & Technology**
6. **Talent & Culture**

Deloitte's *Digital CPI framework* was used to assess the industry's current maturity by sub-capability and identified the key areas where underwriters and distributors would require strong collaboration. Overall, the digital maturity of the industry is disparate across the all layers, with significant room to improve the end-to-end client and representative experience at and beyond the point of sale.

There are select industry leaders who have made significant progress in leveraging digital and analytics to improve the sales representative experience, provide online education and quotation tools and have invested in online client self-serve options to promote engagement throughout the policy lifecycle integrated into online banking. Much of the success of these organizations can be attributed to early buy-in from executive teams in the need to digitize CPI as well as strong partnerships with their lending partners.

Our hope is that the *Digital CPI Framework* can be used as an accelerator by CPI providers to conduct a self-assessment as to how they fair relative to their peers across each of the layers and sub-capabilities to identify priority areas of investment and gaps to be addressed as they look to accelerate their digital maturity and offer 'best-in-class' digital experiences for CPI consumers.

Background & Objectives

Following the events of COVID-19, the financial services industry has experienced an accelerated shift towards digital purchasing and servicing preferences of its customers. However, the insurance industry has historically lagged adjacent industries such as Banking and Wealth Management in modernizing its traditional business model to be more customer-centric and therefore more 'digital'.

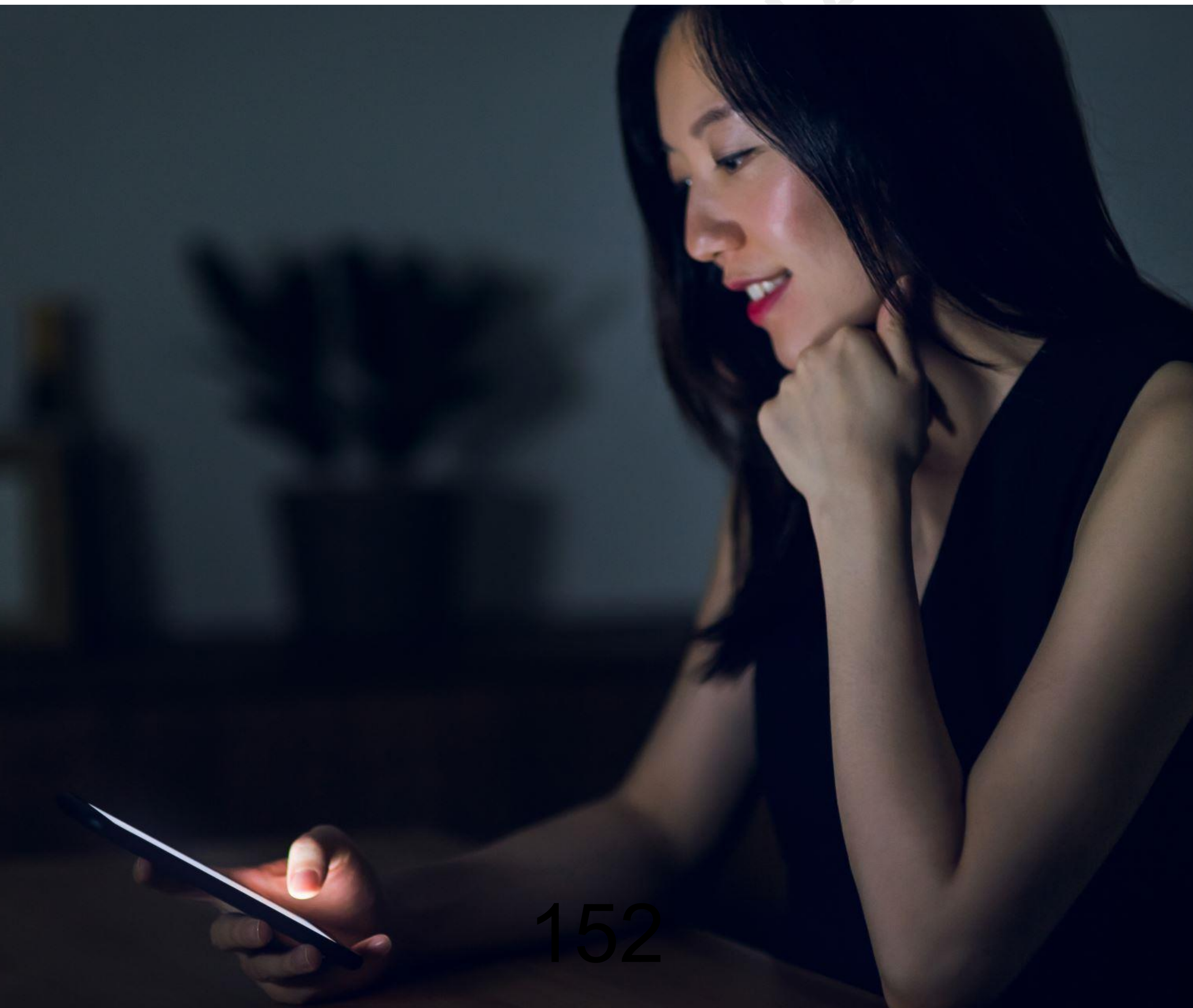
Credit Protection Insurance (CPI) is used to pay out a mortgage or loan balance, up to the agreed policy amount, or to make / postpone debts payments in the event of death, disability, job loss or critical illness[1]. This report focuses on the Canadian CPI market, which in 2019 generated premium revenues of $5.8B[2]. The research, insights, and recommendations that follow focus on the Mortgage Credit Protection Industry (i.e., insurance indemnifying consumers against making mortgage linked debt payments following a specified defined event) given that this sub-market makes up the largest proportion of the total Canadian CPI Industry.

A compelling motivation for writing this report is the unique nature of the Canadian CPI industry that is so tightly coupled to the lending journey that customers participate in to firstly acquire their lending product and subsequently their CPI product. This close relationship leads CPI consumers to have the same expectations of their CPI journey as they hold for other banking and lending products and impresses the importance of understanding the evolving customer purchasing behaviour to inform future investments in digitization.

To this end, CAFII conducted customer research in March 2021. This research investigated and identified the implications COVID-19 would have on existing and prospective CPI clients' needs and preferences for sales, servicing, and claims. Deloitte leveraged this research as a precursor to the investigation into the current state and future ambitions of CPI in Canada.

A foundational insight of interest from the CAFII research was the strength of demand for CPI protection in Canada with 65% of customers being more likely to obtain CPI on their mortgage or line of credit because of the pandemic[3]. In addition to this, 79% of CPI holders stated that they prefer the convenience of conducting financial transactions online. Put together, the above findings show that the robust demand for CPI is likely to be serviced in future by ever growing digital means, and CPI distributors and underwriters will be expected to deliver this.

Given the context described above and the importance of CPI in providing accessible and affordable protection to Canadians, CAFII engaged Deloitte to develop an independent research report focusing on Mortgage CPI and its digital future. The objective of this report is to provide a perspective on the current digital maturity of the Canadian CPI industry and identify opportunities for industry providers to accelerate their digital maturity by providing recommendations on priority investments and opportunities to address challenges that have historically inhibited the adoption or acceleration of digital in CPI. For industry participants, the report can be leveraged to understand their digital maturity relative to industry peers, opportunities for improvement, tactics being used to drive adoption, awareness, executive buy-in needed from their peers and leaders to support investment, and areas where benefits from investments in digital are being demonstrated.



Research Methodology

To develop this report, Deloitte drew on three sources of information, namely: primary research, secondary research, and Deloitte's proprietary Digital Maturity Model.

Primary Research

To develop our perspective, Deloitte engaged CPI industry participants to gain an understanding of their current digital CPI maturity, the challenges and opportunities that arise as a result of digitizing their CPI businesses, how CPI can learn from other insurance industries, unique challenges facing industry participants, and insights on how to accelerate their digital maturity. In this process, both underwriters and distributors were engaged with.

The method of engagement was twofold, with a value chain-specific survey of about 15 – 20 questions in length being completed by all participants, spanning a variety of features and digital functionality. This was followed up by a 45 – 60-minute interview with a leader within the CPI business unit or digital transformation leader for the organization, which built on what was learnt about that organization during the survey process.

14 CAFII Member organizations participated in this engagement process (representing a significant share of the premium within the Canadian CPI market). As such, we would like to thank the below CAFII Member organizations for their engagement and candor during the report writing process.

<u>Figure 2:</u>

Below we provide an overview of the type of questions that were covered in both the survey and interview.

Figure 3:

Sample Survey Questions

- What have historically been the priority areas for prior investment into your CPI operations?
- Which statement best reflects the importance of digitization to the future growth of your CPI portfolio?
- How would you define the current digital maturity of your CPI operations?

Sample Interview Questions

- What do you believe are the primary friction points / inefficiencies that exist within CPI operations?
- Where do you believe digitizing CPI may present an opportunity to improve these inefficiencies?
- What do you believe is the biggest challenge in digitizing CPI?

Secondary Research

Deloitte focused on global insurance markets to help inform key success factors associated with leading digital insurance organizations, including the capabilities contributing to leading client-facing digital client experiences.

Deloitte Digital Maturity Model

This proprietary model allowed Deloitte to define the key capabilities required for an organization to be digital and was used in the report to identify and summarize the functional capabilities required to enable the digitization of CPI.

Deloitte Perspective on ‘Being’ a Digital Insurer

Digital is at the heart of the insurance industry's most prominent and disruptive trends, forcing the industry to respond with new and innovative business models, offerings, and experiences. Along with the heightened customer expectations discussed above, across all types of insurance Deloitte has identified an additional 4 key factors driving the need for incumbent insurers to “be” Digital Insurers.

<u>Figure 4:</u>

Heightened Customer Expectations

Driven by experiences offered by other industries, consumers are expecting seamless, convenient, and more personalized digital experiences from their insurers

Availability and Ability to Activate Data

The increased availability of data and the use of advanced analytics to derive greater insight provides insurers an opportunity to better assess and manage personalized risks

Increasingly Competitive Landscape

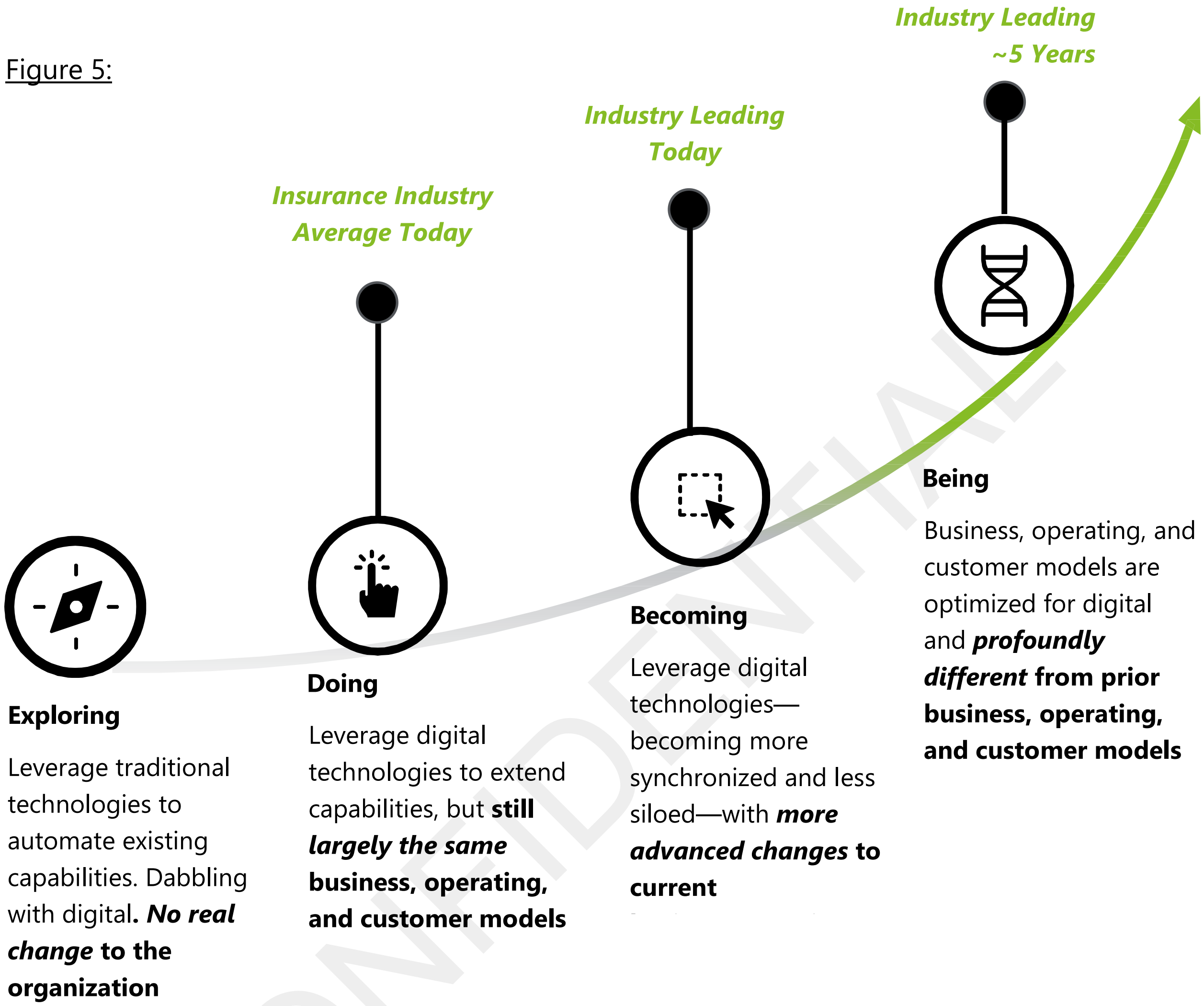
New & non-traditional entrants with tech-enabled business models are driving new competition in the industry forcing incumbents to rethink their traditional business

Pressure on Back-office Operational Efficiency

Rising margin compression has insurers actively looking to implement automation and digitization to improve productivity and efficiency across their operations

However, as insurers embark on digital transformations, they need to do more than just “Explore Digital”, but rather, “Be Digital” – allowing digital transformation to alter their organizations to counteract the forces mentioned above. It is essential for insurers to understand where they are in their digital transformation journey, whether they are using data and technology to alter their business or whether they are just augmenting existing processes whilst leaving their organizations unchanged. Understanding this, along with having a perspective on where competitors in the market are in their digital transformations, will enable insurers to benchmark themselves and their progress, and inform the pace of investment in digital transformation to protect their market share.

Figure 5:



To enable insurers, to navigate the journey from “Exploring” to “Being Digital”, Deloitte, through its research & experience, has observed that leading digital insurance organizations exhibit six attributes and respective underlying capabilities. These attributes span strategy, to talent technology architecture, to the use of data, and together contribute to an insurance organization’s ability to offer leading digital experiences.

These attributes, listed on the subsequent page, serve as the core of Deloitte’s Framework for ‘Being’ Digital in Insurance & will serve as the basis from which we will identify the requirements to digitally enable CPI in Canada.

Figure 6:

Deloitte's 6 Attributes of a Digital Insurer

Articulated Strategy & Digital Ambition

High performing digital organizations have a well-articulated business and supporting digital strategy that has enterprise executive support and alignment

User Centric Digital Experiences

Highly customer-oriented in how they do business and take a human-centered design approach to designing their end-to-end user journey allowing for seamless and highly personalized engagement models across digital and non-digital channels

Hyper Focused on Operational Efficiency

Digital-enabled insurers have a commitment to relentless expense efficiency, optimizing investments in technology & data through process automation and digitization with a lean towards end-to-end business model innovation vs. incrementalism

Sophisticated Data, Analytics & Insights

Inform business priorities, product development, and customer experiences all based on data-driven insights - allowing for hyper personalization of experiences, features, pricing, and risk assessment

Scalable Technology Architecture

Utilize modern (e.g., cloud based, APIs) technology architecture to support flexibility, modularity, and speed to market allowing for seamless integration with ecosystem partners through APIs

Digital Talent & Culture

Digital culture, skills, and ways of working (e.g., agile) are embedded throughout the organization driving a holistic culture of innovation and moving away from isolating digital as a standalone team

Current State Digital Maturity of the Canadian CPI Industry

Unique Considerations for Digitizing CPI

The Canadian CPI industry has several characteristics that lead to unique considerations with regards to its digitization. Not only does the industry require the close collaboration from stakeholders across the value chain, but the product purchasing habits are also tied to the acquisition of other financial assets (e.g., mortgages). Finally, recent regulatory changes aiming to ensure consumer value in markets like Australia and the UK have significantly constrained their respective size and growth. Below we discuss a few key factors that should be considered when approaching the digitization of CPI.

Evolving Regional Regulation

A lack of harmonization in the regulatory and legislation across provinces forces national distributors to adhere to the strictest of digital sales practices which can be difficult to deliver as a scalable & seamless digital experience

Inability for Personalization & Advice

As CPI needs to be group underwritten, it does not create an opportunity to provide greater personalization in pricing and product design relative to individual insurance; similarly, differentiating based on personalized advice will be difficult under the current sales regulations

Strong Ties to Lending

CPI sale is highly connected to the lending journey, which is increasingly moving towards digital and human-assisted channels; strong collaboration is required with lending partners

Multiple Stakeholders

The client journey is owned by multiple stakeholders at varying stages of the policy lifecycle and requires significant alignment on roles, priorities, and capabilities amongst underwriters & distributors

Eligibility and Sales Practices

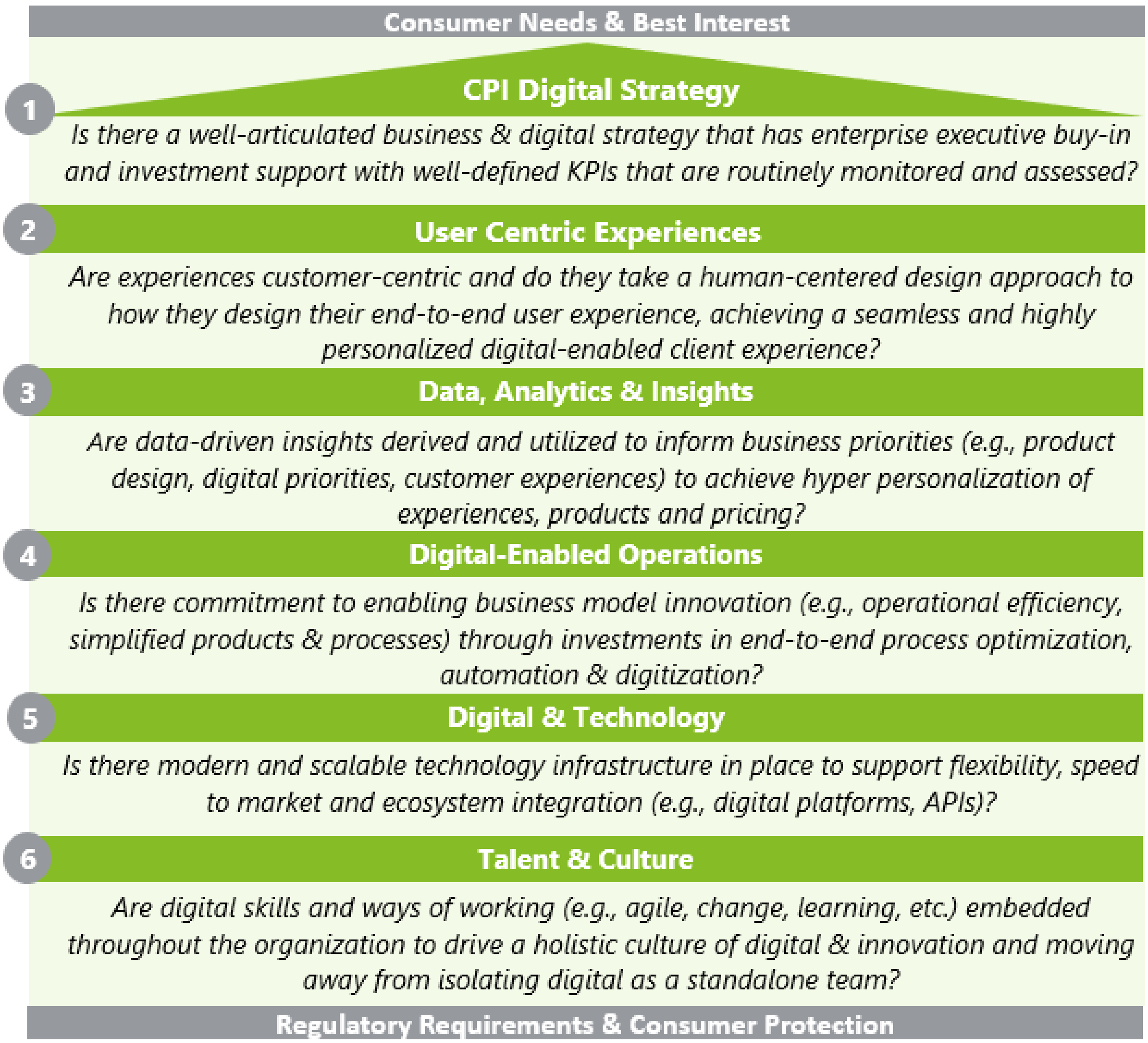
Distributors must ensure that a customer purchasing a CPI product goes through a specific eligibility and exclusion assessment, adding steps & therefore friction to the purchasing journey

Along with the unique considerations for digitizing CPI noted above, during the interviews conducted by Deloitte, distributors and underwriters both commented on the difficulties they face in digitizing their businesses.

Deloitte’s Framework for Digitizing CPI

Utilizing the 6 attributes for ‘Being’ a digital insurer and our analysis on the Canadian CPI industry, we have defined a framework to assess the current digital maturity of the Canadian CPI industry.

Figure 7:



In the following section, we have summarized key CPI research findings across each of the 6 layers in Deloitte’s Digital CPI framework to inform distinct capabilities required for CPI distributors and underwriters as well as to inform strategic priorities.

1. CPI Digital Strategy

While all participants identify digitizing CPI as a key strategic priority, the alignment with lending experiences and the required executive buy-in across the organization create a risk in delivering on the digital ambition.

> *"Traditionally you got a mortgage, so we offered mortgage protection, now it needs to be customer-centric, based on all your needs here are the best options for you"* - Underwriter

Survey responses reflected that across both underwriters and distributors, digitization of CPI was a strategic priority, with all respondents saying it was strategically important and almost half expecting a larger share of their business to be generated via digital means.

Despite this, over half of distributors surveyed ranked their digital maturity as being somewhat behind relative to their peers. However, this statistic does not reflect the differing ambitions between industry participants. Whilst some distributors were looking to provide end-to-end digital fulfilment, claims, and servicing to lead as a digital CPI provider, others were only looking to keep pace with digital lending and not be digital-first or a digital leader as they felt they could not replicate the human-guided model through digital means.

Critical to digitizing CPI, due to its strong links to lenders and intermediated value chain, will be strong partnerships with aligned stakeholders as 67% of respondents marked the strong alignment to digital lending processes from bank and credit unions as key for successful CPI digitization.

Figure 8:

100%	57%	43%
of respondents indicated digitizing CPI as strategically important	*of distributors ranked their current digital maturity relative to their peers as being 'somewhat behind'*	*of distributors expect up to 40% of new CPI insurance applications to be completed fully online by 2025*

An important element of a CPI digital strategy is tracking its success with clearly defined metrics. For CPI distributors and underwriters alike, an increase in customer engagement and an increase in sales penetration rate were the two metrics that would be tracked to determine whether a CPI digitization was successful. Over 60% of underwriters and 70% of distributors referenced an increase in customer engagement to be their primary metric for measuring success of their digital experience investments.

While all participants identified digitizing CPI as a priority, most referenced the need to compete with broader enterprise priorities & investment as a challenge in accelerating their progress. Future ambitions for digital varied significantly amongst distributors with digital leaders aspiring towards an end-to-end fully digital client experience by 2025.

Many distributors referenced their structure influencing the degree of collaboration with their lending partners whilst all respondents described that digital transformation would require strong alignment across multiple organizations (banks, distributors, underwriters) and business partners.

2. User Centric Experiences

A differentiating CPI experience will be omni-channel and will successfully incorporate human-assisted elements at key moments in the journey, while allowing customers to easily access digital self-serve capabilities when they want to.

> *"Finding the right approach to mirror a face-to-face experience into digital channels is, and will remain, our biggest challenge"* - Distributor

What emerged as a clear outcome from the primary research was the importance that advisors play in the sales process and the need not only to create customer-centered digital capabilities but also advisor-centered capabilities for those interacting and providing human-led services to the end customers.

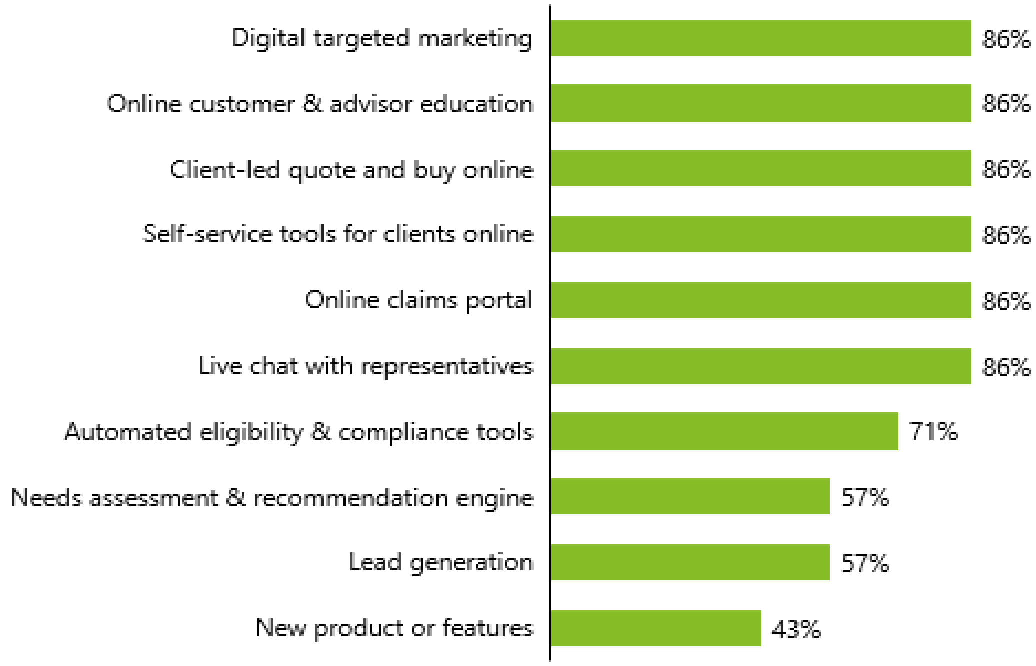
Figure 9:

86% *of distributors want to offer digital tools to their sales representative **AND** the same proportion also ranked "inefficient advisor sales processes" as a primary friction point*

Later in the same customer journey, all distributors (100%) were unanimous in identifying digital claims portals and processes as being the biggest opportunity for their underwriting counterparts to support their digitization efforts.

Future distributor investment in the customer experience focuses on marketing, education, and online quote and bind functionality.

Figure 10:



To date, most distributors have prioritized their investments in improving the systems and digital tools for sales representatives rather than client-facing experiences. Replicating the human-guided purchasing experience in digital continues to be a challenge as demonstrated by low digital client-led penetration rates (less than 5% for core lending products).

Digital experiences reliant on underwriting partners (e.g., underwriting, claims) were the most cited friction points in the end-to-end client journey. Distributors referenced the opportunity for automation of client eligibility at point of sale, and the need for health questions via advisors negatively impacting the purchasing experience

3. Data, Analytics, & Insights

Customer acquisition and retention are two areas where leading institutions are already actively leveraging data, but companies also have an opportunity to better use data-driven insights to prioritize digital investments.

To inform the digital experience design for CPI customers and the execution thereof, data and insight generation will be a key enabler. While opportunities for hyper personalization are scarce in CPI due to sales regulation and group underwriting requirements, lead generation and digital marketing are areas where companies can leverage new sources of data and analytics to unlock growth. Data and analytics will also enable representatives within the sales process to better understand their clients through unified customer profiles including personal and loan data, which only 50% of distributors currently provide their representatives.

However, ensuring that all actors throughout the value chain have access to real time data will be an important area of investment for underwriters and distributors in digitizing CPI.

Figure 11:

60%

of underwriters stated having no current capability with regards to providing representatives with real-time data

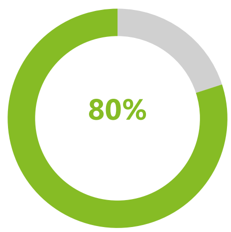
67%

of respondents indicated that digitizing CPI meant increasing the use of data insights in their operations

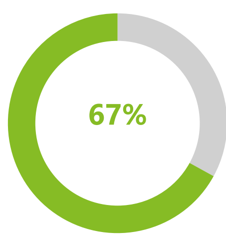
Increase in sales penetration is still the main metric that is tracked to determine the success of an initiative, but we expect that companies will expand the range of data they collect and analyze to inform digital investment decisions. New & 3rd party data sets are expected to continue to help improve underwriting and risk assessment, but regulatory limitations on data usage was cited by underwriters as a challenge.

4. Digital-Enabled Operations

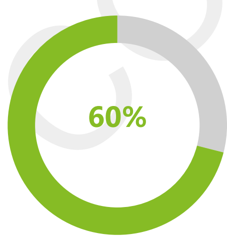
Figure 12:



of underwriters identified multiple stakeholders owning various aspects of the CPI experience was the greatest challenge to digitizing CPI



of respondents indicated that most processes are still manual



of underwriters rated "automation of manual process" as a primary investment area for their business

For distributors and underwriters alike, there are significant opportunities to streamline, automate and digitize back-end processes across the CPI journey as manual procedures and paper-based information exchange remain widespread.

This view is supported by the survey responses with 92% of all respondents believing that 'being digital' requires digitizing mid- & back-office processes.

To date, investments have primarily been focused on improving the external facing sales & servicing aspects of the CPI journey with 100% of distributors having invested in digitizing their quote engine, whilst 80% of underwriters have historically invested in automation of manual processes.

To achieve the scale and efficiency benefits of digitization, mid- & back-office operations must be digitally enabled. This digital enablement will also lead to distributors being able to deliver the customer experiences and product offerings required by customers.

However, the requirement to digitally enable CPI distributors and underwriter processes is highly dependent on the ability to redesign existing processes and seamlessly exchange data between underwriters and distributors.

5. Digital & Technology

Technology modernization stands out as a key investment priority across participants, together with a continuous focus on capabilities that enable better integration across systems, organizations, and channels.

Underwriters' priority investment areas will shift from the automation of manual processes (80% historically) to the modernization of technology (100% going forward). This in an area where underwriters and distributors are aligned, with 80% of distributors seeing modernized technology (including APIs, claims or underwriting engines) as their priority investment area in future.

An initial potential application of the increased investment in modernized technology will be to address the need to integrate not only a single customer's multi-channel CPI journey (i.e., purchasing a policy in-person and subsequently servicing that policy on a digital platform) but also, integration between underwriters and distributors.

Figure 13:

100%

of underwriters have identified the integration with CPI distributors systems as a primary friction point

86%

of distributors indicated that integrating multiple channels into a single customer journey is a key success factor in digitizing CPI

> *"Each partner has their own Loan Origination System and it's archaic, we can't integrate so a lot of the interactions are done over the phone"* - Underwriter

Legacy technologies are still limiting the ability of underwriters and distributors to seamlessly transfer data and information. Additionally, underwriters quote challenges with the need to integrate with multiple different loan origination systems of distributors.

6. Talent & Culture

To successfully deliver on the digitization of their CPI business, organizations will need to attract and retain new types of talent while promoting digital ways of working within their teams and with their partners.

On the path to "Being Digital", organizations will have to shift the demands made on their staff members accordingly. Those within the CPI industry are unlikely to be immune to the challenges of the broader industry, where an international study showed that 43% of respondents said that finding and retaining skilled candidates is a primary concern.

To deliver on digital initiatives, companies will need to ensure they develop attractive career paths for new talent (e.g., UX designers, API integration specialists, data engineers). As insurance knowledge and expertise are critical to best position the value of CPI, organizations should leverage digital to facilitate access to training and education for CPI representatives.

Figure 14:

Talent areas where insurance-related organizations have greatest concerns

1. Information Technology
2. Marketing
3. Cybersecurity
4. Risk Management
5. Finance

Along with talent, those in the CPI industry will need to ensure cultural shifts are made to 'Be Digital'. Organizations must ensure that both employees working on digital CPI solutions and advisors using digital to service CPI customers understand the value of the protection that CPI brings to Canadians, and that digitizing this process provides the opportunity to scale CPI operations and make CPI more accessible to all Canadians.

A more collaborative mind-set and approach across distributors & underwriters will be a key success factor to meeting the expectations of CPI clients throughout their policy life cycle.

Future Best-in-Class CPI Experience and Capabilities

Bringing the 6 layers together

To enable digital experiences for customer and advisors, capabilities across each of the 6 layers discussed above are required. In the following section, we will explore an illustrative best-in-class CPI journey, highlighting the required capabilities at each layer for which we have conducted a preliminary assessment of the Canadian CPI industry's maturity.

Future Best-in-Class CPI Experience and Capabilities

To inform what a best-in-class future digital CPI customer journey for CPI could look like, Deloitte leveraged specific data points in the CAFII Consumer Research done in March 2021[5]. This research revealed that CPI customers are looking for digital-interaction throughout the customer journey but despite this, customer preferences are almost evenly split between virtual and in-person assistance, highlighting the need for building omnichannel capabilities to create an omnichannel customer experience.

Figure 15:

Discovery

~95%

*Of customers want **plain language information** available **throughout the website**, as well as having the **opportunity to easily connect** with someone in **real-time to get answers***

Advisory

~60%

*Of customers would like to have **real-time virtual assistance** when it comes to obtaining CPI*

~40%

*Of customers want **in-person assistance** at some point **in the CPI purchasing journey***

Purchase

72% — *State that the **pandemic has changed the way** they want to **conduct financial transactions***

79% — ***Prefer** the **convenience** of conducting financial **transactions online***

Claims & Servicing

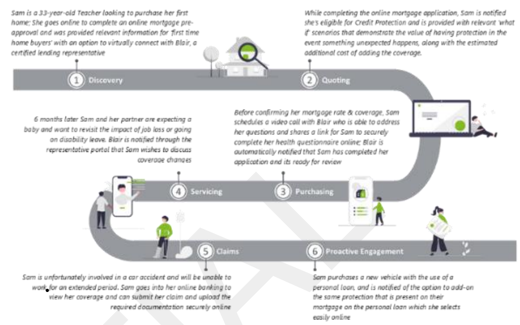
33% — *Only **1/3 of customers** prefer to meet someone **in person** to make a **CPI claim***

40% — *Indicate that they **prefer to file a CPI claim over the phone or online** (website or web-based platform)*

To define and bring to life the “Best-in-Class CPI Experience” we will walk through an illustrative customer journey, utilizing the data points shown above to identify key pain points that can be resolved through digital. We will then assess the functional capabilities required at each layer, as well as the current maturity of the industry for each capability identified.

Illustrative Future Digital CPI Customer Journey

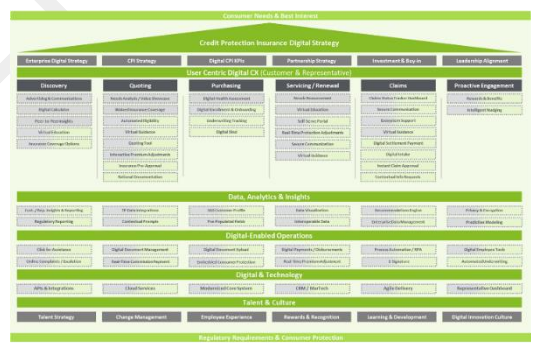
Based on the outputs from our primary and secondary research, we have developed an illustrative best-in-class journey where both the customer and their advisor interact seamlessly through digital tools, enabling not only an improved experience for both, but also increased value for the customer and transparent and consistent reporting.



See page 26 for full graphic

Deloitte’s Digital CPI Capability Framework

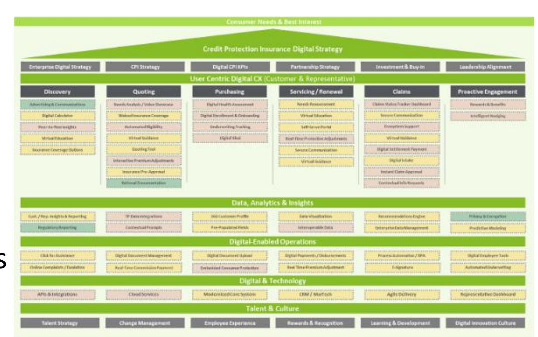
Across each of the layers of Deloitte’s Digital CPI framework, we have identified key functional capabilities that enable a best-in-class digital CPI customer experience. Capabilities were identified as being primarily led by either the distributor, underwriter, or a joint capability. One key takeaway is that most capabilities were identified as being joint, further amplifying the need for collaboration across the industry. Each functional capability is accompanied by a definition that can be found in the appendix.



See page 28 for full graphic

Deloitte’s Digital CPI Capability Maturity

Across each of the functional capabilities identified, we assessed the overall maturity of the Canadian CPI Industry based on CAFII member engagement as well as industry research. While some capabilities were identified as relatively mature, most of the capabilities are either low in maturity, or significantly varied across the industry.



See page 29 for full graphic

Illustrative Future Digital CPI Customer Journey – Graphic (Figure 16)

1. Sam is a 33-year-old Teacher looking to purchase her first home. She goes online to complete an online mortgage pre-approval and was provided relevant information for 'first time home buyers' with an option to virtually connect with Blair, a certified lending representative

2. While completing the online mortgage application, Sam is notified she's eligible for Credit Protection and is provided with relevant 'what if' scenarios that demonstrate the value of having protection in the event something unexpected happens, along with the estimated additional cost of adding the coverage

1 Discovery

2 Quoting

3. 6 months later, Sam and her partner are expecting a baby and want to revisit the impact of job loss or going on disability leave. Blair is notified through the representative portal that Sam wishes to discuss coverage changes

4. Before confirming her mortgage rate & coverage, Sam schedules a video call with Blair who is able to address her questions and shares a link for Sam to securely complete her health questionnaire online. Blair is automatically notified that Sam has completed her application and its ready for review

4 Servicing

3 Purchasing

5 Claims

6 Proactive Engagement

5. Sam is unfortunately involved in a car accident and will be unable to work for an extended period. Sam goes into her online banking to view her coverage and can submit her claim and upload the required documentation securely online

6. Sam purchases a new vehicle with the use of a personal loan, and is notified of the option to add-on the same protection that is present on their mortgage on the personal loan which she selects easily online

Illustrative Future Digital CPI Customer Journey – Discussion

Discovery: First Home Purchase

Key Pain Point Addressed*: Due to the nature of CPI being tied to lending products, the digitization of the lending journey requires CPI to be digitized to continue to reach potential customers*

Differentiating Feature: *Embedding advice options within the experience such as "Click to Chat"*

Leading Insurance Example: *PolicyMe tailored educational content*

Quoting: Online Mortgage Application

Key Pain Point Addressed: *The digitization of lending experiences has caused a downward pressure on CPI penetration rates, primarily due to the loss of opportunity to advise consumer on their risk and the value of CPI*

Differentiating Feature: *"Productize" advice into self-serve digital channels for consumers*

Market Example: *La Capitale and Breathe Life's algorithm-driven customized advice and recommendations*

Purchasing: Mortgage Confirmation

Key Pain Point Addressed: *While consumers increasingly value digital channels, there continues to be a strong need for real time advice to be available at key moments throughout the journey, namely before purchasing to ensure peace of mind*

Differentiating Feature: *Integrating access to advisors within the journey, and empowering advisors with tools to support their customers*

Market Example: *Sonnet's online self-service tools and access to live advisors*

Servicing: Growing Family

Key Pain Point Addressed: *Protection needs of customers evolve throughout their life, and to ensure their CPI continues to provide value, it must be flexible and easily adjustable*

Differentiating Feature: *Digital self-serve portals and advisor platforms that enable real time adjustments*

Leading Insurance Example: *Ladders' on-demand coverage changes service on platform*

Claims: Car Accident

Key Pain Point Addressed: *In the event of a claim, the priority should be providing the customer access their eligible payouts and reducing friction from surrounding requirements*

Differentiating Feature: *Digital claims portals integrated within the same app / platform as their credit product*

Market Example: *Lemonade's AI-empowered AI claim approval process*

Proactive Engagement: New Vehicle Purchase

Key Pain Point Addressed: *Customers aren't always aware how changes in their assets affect their risk profile nor what options are available to them in order to address them*

Differentiating Feature: *Digital customer profiles can identify gaps in coverage*

Market Example: *Manulife & Vitality's 'next best action' advisor nudge service*

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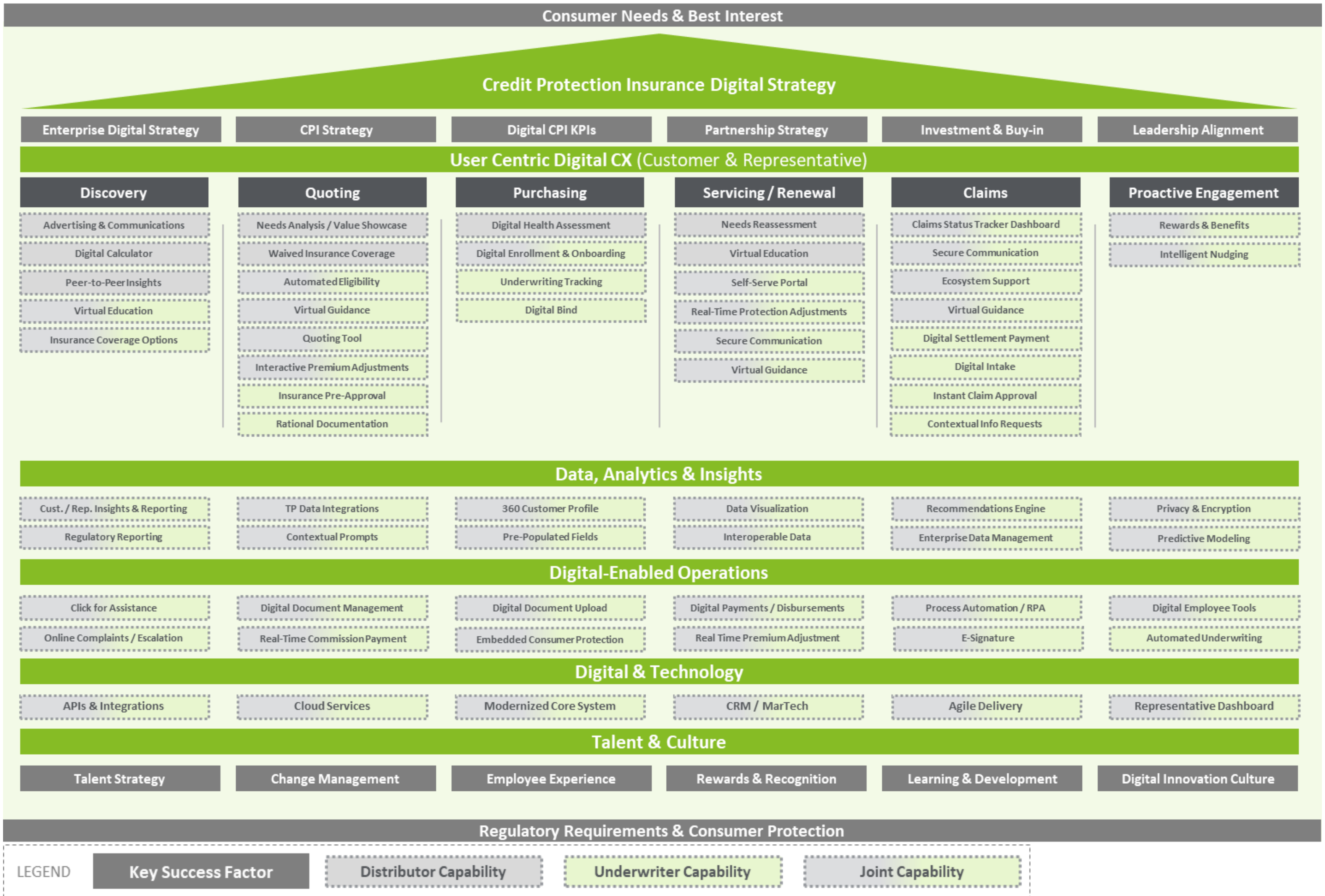
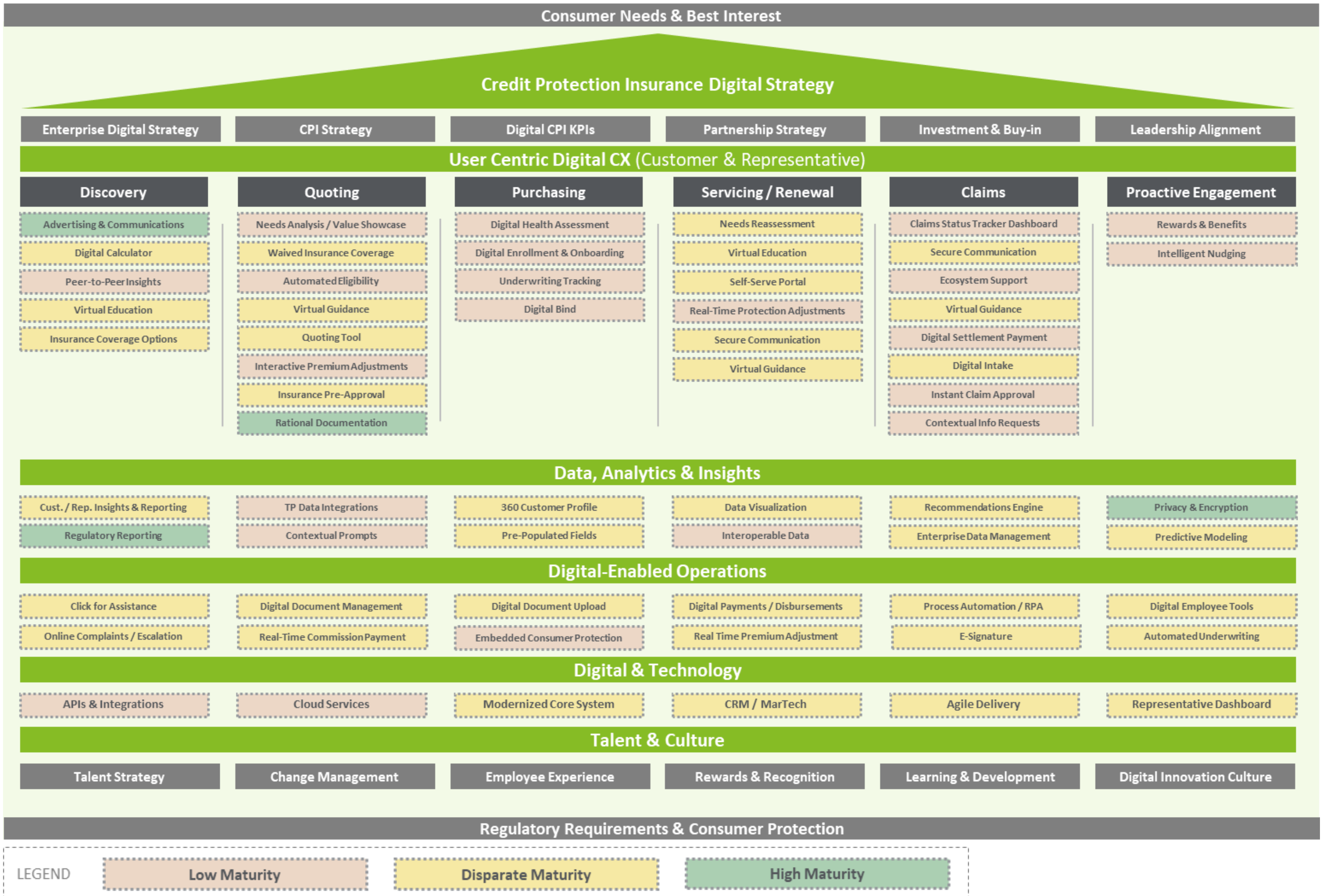
Deloitte's Digital CPI Capability Framework (Figure 17)



Deloitte Digital CPI Capability Maturity (Figure 18)



Deloitte's Digital CPI Capability Framework & Maturity – Discussion

While we discuss each layer in more detail below, two of the primary insights that are visualized by the capability framework and maturity assessment are:

- Almost all capabilities are identified as being joint between distributors and underwriters – further reinforcing the need for collaboration and partnerships across the industry
- Most of the capabilities were assessed as being of "Disparate Maturity" – highlighting that while investments in digitizing CPI have been made, the level of maturity remains extremely fragmented, especially across distributors

1 **CPI Digital Strategy** Not Assessed

Given the strategy of each organization will be unique, the industry's maturity was not assessed, and instead of capabilities, key success factors that need to be in place to drive a winning CPI Digital Strategy were identified:

- Enterprise Digital Strategy
- CPI Strategy
- Digital CPI KPIs
- Partnership Strategy
- Investment and Buy-in (at all levels)
- Leadership Alignment

Beyond the success factors identified, it should be noted that if the organization competes in more than the CPI market, its CPI strategy should be rooted and aligned to its overall enterprise strategy.

2 **User Centric Experiences** Low Maturity

Current digital investments have primarily been focused on "Sales & Servicing" type interactions, due to their alignment with lending experiences as well as their direct association to penetration rates. While current market leaders are starting to launch digital capabilities across the entire journey (e.g., digital claim portals), it will soon become table stakes to offer fully digitized experiences. To prioritize investments in digital capabilities and features, organizations should ensure they have a good understanding of their target consumer needs and preferences first.

While over 75% of underwriters can provide automated underwriting and eligibility at the point of sale for most applications, less than 25% of underwriters can assess, quantify, and pay a claim without human interaction.

Although survey data continues to showcase the importance of integrating human advice and digital self-serve experiences, over 75% of distributors indicated not having the ability to allow customers to move seamlessly between digital and in-person channels for an application.

3 Data, Analytics & Insights — Disparate Maturity

To enable streamlined experiences, as well as create personalization at scale, analytics are critical. While historic analytics investments were primarily targeted at maintaining regulatory compliance, future investments in the area will have the opportunity to lead to significant differentiation, namely when it comes to the integration of third-party data sources that may simplify and potentially replace a large portion of the quoting and purchasing experience while enabling customers to obtain offers that are hyper-personalized to their needs.

Less than 30% of distributors indicated that their representatives could view a unified profile of their customers in a single platform that would include current loan and protection data.

4 Digital-Enabled Operations — Disparate Maturity

Very few organizations have made significant investments in mid- & back-office digitization, with almost 70% of CAFII members indicating that most processes remain manual. Investments in this area are often larger, requiring process redesign and having significant impact on staff responsibilities and requirements; they are however required to fully capture benefits of front-end digitization.

5 Digital & Technology — Disparate Maturity

Beyond modernizing core technology systems, which all of the underwriters engaged agreed is critical in order to deliver digital experiences to customers and advisors, underwriters, distributors, and regulators should focus on integration technologies. By enabling players across the ecosystem to collaborate and share consumer data, the industry will enable increased value for consumers.

None of the underwriters engaged indicated having the ability to provide their distributors immediate access to an advisor through video call or chat messaging to support with an application or a claim.

6 Talent & Culture — Not Assessed

Similar to the first layer (CPI Digital Strategy), Talent & Culture capability requirements are unique to each organization and we have identified success factors that will support the delivery of "Best-in-Class Experiences".

Although specific "People" capabilities required will vary from organization to organization, to attract and retain talent with digital skills, most incumbent CPI distributors and underwriters will need to invest significantly to achieve the required culture shift.

Conclusion and Looking Forward

Based on the Deloitte Digital CPI Framework, Deloitte has identified priority investments across each of the six layers of the Digitization of CPI that span across underwriters and distributors.

1. **Assess gaps in current CPI digital strategy**
   To ensure CPI investments are supporting a unified direction, the first step should be to review the current strategy, ensuring there is alignment around key questions such as:
   - Who are the target customers?
   - What are our digital ambitions?
   - What are our financial and non-financial objectives?
   - How will we measure success of digital? (i.e., KPIs)

2. **Define end-to-end journey**
   Once the strategy is defined, organizations should ensure that future state customer and representative journeys are designed in sequence with human-centered design to integrate digital features and human-led advice in a seamless fashion. Organizations should also validate that target state journeys are aligned to all regulatory requirements.

3. **Identify required capabilities and features**
   Leveraging the CPI Digital Framework, and their respective target state journeys, organizations should identify the required capabilities to enable the experience across the mid-, front- and back-office.

4. **Assess current maturity and prioritize initiatives**
   Once capability requirements are defined, organizations should assess their own respective maturity to identify and prioritize gaps to be addressed based on business priorities, projected benefits and strategic KPIs.

5. **Identify the APIs and Integrations required**
   To enable seamless customer and representative experiences, the identification of required APIs and integration tools as well as alignment on partner collaboration models across distributors / underwriters is critical.

6. **Develop the workforce of the future**

   Assess gaps in enabling Talent & Culture, with plans for addressing talent gaps by upskilling, hiring, partnering with, and acquiring talent whilst enabling change through culture shifts and building new skills across the business.

7. **Integrate consumer value and protection**
   Refine customer protection strategy, identifying opportunities to ensure value delivery through digital customer experiences at key moments within the journey.

Appendix

Deloitte Digital CPI Framework Functional Capability Definitions (Figure 19)

Each functional capability from Deloitte Digital CPI Framework is defined below.

1. Discovery

- CX RX **1.1 Advertising & Communications** – Deploy targeted ads regarding lending and CPI products on digital channels, provide representatives with promotional material, with the ability to share them on-demand
- CX RX **1.2 Digital Calculator** – Consumer facing digital loan calculator, which includes creditor protection insurance calculation – available on the representative dashboard as well
- CX RX **1.3 Peer-to-Peer Insights** – Access to "people like you" engine for client online discovery, including common coverages and cost benchmarks to support education for consumers
- CX RX **1.4 Online Education** – Access to landing page on FI's website with information about the different loan and insurance products, with an option to show tools, videos or articles based on needs
- CX RX **1.5 Insurance Coverage Options** – Access to coverage details in common language on the different insurance coverage options available to each consumer's personal situation

2. Quoting

- CX RX **2.1 Needs Analysis / Value Showcase** – Intake consumer information which is used to assess and identify their loan and insurance needs; client-led and representative-guided tool, showcasing protection value
- CX RX **2.2 Waived Insurance Coverage** – Access to waiving insurance coverage and selecting reason from a drop-down field for each waived coverage for completion by clients or representatives
- CX **2.3 Automated Eligibility** – Based on needs analysis, determination of potential consumers eligibility for product based on local regulation, consumer protection, and value derived from product
- CX RX **2.4 Virtual Guidance** – Virtual tailored support through automated, asynchronous and synchronous channels, enabling consumer to make informed decisions
- CX RX **2.5 Quoting Tool** – Access to a self-serve online or guided in-branch quoting loan and insurance tool that shows a unified premium including the loan payment and insurance premium
- CX RX **2.6 Interactive Premium Adjustments** – Ability to see real-time time impact on premium of any protection and loan adjustments, including any changes in conditions or eligibility
- CX RX **2.7 Insurance Pre-Approval** – Receive immediate pre-approval for certain consumers based on their existing information
- CX RX **2.8 Rational Documentation** – Recording of rational for consumer declining or accepting the quote provided, to be used for future reference (e.g., consumer protection, service improvement)

3. Purchasing

- CX RX **3.1 Digital Health Assessment** – Answer additional health questions directly in the online application or on a digital form in-branch
- CX RX **3.2 Enrollment & Onboarding** – Enroll consumers with their personal details and coverage details with underwriter; policy documents automatically generated and shared with clients
- CX RX **3.3 Underwriting Tracking** – Ability for consumer and representative to view current quote underwriting status through a self-serve channel
- CX RX **3.4 Digital Bind** – Ability for consumer and representative to bind a policy digitally without need of live interaction with consumer

LEGEND: CX Customer Experience | RX Representative Experience | Distributor Capability | Underwriter Capability | Joint Capability

Deloitte Digital CPI Framework Functional Capability Definitions Cont. (Figure 20)

4. Servicing / Renewal

- CX RX **4.1 Needs Reassessment** — Ability for the customer and the representative to reassess protection needs during the renewal process or after a significant life moment
- CX **4.2 Virtual Education** — Receive and manage representative commission payment based on periodic sales performance
- CX **4.3 Self-Serve Portal** — Manage consumer account information (e.g., address, payment method) digitally (e.g., self-serve), through the call center or in-branch
- CX RX **4.4 Real-Time Protection Adjustments** — Scale-up or down consumer existing coverage via prebuilt options based on future needs and life events
- CX RX **4.5 Secure Communication** — Ability for customer and representative to securely communicate through digital channels
- CX RX **4.6 Virtual Guidance** — Virtual tailored support through automated, asynchronous and synchronous channels, enabling consumer to make informed decisions

5. Claims

- CX RX **5.1 Claims Status Tracker Dashboard** — View the progress of in-process claims and receive notifications each time the status changes, allowing for a consolidated dashboard of all claims, and generate reports
- CX RX **5.2 Secure Communication** — Ability for customer, representative, and claims representative to securely communicate through digital channels
- CX **5.3 Ecosystem Support** — Access to broader ecosystem of support benefits and perks that may provide value to the customer in the event of a claim (i.e., mental health virtual care)
- CX RX **5.4 Virtual Guidance** — Virtual tailored support through automated, asynchronous and synchronous channels, enabling consumer to make informed decisions
- CX RX **5.5 Digital Intake** — Initiate FNOL digitally by uploading relevant documentation for the claim, or via representative through the branch/call center
- CX **5.6 Instant Claim Approval** — Ability to provide automatic claim approval based on consumer provided data as well as access to authorized TP data (e.g., lender data)
- CX **5.7 Contextual Info Requests** — Receive and send requests for additional information / documentation when necessary, or additional information when a claim is denied
- CX **5.8 Digital Settlement Payment** — Ability to receive and send payment directly to the consumer's financial institution based on settlement eligibility through digital channels

6. Continued Engagement

- CX **6.1 Rewards & Benefits** — Ability to provide active policy consumers with additional perks and benefits that are aligned to their specific needs and preferences through proactive engagement
- CX RX **6.2 Intelligent Nudging** — Send proactive notifications of upcoming renewals, proposed coverage amendments/cancellations, and additional perks / benefits utilization

LEGEND: CX Customer Experience | RX Representative Experience | Distributor Capability | Underwriter Capability | Joint Capability

Deloitte Digital CPI Framework Functional Capability Definitions Cont. (Figure 21)

8. Data, Analytics, & Insights

8.1 Cust. / Rep. Insights & Reporting
Delivery of actionable insights on customers and representatives based on habits and usage data to appropriate stakeholders

8.2 Regulatory Reporting
Delivery of required regulatory reports and disclosures based on local jurisdiction

8.3 TP Data Integrations
Inbound and outbound data transfers with TP data sources related to the consumer as permitted by jurisdiction requirements and consumer permissions

8.4 Contextual Prompts
Delivery of automated actionable nudges, recommendations and insights to consumers and representatives based on specific needs, situations, and preferences

8.5 360 Customer Profile
Single customer profile, showcasing all products / policies as well as general profile and preference information, as permitted by local regulation

8.6 Pre-Populated Fields
Ability to pre-populate fields for consumers and representative throughout the journey (e.g., quote, claims) leveraging internal and external data as permitted

8.7 Data Visualization
Enabling employees and representatives to visualize historical data related to consumer and representatives CPI / lending behaviors

8.8 Interoperable Data
ability of systems and services that create, exchange and consume data to have clear, shared expectations for the contents, context across platforms

8.9 Recommendations Engine
Ability to generate contextualized recommendations for consumers and representative based on available data

8.10 Enterprise Data Management
Ability of an organization to precisely define, easily integrate and effectively retrieve data for both internal applications and external sources as permitted

8.11 Privacy & Encryption
Ability to appropriately protect data while being stored and transmitted, abiding by required privacy protocols

8.12 Predictive Modelling
Ability to develop and improve predictive models based on available data

7. Digital-Enabled Operations

7.1 Click for Assistance
Access to talk to an representative or contact center rep for guidance by through a call, online chat, or in-person / branch meeting

7. 2 Online Complaints / Escalation
Ability for customer to easily file a complaint, or escalate an issue through a variety of channels including digital

7. 3 Digital Document Management
Ability to store, access, update, and track documentation in digital formats, as well as digitizing paper-based documents in readable / searchable formats

7.4 Real-Time Commission Payment
Calculate, update and pay representative commission payment based on periodic sales performance and adjustments

7.5 Digital Document Upload
Ability for consumers to upload digital documentation to their CPI application and customer profile

7.6 Embedded Consumer Protection
Inclusion of digital controls to ensure consumers using self-serve options are only provided with options that deliver value and are made aware of policy conditions

7.7 Digital Payments / Disbursements
Ability to securely accept and disburse payments sent in electronic forms and through widely available payment platforms (e.g., apple pay)

7.8 Real-Time Premium Adjustments
Ability to adjust premium and related commission amounts in real-time based on changes to protection and underlying conditions

7.9 Process Automation / RPA
Digitization and automation of redundant internal manual processes

7.10 E-Signature
Ability to accept and provide digital signatures that are aligned with local jurisdiction requirements

7.11 Digital Employee Tools
Enabling employees to perform their work with digital tools and processes

7.12 Automated Underwriting
Ability to underwrite CPI applications without human intervention

9. Digital & Technology

9.1 APIs & Integrations
Ability to enable connections with external applications via their APIs (application programming interfaces) that allow systems to exchange data sources

9.2 Cloud Services
Availability of applications and data storage in the cloud as permitted by regulation

9.3 Modernized Core System
Suite of core systems that can enable digital processes and integrations with required digital platforms (internal and external)

9.4 CRM / MarTech
Ability to leverage customer / representative profiles make data-driven relationship management decisions

9.5 Agile Delivery
Enable teams to make simplified process decisions around incremental and iterative solution delivery

9.6 Representative Dashboard
Ability for a representative to access all relevant tools and information through a digital self-serve portal as well as interact with their customers throughout the journey

LEGEND: CX Customer Experience | RX Representative Experience | Distributor Capability | Underwriter Capability | Joint Capability

Endnotes

1) What is Credit Protection Insurance? Accessed from The Canadian Association of Financial Institutions in Insurance, https://www.cafii.com/credit-protection-insurance/
2) Accessed from Canadian Life & Health Insurance Association via email
3) Credit Protection Insurance – Process and Methods – Research Report, March 2021, Canadian Association of Financial Institutions in Insurance
4) *Ibid.*
5) *Ibid.*

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 5(a)
Committee Updates: Recent and Upcoming Strategic and Regulatory Initiatives: Insights Gained From CAFII Internal Dialogue and Subsequent Email Exchange With AMF, Which Led To Cancellation Of Scheduled CAFII March 15/22 Feedback/Dialogue Meeting with AMF on RADM's Governance of Insurance Offered/Sold Over The Internet Since 2019

Purpose of this Agenda Item – *Update / Discussion*

An update and discussion on a recent interaction with the AMF.

Background Information

CAFII was planning on participating in a virtual meeting with the AMF on internet offers of insurance, but upon further discussion determined that the AMF was interested in feedback on Chapter 2 of the RADM, which is about direct-to-consumer internet offers, and is not directly in-scope for CAFII. The relevant part of the RADM for CAFII and its members is Chapter 3, which is on distribution without a representative—specifically, offering products to consumers through a distributor, in this case through a bank or credit union offering credit protection insurance associated with a loan product. CAFII reached out to the AMF about this distinction and the AMF confirmed that this consultation was on Chapter 2 of the RADM only, and as a result the meeting was cancelled.

Recommendation / Direction Sought – *Update / Discussion*

This is an update and discussion item only.

Attachments Included with this Agenda Item

1 attachment.

Agenda Item 5(a)
March 22/22 EOC Meeting

De : Brendan Wycks <brendan.wycks@cafii.com>
Envoyé : 10 mars 2022 18:47
À : Perreault Mélissa <Melissa.Perreault@lautorite.qc.ca>
Cc : Keith Martin <Keith.Martin@cafii.com>; Labonté Karine <Karine.Labonte@lautorite.qc.ca>; Consultations Particulieres OPI 2022 <ConsultationsOPI2022@lautorite.qc.ca>; Payne Evelyn <Evelyn.Payne@lautorite.qc.ca>
Objet : CAFII Request For Clarification Around Focus/Scope Of Stakeholder Feedback Session On RADM's Efficacy Since 2019 (and Possible Deferral and Rescheduling of Current March 15/22 Meeting)

Bonjour, Mélissa.

Thank you for inviting CAFII, as a key industry stakeholder, to participate in a virtual consultation session with you and AMF staff executive colleagues on March 15, 2022 on *How The Regulation respecting Alternative Distribution Methods (RADM) Has Been Working Since June 2019 Re "Financial Products and Services Offered Via The Internet" (Including Insurance); and How It Could Be Improved*.

Earlier today, however, in a meeting of CAFII member representatives to prepare for the March 15 meeting, we learned from some of those representatives who are also involved in CLHIA/ACCAP initiatives that this current AMF consultation – from which CAFII's invitation to a March 15 virtual feedback session arose – is focused exclusively on the RADM's *Chapter 2: Offer of Financial Products and Services By A Firm Without The Intermediary Of A Natural Person*, and not on any other Chapter of the Regulation.

We ask that you confirm for us, at your earliest convenience, that that is indeed the case.

If our belief that you wish to focus your current industry stakeholder feedback sessions exclusively on Chapter 2 is correct, CAFII will respectfully withdraw its acceptance of the AMF's invitation to offer feedback in a virtual session because doing so would be very much outside of our Association's scope and mandate.

While some of the insurer members among our 15 CAFII member companies may have registered as a firm and may have been selling individual life and health insurance products directly to Quebec consumers digitally via the internet since June 2019, that activity is not what brings them together in common cause with other CAFII members within this Association.

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And while CAFII does focus on "alternate distribution channels" – i.e. direct to consumer channels, without the involvement of a licensed representative – our insurance products focus as an Association is almost exclusively upon Credit Protection Insurance (CPI) and Travel Insurance, which are Authorized Insurance Products (under the federal Bank Act) which insurers offer through financial institution distributors (i.e. the *bancassurance* sector in Canada). The insurance products offered through CAFII member bank and credit union distributors fall under the RADM's *Chapter 3: Offer of Insurance Products Through A Distributor*, which covers an entirely different regulatory regime than the one launched by Chapter 2 in 2019.

Given that the RADM's Chapter 2 is largely out-of-scope for our Association, it would not be appropriate for CAFII to participate in a formal feedback session with you and your colleagues if that Chapter is indeed the exclusive focus of your current round of industry consultations, particularly when CLHIA/ACCAP is already well-engaged in providing insightful feedback to the AMF from the perspective of the Chapter 2-affected sector of the life and health insurance industry.

If our belief that you are currently focusing exclusively on Chapter 2 is mistaken; and, in fact, you would also be receptive to receiving feedback from CAFII on Chapter 3 at this time, then upon receiving that confirmation news from you, we would request that CAFII's virtual stakeholder feedback session be deferred and rescheduled for an alternate date approximately one week to 10 days after March 15. That short delay would provide our Association with the additional time needed to consolidate consensus feedback on Chapter 3, given a newly clarified understanding of what the AMF is looking for from CAFII.

We look forward to hearing back at your earliest convenience, Mélissa, on the clarification issues we have raised in this message.

Best regards,

Brendan Wycks, BA, MBA, CAE

Co-Executive Director

Canadian Association of Financial Institutions in Insurance

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On Mar 14, 2022, at 10:43 AM, Consultations Particulieres OPI 2022 <ConsultationsOPI2022@lautorite.qc.ca> wrote:

Mister Wycks,

Thank you for your detailed e-mail.

Indeed, the current consultations are being held in matters of "products and services offered via the Internet" (Chapter 2 RADM) and not in matters of "distribution without a representative" (DWR: chapter 3 RADM).

Consequently, we will cancel the meeting that was scheduled on March the 15th.

As you know, the Autorité is more generally involved with many stakeholders pursuing the objective to optimize the compliance burden. We already had the chance and will surely have it in the future to hear your comments and preoccupations in matters of DWR.

Best regards,

L'Équipe des consultations particulières sur l'offre par Internet

From: Brendan Wycks <brendan.wycks@cafii.com>
Sent: March-14-22 5:07 PM
To: Consultations Particulieres OPI 2022 <ConsultationsOPI2022@lautorite.qc.ca>
Cc: Perreault Mélissa <Melissa.Perreault@lautorite.qc.ca>; Labonté Karine <Karine.Labonte@lautorite.qc.ca>; Keith Martin <Keith.Martin@cafii.com>
Subject: Re: CAFII Request For Clarification Around Focus/Scope Of Stakeholder Feedback Session On RADM's Efficacy Since 2019 (and Possible Deferral and Rescheduling of Current March 15/22 Meeting)

Merci beaucoup, Mélissa.

Brendan Wycks
Sent from my iPhone

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 5(b)
Committee Updates: Recent and Upcoming Strategic and Regulatory Initiatives: AMF's Plans For Issuing Feedback Letter To The Industry With Respect To December 17/21 Action Plans Submitted For Bringing Credit Card-Embedded Insurance Benefits Into Compliance With AMF's RADM-Based Expectations

Purpose of this Agenda Item – *Update*

An update and discussion on a recent interaction with the AMF.

Background Information

The AMF reached out to CAFII in February 2022 and asked us to review a letter it had prepared on the Action Plans submitted by members around compliance with the RADM and credit card-embedded insurance products. CAFII has provided feedback on the letter, and the AMF is now intending to send it to CAFII and to c.c. relevant insurer/underwriter members and other industry insurers that submitted Action Plans.

Recommendation / Direction Sought – *Update*

This is an update item only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 5(c)
Committee Updates: Recent and Upcoming Strategic and Regulatory Initiatives: AMF's Consideration of CAFII's January 17/22 Submission on Proposed Wording Modifications To Fact Sheet and Notice of Rescission to Make Them Fit/Suit Credit Card-Embedded Insurance Benefits

Purpose of this Agenda Item – *Update*

An update on a recent interaction with the AMF.

Background Information

On 17 January, 2022, CAFII sent the AMF its proposed wording changes to the Fact Sheet and the Notice of Rescission with respect to credit card-embedded insurance benefits. This is an update on this file.

Recommendation / Direction Sought – *Update*

This is an update item only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 5(d)
Committee Updates: Recent and Upcoming Strategic and Regulatory Initiatives: Insights Gained from February 24/22 CAFII Virtual Consultation Meeting With BCFSA Staff Executives On Authority's "Discussion Paper: Information Security Incident Reporting"

Purpose of this Agenda Item – *Update*

An update on a recent interaction with BCFSA.

Background Information

CAFII and some of its members had a virtual meeting with BCFSA executives on 24 February, 2022 to discuss some of CAFII's views on the "Discussion Paper: information Security Incident Reporting." The key point that CAFII made was that it was more effective for BCFSA to use the existing OSFI incident reporting forms and approach, as opposed to create a similar but not identical regime which would undermine harmonization and complicate compliance efforts by industry. The tone of the meeting was very collaborative and the BCFSA executives were very engaged and approachable.

Participating from BCFSA were:

- Saskia Tolsma, Vice-President, Stakeholder Engagement, BCFSA;
- Steven Wright, Senior Policy Analyst, BCFSA;
- Rob O'Brien, Manager, Policy, BCFSA.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 5(e)
Committee Updates: Recent and Upcoming Strategic and Regulatory Initiatives: Insights Gained From February 17/22 Meeting With FCAC Staff Executives For Feedback on How CAFII's Submission on *"Guideline on Appropriate Products and Services for Banks and Authorized Foreign Banks"* Has Resonated With FCAC and Influenced Final Version of the Guideline (Released February 24/22)

Purpose of this Agenda Item – *Update*

An update on a recent interaction with FCAC.

Background Information

On 17 February, 2022 CAFII management (Brendan Wycks and Keith Martin) met with FCAC executives (Bradley Schnarr, Manager, Regulatory Guidance and Supervisory Coordination; and Stephen Wild, Senior Policy and Research Officer, FCAC) to discuss the final version of the FCAC Appropriateness Guideline.

While FCAC said that it had made only minor changes to the document, it became apparent that there were some important modifications made, including that a needs analysis test is not necessarily required to demonstrate appropriateness. There was also good interaction and dialogue with the FCAC throughout this process, and CAFII has strengthened its regulatory relationship with the FCAC through these initiatives.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

3 attachments.

Agenda Item 5(e)(1)
March 22/22 EOC Meeting

<u>Outcomes Of February 17/22 CAFII Meeting With FCAC Staff Executives</u>
<u>Re Final Decisions/Position On Content Of FCAC's</u>
<u>Appropriate Products and Services Guideline For Banks and Authorized Foreign Banks</u>

The FCAC reached out to CAFII on February 11/22 requesting a February 17/22 half-hour virtual meeting to share the FCAC's decisions/position on the final content of its Appropriate Products and Services Guideline for Banks and Authorized Foreign Banks; and, in particular, its response to the feedback points raised in CAFII's January 6/22 written submission on the draft Appropriateness Guideline.

Participating in the February 17/22 virtual meeting from the FCAC were Bradley Schnarr, Manager, Regulatory Guidance and Coordination, Supervision and Enforcement Branch; and Stephen Wild, Senior Research and Policy Officer, Supervision and Enforcement Branch. Brendan Wycks and Keith Martin dialogued with Messrs. Schnarr and Wild, on behalf of CAFII.

In the meeting, Messrs. Schnarr and Wild were cordial, engaged, and very open in their responses to CAFII's questions and comments.

Their opening comment was that while the FCAC had listened carefully to and understood CAFII's expressed concerns about the draft Guideline – as communicated in both our written submission and a January 14/22 virtual meeting, attended by approximately 15 CAFII representatives including Messrs. Wycks and Martin, which stemmed from an FCAC invitation to CAFII to present the highlights of the Association's written submission – the Agency had decided that the final version of the Guideline would remain largely unchanged from the consultation draft, save and except for what they referred to as some minor clarifications and housekeeping edits.

That said, they indicated that some of the minor changes that would be introduced in the final version of the Guideline were intended to address some of CAFII's feedback on the consultation draft.

More specifically, the clarifications and housekeeping edits to be made to the Appropriate Products and Services Guideline include the following:

- the ordering of the first six paragraphs will be changed to improve their logical flow and the understandability of the content.

- CAFII's expressed concern that adhering to the FCAC Appropriateness Guideline could potentially put CAFII members in an untenable situation and force them to be off-side provincial/territorial insurance licensing requirements <u>would be addressed in two ways</u> **(in CAFII's considered view, the significance of these FCAC adjustments should not be downplayed, even though Messrs. Schnarr and Wild positioned them as "minor clarifications")**, <u>as follows</u>:

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First, Paragraph 6 will be amended to include wording to the following effect: "this Guideline should be read in the context of **all applicable laws and regulations**." Those words, Messrs. Schnarr and Wild asserted, would make it clear that the FCAC understands that CAFII members must also comply with provincial/territorial regulatory requirements.

Second, Messrs. Schnarr and Wild advised that the FCAC does **not** have an expectation that determining the appropriateness of a financial or insurance product for a consumer must necessarily include a needs analysis or providing advice. That verbal clarification to CAFII (which will not be reflected in writing the Guideline), they asserted, should address our Association's concern that it would not be permissible or possible for CAFII members to provide consumers with advice with respect to credit protection insurance, an Authorized Insurance Product under the federal Bank Act, due to provincial/territorial insurance licensing requirements.

- Paragraph 8 will be amended to include a motherhood statement about the importance of protecting vulnerable Canadians, which should address CAFII's expressed concern about our members being able to continue offering simple and accessible insurance protection to lower and middle income Canadians who may not otherwise have any insurance coverage.

- the word "before" will be dropped in favour of consistent use of the word "when" throughout the Guideline, in a fix that will be made in direct response to this feedback point in CAFII's written submission:

  We note the following inconsistency: Clauses 10i and 10iii speak of an FRFI collecting information "before it offers or sells products or services to them" while Clause 19 says "A Bank's Policies and Procedures should ensure that the bank conducts an appropriateness assessment when it offers or sells products or services to consumers." We believe that the use of the term "when" is more appropriate than "before."

- A number of sections of the Guideline will be "cleaned up" to ensure consistent and clear use of the term "Policies and Procedures" versus the more generic "policies and procedures" in direct response to this feedback point in CAFII's written submission:

  We note that Clause 2 in the document establishes "Policies and Procedures" as a defined term related to the appropriateness check performed with a customer as part of the offer or sale of a product. However, throughout the document there are also references to policies and procedures generally, interspersed with the use of upper case "Policies and Procedures" to denote the defined term. We recommend that the document maintain a constant and clear distinction between the twotypes of policies and procedures (i.e. "Policies and Procedures" related to the appropriateness checkat the time of the offer; and more general policies and procedures within an FRFI).

In a more general point about overall industry feedback on the draft Guideline, Messrs. Schnarr and Wild said that the FCAC had received several requests to add more prescriptive detail around what would satisfy the stated *Know Your Client* requirements, as well as on what would be required around staff training to meet the FCAC's expectations. However, the Agency decided not to accede to that request for more prescription as it wants the Guideline to remain principles-based. Messrs. Schnarr and Wild concurred with CAFII's observation that such a request for additional prescriptiveness was not contained in our Association's written submission or our verbal presentation of its highlights.

<u>Next Steps and Implementation Considerations</u>
Messrs. Schnarr and Wild indicated that the FCAC intends to release the final version of the Appropriate Products and Services Guideline during the week of February 21 to 25, 2022. However, that planned timing was contingent upon being able to secure release approval sign-offs from several approval authorities "whose schedules were very challenging."

There will be no sunset provision in the Appropriate Products and Services Guideline requiring its periodic review (unlike the Bank Act which has a sunset provision requiring that it be reviewed every five years), but Messrs. Schnarr and Wild advised that the FCAC does intend to review the Guideline from time to time.

On the question of compliance monitoring and supervision/enforcement with respect to the Appropriate Products and Services Guideline, Mr. Schnarr hesitated to commit to anything specific about whether compliance audits would occur, saying that this would all be worked out over time. He did say, however, that a new "Thematic Review Team" had recently been set up within the FCAC; that it was hiring a lot of new staff; and that it would likely take the lead on ensuring compliance with the Guideline. However, he also said that it was likely that, at least in the initial few years of implementation, any compliance reviews determined to be necessary would be conducted on an informal basis, as opposed to a structured and formal basis.

Messrs. Schnarr and Wild said there was nothing the FCAC could do about the legislated June 30, 2022 in-force date for the new federal Financial Consumer Protection Framework (FCPF), which included the Appropriate Products and Services Guideline for Banks and Authorized Foreign Banks. However, Mr. Schnarr emphasized that the FCAC was "a reasonable regulator" and that it would not use enforcement or penalties in the initial implementation period if a regulated entity was making demonstrable best efforts to comply with the Guideline. The Agency's preferred approach would be to work with a regulated entity during that initial implementation period to work out any issues, he concluded.

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Agenda Item 5(e)(2)
March 22/22 EOC Meeting

Guideline on Appropriate Products and Services for Banks and Authorized Foreign Banks

From: Financial Consumer Agency of Canada

Publication date: February 24, 2022

Effective date: June 30, 2022

On this page

I. Introduction

1. The Financial Consumer Agency of Canada (FCAC) has developed a *Guideline on Appropriate Products and Services for Banks and Authorized Foreign Banks* (Guideline) to set out its expectations with respect to Banks' (including federal credit unions) and Authorized Foreign Banks' (Banks) implementation of the appropriate product or service provisions in the *Bank Act* and the *Financial Consumer Protection Framework Regulations*.

2. Part XII.2 of the *Bank Act* establishes the provisions that apply to Banks regarding products and services offered or sold by Banks. A Bank must establish and implement policies and procedures to ensure that the products or services in Canada that it offers or sells to a natural person other than for business purposes are appropriate for that person, having regard to their circumstances, including their financial needs (Policies and Procedures).

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3. FCAC encourages other federally regulated financial entities, such as trust and loan companies and insurance companies, to review this Guideline to develop and improve their appropriate product or service Policies and Procedures.

4. A Bank is responsible for ensuring it meets the requirements established in the *Bank Act* including ensuring the compliance of any parties subject to the requirements in s. 627.15 of the *Bank Act* (Third Parties).

5. FCAC recognizes that Banks may tailor their Policies and Procedures to align with the nature, size and complexity of their business, distribution channels, and products and services. Each Bank may adapt its existing processes to comply with its obligations under s. 627.06 and s. 627.07.

6. This Guideline should be read in conjunction with all applicable legislation and regulations.

II. Key principles

7. A Bank's senior management and the committee of the board responsible for the Bank's compliance with consumer provisions—or, in the case of an Authorized Foreign Bank, its senior management—should oversee the establishment and implementation of the Policies and Procedures.

8. When establishing and implementing Policies and Procedures, a Bank should recognize that consumers are a diverse group, and that some consumers may have financial vulnerabilities. Policies and Procedures should be comprehensive and result in a Bank offering or selling products or services that are appropriate for consumers, having regard to their circumstances, including their financial needs.

9. A Bank should keep records that demonstrate that it has established and implemented Policies and Procedures that meet the requirements of the *Bank Act*.

Effectiveness

10. A Bank should effectively address and implement the following:

i. Know your consumer

A Bank should collect and assess Know Your Consumer (KYC) information to understand consumers' circumstances, including their financial needs, when it offers or sells products or services to them.

ii. Know your product

A Bank should understand the features, charges, risks and benefits of the products or services that it offers or sells.

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iii. Assess appropriateness

A Bank should assess the appropriateness of the product or service when it offers or sells it.

iv. Inform consumers

A Bank should inform consumers when it has assessed a product or service as not appropriate for them, or when the Bank is unable to conduct the assessment.

v. Align remuneration

A Bank should include controls relating to its remuneration, incentive and benefit practices to align with the intent and application of the Policies and Procedures.

III. Know your consumer

11. A Bank's Policies and Procedures should ensure that the Bank collects and records the KYC information it needs to understand consumers' circumstances so that it can assess the appropriateness of the products or services being offered or sold. The nature of the KYC information that a Bank may need to collect and record can vary depending on consumers' circumstances, including their financial needs, and on the products or services that it offers or sells.

12. A Bank's Policies and Procedures should cover the collection and updating of information, including what information is to be collected and how it is to be used.

13. A Bank's Policies and Procedures should cover the verification of information, including how to proceed if that information is unreliable, inaccurate, outdated, or incomplete, or if the information has any other issue that calls its use into question.

14. A Bank's Policies and Procedures should cover circumstances when consumers refuse or are unable to provide KYC information.

IV. Know your product

15. In developing, designing, approving and offering appropriate products or services, a Bank should ensure it has an internal assessment, review and approval process in place that applies throughout the product or service life cycle that accounts for:

> 15.1. an assessment of the features, risks, charges and benefits to consumers associated with the product or service
>
> 15.2. considerations regarding distribution channels
>
> 15.3. consumer-facing materials, such as disclosure documents or marketing materials

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16. A Bank should ensure that the internal assessment, review and approval process applies when:

16.1. products and services are developed by the Bank, regardless of whether the product or service is sold directly by the Bank or through a Third Party

16.2. Third Party products or services are offered or sold by or through the Bank

16.3. material changes are made to existing products or services

17. A Bank should require initial and ongoing training to ensure that an officer, employee or any person involved in the offer or sale of a Bank product or service has the necessary skills, knowledge and expertise to discharge their responsibilities related to the appropriateness of the product or service. This training should:

17.1. cover the Bank's obligations regarding the offer or sale of appropriate products or services

17.2. cover the products or services that the officer, employee or person is offering or selling, including the relevant features, charges, risks and benefits of the Bank's products or services and how to explain these to consumers

18. A Bank should ensure it:

18.1. provides the training program

18.2. monitors officers', employees' or other persons' completion of the training program

18.3. regularly reviews and updates the training

V. Assessing appropriateness

19. A Bank's Policies and Procedures should ensure that the Bank conducts an appropriateness assessment when it offers or sells products or services to consumers. For greater certainty, a Bank's Policies and Procedures should ensure that it conducts an appropriateness assessment even when these products or services have been requested by consumers.

20. A Bank's Policies and Procedures should ensure that the Bank can demonstrate that assessments are being conducted and the outcome of these.

21. A Bank's Policies and Procedures should address how to proceed if consumers wish to purchase products or services that the Bank has assessed as not appropriate for them, or if it cannot conduct the assessment.

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VI. Informing consumers

22. A Bank's Policies and Procedures should ensure that the Bank informs consumers when it has assessed products or services as not appropriate for them or if it cannot conduct the assessment so that consumers can make informed decisions. The Bank's Policies and Procedures should ensure that this information:

22.1. is provided in a manner, and using language, that is clear, simple and not misleading

22.2. is presented in a manner that accounts for factors such as the distribution channel, the nature of the products or services and any other relevant factors

VII. Aligning remuneration

23. A Bank should ensure that:

23.1. an employee's, officer's or any person's remuneration is determined in a manner that does not interfere with their obligation to comply with the Bank's Policies and Procedures to offer or sell products or services that are appropriate

23.2. the metrics used to determine remuneration align with the Bank's obligation to offer or sell products and services that are appropriate

23.3. remuneration and benefits account for monetary and non-monetary components, such as salaries, variable pay, commissions, bonuses, pension benefits and awards

24. A Bank's remuneration, incentives and benefits should be reviewed regularly to ensure they do not interfere or conflict with its obligations regarding appropriate products or services.

VIII. Miscellaneous

25. Questions relating to this Guideline can be sent by email to compliance@fcac-acfc.gc.ca or by mail to:

Financial Consumer Agency of Canada
Attention: Deputy Commissioner, Supervision and Enforcement Branch
427 Laurier Ave West, 6th Floor
Ottawa, ON K1R 5C7

~~Proposed~~ Guideline on Appropriate Products and Services for Banks and Authorized Foreign Banks

From: Financial Consumer Agency of Canada

Publication date: February 24, 2022

Effective date: June 30, 2022

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I. Introduction

1.- The Financial Consumer Agency of Canada (FCAC) has developed ~~this draft~~ a *Guideline* ~~–~~ *on Appropriate Products and Services for Banks and Authorized Foreign Banks* - (Guideline) to set out ~~the Agency's~~ its expectations with respect to Banks' (including federal credit unions) and Authorized Foreign Banks' (Banks) implementation of the appropriate product or service provisions in the *Bank Act* and the *Financial Consumer Protection Framework Regulations*.

2.- Part XII.2 of the *Bank Act* ~~sets out~~ establishes the ~~requirements~~ provisions that apply to Banks regarding products and services offered or sold by ~~banks, including federal credit unions, and authorized foreign banks (Banks).~~ Banks. A Bank must establish and implement policies and procedures to ensure that the products or services in Canada that it offers or sells to a natural person other than for business purposes are appropriate for that person, having regard to their circumstances, including their financial needs (Policies and Procedures).

3. FCAC encourages other federally regulated financial entities, such as trust and loan companies and insurance companies, to review this Guideline to develop and improve their appropriate product or service Policies and Procedures.

-4. A Bank is responsible for ensuring it meets the requirements established in the *Bank Act*~~,~~ including ensuring the compliance of any parties subject to the requirements in s. 627.15 of the *Bank Act* (Third Parties).

~~4.~~ 5. FCAC recognizes that Banks may tailor their Policies and Procedures ~~in accordance~~ to align with the nature, size and complexity of their business, distribution channels, and products and services. Each Bank may adapt its existing processes to comply with its obligations under s. 627.06 and s. 627.07.

~~5. FCAC encourages other federally regulated financial entities, such as trust and loan companies and insurance companies, to review this Guideline to develop and improve their appropriate product or service Policies and Procedures.~~

6.- This Guideline should be read in conjunction with all applicable legislation and regulations.

II. Key principles

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7. A Bank's senior management and the committee of the board ~~of directors~~ responsible for the Bank's compliance with consumer provisions —or, in the case of an Authorized Foreign Bank, its senior management— should oversee the establishment and implementation of the Policies and Procedures.

~~8.~~8. When establishing and implementing Policies and Procedures, a Bank should recognize that consumers are a diverse group, and that some consumers may have financial vulnerabilities. Policies and Procedures should be comprehensive and result in a Bank offering or selling products or services that are appropriate for consumers, having regard to their circumstances, including their financial needs.

9. A Bank should keep records that demonstrate that it has established and implemented Policies and Procedures that meet the requirements of the *Bank Act*.

Effectiveness

10. ~~A Bank's Policies and Procedures~~ A Bank should effectively address and implement the following:

i. Know your consumer

A Bank should collect and assess Know Your Consumer (KYC) information to understand consumers' circumstances, including their financial needs, ~~before~~when it offers or sells products or services to them.

ii. Know your product

A Bank should understand the features, charges, risks and benefits of the products or services that ~~they offer~~it offers or ~~sell~~sells.

iii. Assess appropriateness

A Bank should assess the appropriateness of the product or service ~~before they offer~~when it offers or ~~sell~~sells it.

iv. Inform consumers

A Bank should inform consumers when it has assessed a product or service as not appropriate for them, or when the Bank is unable to conduct the assessment.

v. Align remuneration

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A Bank should include controls relating to its remuneration, incentive and benefit practices to align with the intent and application of the Policies and Procedures.

III. Know your consumer

11. A Bank's Policies and Procedures should ensure that the Bank collects and records the KYC information it needs to understand consumers' circumstances so that it can assess the appropriateness of the products or services being offered or sold. The nature of the KYC information that a Bank may need to collect and ~~verify~~record can vary depending on consumers' circumstances, including their financial needs, and on the products or services that it offers or sells.

12. A Bank's Policies and Procedures should cover the collection and updating of information, including what information is to be collected and how it is to be used.

13. A Bank's Policies and Procedures should cover the verification of information, including how to proceed if that information is unreliable, ~~including~~ inaccurate, outdated, or incomplete ~~information~~, or if the information has any other issue that calls its use into question.

14. A Bank's Policies and Procedures should cover circumstances when consumers refuse or are unable to provide KYC information.

IV. Know your product

15. In developing, designing, approving and offering ~~a product~~appropriate products or ~~service~~services, a Bank should ensure ~~its Policies and Procedures cover~~it has an internal assessment, review and approval process in place that applies throughout the product or service life cycle ~~and~~that accounts for:

- 15.1. an assessment of the features, risks, charges and benefits to consumers associated with the product or service
- 15.2. considerations regarding distribution channels
- 15.3. consumer-facing materials, such as disclosure documents or marketing materials

16. ~~The~~ A Bank should ensure that the internal assessment, review and approval process ~~should apply to~~applies when:

- ~~all~~ 16.1. products and services are developed by the Bank, regardless of whether the product or service is sold directly by the Bank or through a Third Party
- ~~any~~ 16.2. Third Party products or services are offered or sold by or through the Bank

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~~any~~ 16.3. material changes are made to existing products or services

17. A ~~Bank's Policies and Procedures~~Bank should require initial and ongoing training to ensure that an officer, employee or any person involved in the offer or sale of a Bank product or service has the necessary skills, knowledge and expertise to discharge their responsibilities related to the appropriateness of the product or service. This training should:

17.1. cover the Bank's obligations regarding the offer or sale of appropriate products or services

17.2. cover the products or services that the officer, employee or person is offering or selling, including the relevant features, charges, risks and benefits of the ~~bank's~~Bank's products or services and how to explain these to consumers

18. A ~~Bank's Policies and Procedures~~Bank should ~~cover~~ensure it:

~~providing~~18.1. provides the training program

~~monitoring~~18.2. monitors officers', employees' or other persons' completion of the training program

~~regular~~18.3. regularly reviews and updates ~~of~~ the training

V. Assessing appropriateness

19. A Bank's Policies and Procedures should ensure that the ~~bank~~Bank conducts an appropriateness assessment when it offers or sells products or services to consumers. For greater certainty, a Bank's Policies and Procedures should ensure that it conducts an appropriateness assessment even when these products or services have been requested by consumers.

20. A Bank's Policies and Procedures should ensure that the Bank can demonstrate that assessments are being conducted and the outcome of these.

21. A Bank's Policies and Procedures should address how to proceed if consumers wish to purchase products or services that the ~~bank~~Bank has assessed as not appropriate for them, or if it cannot conduct the assessment.

VI. Informing consumers

22. A Bank's Policies and Procedures should ensure that the ~~bank~~Bank informs consumers when it has assessed products or services as not appropriate for them or if it cannot conduct the

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assessment so that consumers can make informed decisions. The Bank's Policies and ~~procedures~~Procedures should ensure that this information:

- 22.1. is provided in a manner, and using language, that is clear, simple and not misleading
- 22.2. is presented in a manner that accounts for factors such as the distribution channel, the nature of the products or services and any other relevant factors

VII. Aligning remuneration

23. A ~~Bank's Policies and Procedures~~Bank should ensure that:

- 23.1. an employee's, officer's or any person's remuneration is determined in a manner that does not interfere with their obligation to comply with the Bank's Policies and Procedures to offer or sell products or services that are appropriate
- 23.2. the metrics used to determine remuneration align with the Bank's obligation to offer or sell products and services that are appropriate
- 23.3. remuneration and benefits account for monetary and non-monetary components, such as salaries, variable pay, commissions, bonuses, pension benefits and awards

24. A Bank's remuneration, incentives and benefits should be reviewed regularly to ensure they do not interfere or conflict with its obligations regarding appropriate products or services.

VIII. Miscellaneous

25. Questions relating to this Guideline can be sent by email to compliance@fcac-acfc.gc.ca or by mail to:

Financial Consumer Agency of Canada
Attention: Deputy Commissioner, Supervision and Enforcement Branch
427 Laurier Ave West, 6th Floor
Ottawa, ON K1R 5C7

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 5(f)
Committee Updates: Recent and Upcoming Strategic and Regulatory Initiatives: Insights Gained from February 22/22 CAFII Feedback Meeting with Auditor General of Ontario on FSRA's Performance

Purpose of this Agenda Item – *Update*

An update on a recent interaction with the Auditor General of Ontario.

Background Information

On 24 February, 2022, CAFII management (Brendan Wycks and Keith Martin) met with a representative of the Auditor General of Ontario (Romeo Segota, Audit Supervisor, Auditor General of Ontario) to discuss FSRA, which the Auditor General was conducting a value-for-money audit of. CAFII was generally positive about FSRA's performance, although it was noted that FSRA's budget and assessment fees to industry had been raising more than inflation recently, and that was a concern.

Recommendation / Direction Sought – *Update*

This is an update only.

Attachments Included with this Agenda Item

No attachments.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 6(a)
Governance Matters—Draft Minutes of February 15/21 EOC Meeting

Purpose of this Agenda Item—*Approval*

Approval.

Background Information

The EOC is being asked to approve the minutes of the February 15, 2021 EOC meeting.

Recommendation / Direction Sought – *Approval*

Approval.

Attachments Included with this Agenda Item

1 attachment.

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Briefing Note

CAFII EOC Meeting 22 March, 2022—Agenda Item 6(b)
Governance Matters—EOC Members' Comfort With Return To In-Person EOC Meetings Planned For May 17/22?

Purpose of this Agenda Item—*Discussion*

Discussion only.

Background Information

At this transitional stage of the pandemic, it is not clear when in-person meetings will be held again. There is a possible in-person meeting of the EOC on May 17, 2022. Are EOC members comfortable with holding such a meeting or is it too soon?

Recommendation / Direction Sought – *Discussion*

Feedback/input will be sought via a brief EOC discussion.

Attachments Included with this Agenda Item

No attachments.