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Regulatory Update – CAFII Executive Operations Committee, 21 January, 2020

Prepared By Keith Martin, CAFII Co-Executive Director

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Federal/National

CCIR / CISRO

CCIR / CISRO Issues its Fall 2019 Communique on 2 December, 2019

CCIR / CISRO issued its Fall 2019 Communique on 2 December, 2019, in which it noted that the CCIR held its Fall meeting in Winnipeg, Manitoba on 26 and 27 September, 2019. At that meeting the CCIR welcomed Blair Morrison, the new CEO of the BC Financial Services Authority (BCFSA), to his first meeting. The communique also noted that the CCIR and CISRO had met together formally for the first time and discussed areas of common interest, such as travel insurance, fair treatment of customers (FTC), Fintech, segregated funds and each organization's strategic plan.

The Communique notes that the Fair Treatment of Customers Working Group (FTCWG) released its inaugural communique on November 4 highlighting discussions with stakeholders and responding to specific questions about the FTC guidance. The FTCWG has engaged industry representatives, from both the manufacturing and distribution sides, to learn about compensation and incentive structures, and the communique states that industry has volunteered to help the FTCWG better understand the schemes currently in market.

The Communique notes that in June 2019, the International Monetary Fund (IMF) published the 2019 FSAP report for Canada. During the assessment, the IMF discussed with CCIR that significant progress has been made in market conduct oversight in the insurance sector, particularly with respect to CCIR's Memorandum of Understanding and Protocol on Cooperation and the Exchange of Information, Annual Statement on Market Conduct, and the jointly issued CCIR/CISRO Guidance on Conduct of Insurance Business and Fair Treatment of Customers. While the IMF acknowledged the high quality of financial sector oversight, it also found that, "cooperation between federal and provincial authorities should be further improved, supported by additional memorandums of understanding (MoUs)" and CCIR continues to work with other regulators on this matter.

The CCIR's 2020 Winter Call is scheduled to take place on January 23, 2020.

Adrienne Warner Accepts Another Opportunity Within the National Regulatory Coordination Branch, Munir Chagpar Joins CCIR Secretariat

In a 7 January 2020 email from CCIR Secretariat member Tony Toy to Brendan Wycks, Mr. Toy notes that "Adrienne Warner has accepted another opportunity within the National Regulatory Coordination Branch and (is) no longer supporting CCIR," and that Munir Chagpar had recently joined the CCIR Secretariat. Mr. Chagpar has worked in the Ontario government for the past 15 years, including nearly 4 years at FSCO as a Senior Policy Consultant and Fintech Advisor.

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C.D. Howe Institute

C.D. Howe Institute Re- Appoints Frank Swedlove as a Senior Fellow

On 5 December, 2019 the C.D. Howe Institute announced that it had re-appointed Frank Swedlove as a Senior Fellow.

Frank Swedlove is President of Swedlove Consulting Inc., a public policy consulting company. From July 2007 to June 2017 he was President and CEO of the Canadian Life and Health Insurance Association. Established in 1894, the CLHIA has 67 members accounting for 99 per cent of the life and health insurance in force in Canada.

Mr. Swedlove also served as the first Chair of the Global Federation of Insurance Associations (GFIA) from 2012 to 2014. The Federation represents the interests of the insurance industry worldwide with 38 Associations representing 87 per cent of the insurance premiums worldwide.

C.D. Howe Institute Appoints Brian Mills as a Senior Fellow

On 11 December, 2019 the C.D. Howe Institute announced that it had appointed Brian Mills as a Senior Fellow.

Mr. Mills responded to the appointment as follows: "As the Superintendent of Financial Services (Ontario), I benefited from the C.D Howe Institute's unbiased research on many regulatory policy issues and forums on those matters. I am very excited to be part of this great Institute as a Senior Fellow."
In early June, 2019, Brian Mills retired after completing the wind-up of the Financial Services Commission of Ontario (FSCO), with the successor regulator, Financial Services Regulatory Authority (FSRA) taking over on June 8, 2019.

Mr. Mills was appointed CEO and Superintendent of Financial Services at FSCO on October 17, 2014, having previously served several years as FSCO's Deputy Superintendent, Pensions.

Bank of Canada

Bank of Canada Official Recommends New Collaborative Approach to Cyber-Security Threats between Regulators and Industry

Canadian Press reported on 14 November, 2019 that government bodies and the private sector need more ways to share information about cybersecurity threats, and that may require new regulations or legislation, according to comments made by a Bank of Canada official.

Filipe Dinis, the central bank's chief operating officer, said in a speech to a cybersecurity conference in Toronto that sometimes the regulatory frameworks that are designed to protect institutions and customers "can get in the way" of collaboration.

The Bank of Canada is shown in Ottawa on Wednesday, April 24, 2019. A senior official from the Bank of Canada says government and the private sector need to develop more ways to share information about the cybersecurity threats they're detecting on a regular basis.

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"Our regulatory environment has historically focused on protecting privacy and promoting competition. These are important objectives, but we need to increase our focus on the resilience of the financial sector."

That means it's necessary to reconsider current regulations and think about the necessary tradeoffs between cybersecurity, competition and privacy, he said. Dinis didn't recommend specific changes but said "at a minimum, regulatory frameworks should not be an impediment to collaboration."

Among his suggestions: put in place secure channels to transmit sensitive information between companies, agencies or other trusted sources and government-mandated testing throughout industries and between sectors of the industry. He also suggested Canadian regulations and terminology be compatible with international norms to help cross-border collaboration and decrease opportunities for companies to exploit jurisdictions with weaker cybersecurity regulations.

Dinis gave his speech to a conference organized by the Information Technology Association of Canada, about a week before the Bank of Canada releases a semi-annual report on the state of the country's financial system. Recent reports have stated that threats to cybersecurity are a top concern and Dinis said he expects that will be the case in the next update.

He said there have been improvements to the Bank of Canada's cybersecurity protections over the past five years – including a new operations centre in Calgary that can take over the central bank's critical functions in an emergency. But he added the best defence for Canada's overall economy is broad collaboration and information sharing – particularly in critical industries such as banking, telecommunications, energy and transportation.

"Some of that is occurring now. I'd love to see more," Dinis said. He emphasized, repeatedly, that he's "very mindful" of the need for privacy protections but added that the ideal collaboration would allow the free flow of information about detected threats between trusted partners.

"Ideally, when I'm talking about sharing information – threat information, in particular – that would occur within a trusted environment and it would occur across sectorial ecosystems (such as the financial and telecom sectors)." Dinis didn't address specific Canadian security or data breaches but his comments come after Desjardins Group reported on Nov. 1 that all 4.2 million members of its financial co-operative had personal information stolen in a security breach, up from the original estimate of 2.9 million customers when the breach was disclosed in June.

Quebec provincial police, the province's access to information commission and the federal privacy commissioner are investigating the Desjardins breach.

Provincial/Territorial

British Columbia

Stikeman Elliott

British Columbia's Amendments to Financial Institutions Legislation: Impact on the Insurance Sector
On 28 November, 2019 Stikeman Elliott offered an analysis of British Columbia's Amendments to the Financial Institutions Legislations, excerpts of which are included below.

On November 20, 2019, the Legislative Assembly of BC approved in Third Reading the Government's Bill 37 the *Financial Institutions Amendment Act, 2019* (BC) (Bill 37), introduced by the Minister of Finance on October 21, 2019, and amended in Committee in part on November 20, 2019. The vast majority of the provisions will come into force at a future date by regulation. Bill 37 in conjunction with the *Financial Services Authority Act, 2019* (BC) (the FSA Act) will introduce significant changes to British Columbia's financial services regulatory structure.

Among other things, Bill 37 will amend the *Financial Institutions Act (BC)* (the FIA). This posting discusses some of those amendments relevant to the insurance sector.

The first significant change took effect on November 1, 2019, under the FSA Act, when the BC Financial Services Authority (BCFSA) became the successor to the Financial Institutions Commission of BC (FICOM). The BCFSA will take on increased independence as a Crown agency accountable to the BC Legislature through the Minister of Finance. The BCFSA is intended to become a self-funded Crown agency receiving fees from its stakeholders but not contributing those funds to BC's general provincial revenues.

The BCFSA will be granted enhanced regulatory roles under the FIA*,* as the provisions of Bill 37 are proclaimed in force. Some of these amendments will establish new regulatory requirements for the insurance industry's operations in BC. Some of these requirements will not be clarified until the details are available in the applicable rules and regulations. The process of making rules will involve public consultation prior to their effective dates. Amendments not dependent on rules for implementation will require no further consultation and can be brought into force by regulation.

When in force section 43 of Bill 37 will expand regulatory powers to provide the BCFSA with rule-making authority that would allow it to create legally-binding obligations, subject to mandatory public consultation and the minister's consent. By contrast, to date, FICOM's (and BCFSA's current) authority has been limited primarily to the issuance of "guidelines" interpreting current regulatory requirements. The BCFSA's rules would be given status similar that afforded the rules issued by other rule-making authorities such as the BC Securities Commission (accomplished by section 131 of Bill 37 adding the BCFSA's rules to the Schedule to the *Regulations Act)*. Bill 37 does not clarify what processes will be involved, or what opportunities for stakeholder input will be available, in the mandatory public consultation or the ministerial approval of issuance, amendment or repeal of any rule.

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The BCFSA's rule-making authority will cover the majority of regulatory requirements, including capital requirements, institutions' governance, market conduct, online insurance offering and sales, oversight by restricted insurance agent licenses of their employees and agents, operations and risk oversight, and funding requirements for reciprocal exchanges. Bill 37 expressly permits the BCFSA to adopt guidelines or rules of other regulatory authorities, without needing to adopt any guideline or rule in its entirety, enabling the BCFSA to establish distinct standards for BC. The BCFSA would also have the authority to exempt any persons or entities from any of its rules. The BCFSA's rules cannot amend regulations made by the Lieutenant Governor in Council and, in the event of any conflict, the regulation made by the Lieutenant Governor in Council prevails over the BCFSA's rule.

Bill 37 (section 79(g)(4)) enables the Lieutenant Governor in Council (but not the BCFSA) to make regulations under the FIA that will have some bearing on the effect of provisions in the *Insurance Act*. Those regulations will be enabled under the following paragraphs of section 289 of the FIA:

- (e.1) to allow regulations under the FIA to prohibit denial of insurance claims for innocent misrepresentation or omission;
- (e.2) to establish grounds for voiding a contract entered without an agent and to prohibit such voiding in absence of those grounds; and
- (o.21) to allow the Lieutenant Governor in Council to prescribe under the FIA that certain circumstances would limit or disallow application of certain sections of the *Insurance Act* (BC) or the Statutory Condition 1.

On application by the BCFSA to the Supreme Court of BC, the Supreme Court will be authorized to liquidate and dissolve an insurance company that has not, in the previous year, undertaken certain activities falling within the statutory definition of "*insurance business*" (except as may be necessary to windup the business). Such situations would arise where the company had not, in the previous year, issued or delivered a contract of insurance or a receipt for any contract of insurance, granted an annuity on a life or lives, received or collected any premium for a contract of insurance, or adjusted any loss. The Court may also liquidate and dissolve the company if its business authorization has been revoked (voluntarily or by order), if the company is noncompliant and it is in the public interest to liquidate and dissolve it, or the Court considers it otherwise just and equitable (s. 6 of Bill 37).

Anyone conducting insurance business online will have to meet the requirements of the new regime regulating the online sales of insurance to be governed by both rules made by the BCFSA (s 12 of Bill 37) and by regulations made by the Lieutenant Governor in Council. Bill 37 will enable the Lieutenant Governor in Council to make regulations prescribing requirements for use of "*electronic agents*" in the issuance, delivery or undertaking of insurance contracts, including documents, disclosures, standardized wordings, rights of rescissions, data collection and data use and to make regulations prohibiting post-claim underwriting for online sales (s. 79 of Bill 37).
Insurance companies (but not reinsurers) will be required to adopt, and comply with, a code of market conduct established and amended from time to time by the BCFSA. Bill 37 does not restrict the BCFSA to a particular model code. However, the legislative debates (transcribed in draft form) indicated an

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expectation that the BCFSA would adopt the same code as adopted nationally from time to time. Reinsurers will not be required to adopt or comply with the code (s. 14 of Bill 37).

Bill 37 provides the framework for BC to establish a regulatory regime for restricted insurance agent licenses. The Insurance Council of BC will be authorized to issue restricted insurance agent licenses to certain persons, namely to a prescribed class of persons or to persons carrying on a prescribed class of insurance business (s. 31 of Bill 37). The license will authorize that licensee *through its employees and agents* to act as an insurance agent in respect of the prescribed classes of insurance specified in that license. To give effect to this new license, Bill 37 authorizes the Insurance Council of BC to make rules establishing this regime including its education requirements, specific mandatory disclosures and standardized wordings and restricting post-claim underwriting by those licensees, their employees and their agents (s. 60 of Bill 37).

Ontario

Financial Services Regulatory Authority (FSRA)

FSRA Selects Stakeholder Advisory Committee (SAC) Members—CAFII is Represented on Life and Health Insurance SAC

Insurance Portal reports that the Financial Services Regulatory Authority (FSRA) of Ontario has finalized the membership of six stakeholder advisory committees (SACs) that will advise FSRA's board of directors going forward, beginning in November, when the committees will provide input on the regulator's proposed 2020-2021 priorities and budget.

The six committees – one each for property and casualty (P&C) insurance, life and health insurance, mortgage brokering, pensions, health service providers and credit unions – inform FSRA's annual business planning before the plan is delivered to the Minister of Finance, provide feedback on progress made by FSRA on its priorities from previous annual business plans, and provide feedback to the board on FSRA's rule-making activity.

Committees range in size from 12 members to 16 members and include representatives from regulated entities, associations of regulated entities or regulated professionals who are senior members of their respective organizations or professions.

The life and health committee is the largest, with 16 members while the P&C panel is comprised of 13 members. Each member, most of whom are familiar names in their respective industries, will serve a 12-month term, which may be renewed for another term to stagger membership and provide continuity. FSRA says it intends to publish high-level meeting summaries three weeks after each SAC meeting with FSRA's board.

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The Life and Health Insurance committee is made up of the following members:

Susan Allemang	Independent Financial Brokers of Canada
Nancy Carroll	McCarthy Tetrault
Dennis Craig	RBC Insurance
Chris Donnelly	Manulife Financial
Lyne Duhaime	CLHIA
Ali Ghiassi	Canada Life
Moira Gill	TD Insurance
Keith Martin	CAFII
Glenn O'Farrell	OLHI
Rosie Orlando	Primerica
Neil Paton	The Third Party Administrators' Association of Canada
Douglas Paul	SSQ
Russell Purre	Sun Life Financial
Ed Skwarek	Advocis, The Financial Advisors Association of Canada
Eric Wachtel	CAILBA / IDC Worldsource Insurance Network Inc.
Timothy Witchell	HUB International

FSRA releases principles for standardizing guidance

The Financial Services Regulatory Authority (FSRA) of Ontario, the province's new, independent financial services regulatory agency, has released its principles for standardizing guidance.
In a statement, FSRA said it is committed to ensuring that stakeholders and consumers have clarity around their legal requirements and expectations across regulated sectors.

"Our new approach to standardizing guidance makes it easier to do business for those sectors in Ontario," FSRA said. "It also makes us a more effective regulator. The public, new entrants and incumbents can better understand what is legally binding, what is FSRA's interpretation or application of law and what information is designed to be helpful."

The framework will use accountability, effectiveness, efficiency, adaptability, collaboration and transparency as the principles behind the department's approach to guidance. FSRA supervises and regulates a number of different sectors, including insurance, pensions, loans and trust corporations, credit unions and mortgage brokers. It assumed the regulatory duties of the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario in June.

"Standardizing our approach to guidance will make it easier to do business in those sectors, and will make us a more effective regulator. It will be easier for the public, new entrants and incumbents to understand what is legally binding, what is FSRA's interpretation or application of law and what information is designed to be helpful."

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Under the framework, regulated persons must put in place processes, controls and procedures to appropriately meet the expectations expressed in FSRA's guidance. The FSRA statement said it will consult publicly on interpretation and approach guidance unless immediate action is required. Once guidance is approved, the department said it will regularly review the guidance to promote "burden reduction" and effective regulation by updating or removing outdated items.

CAFII's Market Conduct Committee is engaged in developing a submission on this matter from CAFII.

2019 Insurance Brokers Association of Ontario (IBAO) Conference

Speakers at 2019 Insurance Brokers Association of Ontario (IBAO) Conference Asked if MGAs Should be Regulated

Canadian Underwriter notes that Managing General Agencies (MGAs) in Canada have been attracting attention in the industry recently, and not just because of their hybrid status as both distributors and underwriters of insurance products. Their regulatory status in Canada is nebulous, and some are beginning to take a second look at their unique business model.

The newsletter notes that whether MGAs should be regulated was put as a question to insurance company CEOs who appeared at the Insurance Brokers Association of Ontario (IBAO) Conference in Toronto in October, 2019.

"I think MGAs exist because companies are supporting them, and because brokers need them," commented Louis Gagnon, Intact's president of Canadian operations. "They exist because of market forces. I would try to make sure that it is very smart regulation, if there is any [regulation of MGAs]. We have enough regulation. I think it would have to be very, very smart regulation."

As reported in *Canadian Underwriter* in October, Ontario's new financial regulator is reviewing the sales process of MGAs, although it does not have the authority to license them. "I don't have the authority to do that, so I'm not going to," Mark White, CEO of the Financial Services Regulatory Authority of Ontario (FSRA), said of licensing MGAs at a recent speech at the Insurance Institute of Canada. "But I do have to look at the complete sales process that affects the public, so we are going to be looking at that."

FSRA is not reviewing the MGA sales process because it has any concerns about market conduct. The goal is simply to gain a better understanding of how MGAs interact with the public during the sales process. This same point was made to the Sectoral Advisory Committee on Life and Health Insurance, of which CAFII is a member, at the 28 November, 2019 meeting with FSRA's Board of Directors.

MGA regulation is shrouded in ambiguity, at least in Ontario. Discussion about it is rooted in the hybrid nature of the business model. Put in very basic terms, MGAs act as brokers to the brokers. In other words, if a "retail brokerage" – an intermediary between customers and carriers – can't find a certain type of coverage for a client, an MGA can help to place (and even underwrite) the coverage on behalf of the retail broker.

It is estimated that between 12% to 15% of Canada's insurance business is placed through MGAs, said Heather Masterson, president and CEO of Travelers Canada, who spoke at the CEO Panel. "They catch business that's tough to write, that's specialized, and they catch business for brokers – certainly smaller brokers – that need more market availability, so they play a very important role."

Quebec

Revenue Quebec

Quebec MGAs Being Slapped with Multimillion-Dollar HST Tab

Insurance Portal reports that Revenu Québec has begun to audit managing general agencies' commission income prior to levying the harmonized sales tax (HST) on their gross income, including commissions received from insurers for services provided to advisors. Some firms have already received a notice of assessment. The bottom line: MGAs may have to fork over millions of dollars to Revenu Québec.

Revenu Québec's strict interpretation of the federal income tax act has been triggering shockwaves since 2016. The organization considers services rendered by MGAs as administration or promotion activities, rather than services provided directly to consumers. These services are therefore not exempt from sales taxes, the Quebec tax authorities argue.

The Canada Revenue Agency (CRA) authorized Revenu Québec to collect the HST. This system exists only in Québec; in the other provinces, Revenue Canada collects the goods and services tax (GST).
Yan Charbonneau, President of AFL Groupe Financier, thinks Revenu Québec's stance may jeopardize the future of many MGAs. "The tax is being applied four years retroactively. Everyone expects to receive their assessment any day now. We received it, and are being charged a few million dollars," Charbonneau told *The Insurance Portal*.

The AFL president adds that each contribution will be at least $1 million depending on the amount of income involved. "The amounts in question are high enough to crush MGAs. Many will fail," he says.
Multi Courtage, an MGA based in Saint-Hyacinthe, is currently being audited but has not yet received the tax assessment. "Revenu Québec told me I will have 21 days after receiving the notice to decide whether or not to contest it," president Guy Duhaime told *The Insurance Portal*. For now, he must submit reams of accounting information by January 31, 2020, including all the general ledgers from January 1, 2016 until September 30, 2019.

He is dreading the assessment, which he expects to receive in the first half of 2020. "Small and midsize MGAs have received notices of several million dollars. For the largest ones, we extrapolated that it may cost them over $10 million. No business can bear a burden of this size," Duhaime explains.
MGAs have two allies in this saga: the Canadian Life and Health Insurance Association (CLHIA), which represents insurers in dealings with Revenue Canada, and CAILBA, the Canada-wide association of MGAs.

"We have been discussing this matter with the CRA since 2017," Lyne Duhaime, president of CLHIA-Québec told *The Insurance Portal*. Revenu Québec had initially been very active, she adds. The agency then put MGA audits on the back burner but revived them in 2019. "This caught our attention, and we began discussions with Revenu Québec to understand why it was continuing with these audits. Discussions with the CRA will also continue," Duhaime says. She declined to divulge the nature of these communications. "There is certainly divergence between the position of the tax authorities and that of the industry, and that is what we are trying to resolve," she says.

The MGAs claim that Revenu Québec's renewed efforts were sparked by the case involving Applewood Holdings, an automobile dealer whose insurance services Revenue Canada wanted to tax. The agency stated in January 2019 that it would not appeal a judgment handed down by the Tax Court of Canada that ruled that commission income earned from sales of insurance by a dealer was not taxable. Yet, Revenue Canada added that this decision would not change its position regarding MGAs. Revenu Québec seems to have taken this case as a signal to resume its audits.

New legal rulings will likely clarify this issue further. The CLHIA and MGAs have confirmed that a case involving an Ontario MGA and the GST is currently wending its way through the courts.

International Developments, Research, and Thought Leadership

PolicyAdvisor.com

Study shows Canadians are Overwhelmingly Underinsured

Life Health Professional reports that new research from Canadian online insurance brokerage PolicyyAdvisor.com, finds that an overwhelming majority of Canadians with dependents are significantly underinsured and have not acknowledged the severity of their situations.

In its inaugural *State of the Nation: Canadian Life Insurance Trends 2019* report, the firm shared insights on consumer trends and attitudes surrounding life insurance ownership, needs, knowledge and digital appetite. The report drew from a SurveyMonkey panel of more than 500 qualified Canadian respondents who indicated they had financial dependents.

"The findings were eye-opening, to say the least," said Jiten Puri, founder and CEO of PolicyAdvisor.com. "We had some general expectations about what we would learn, but some of the hard numbers paint a starker picture about financial unpreparedness than we had anticipated."

Among those surveyed, nearly half (49%) said they had never purchased life insurance before. And of those who said they have a life insurance policy, 40% reported having coverage only through a work or group benefits plan.

"While a life insurance policy through one's employer is better than none at all, in most cases the coverage is minimal, and maybe equivalent to only one or two years of the policyholder's salary," Puri said.

Someone who leaves their workplace or association, he added, stands to lose their coverage as well as the early years they could have spent paying for individual coverage at a lower cost. "While a group policy is a nice top-up, it should not be the primary source of one's coverage," he said.

And while the Financial Consumer Agency of Canada (FCAC) recommends having life insurance coverage that amounts to seven to 10 years of the policyholder's annual salary, 91% of Canadians with dependents don't meet that recommended level. Over half (54%) had coverage not exceeding two years of their annual salaries; just 22% said they had five years' worth, and only 9% fell within insurance experts' recommended range of 10 years' worth of coverage.

All in all, the survey found that the average Canadian with financial dependents had a self-reported life insurance shortfall of roughly $256,000 — a gap that respondents have not done anything to address. These could be related to a broad lack of literacy and awareness, with just 35% of respondents saying they understand what's included in their own policy and a mere 22% acknowledging that they review their life insurance needs every year.

But on a positive note, technology appears to offer a path forward. Seventy per cent of Canadians surveyed indicated that they would use digital platforms to do research and/or purchase life insurance online.

KPMG

KPMG Report States that the 'one-size-fits-all' Approach to Insurance no Longer Works

To better serve millennials, insurance companies in Canada should not only be willing to transform their business approaches, but also capable of utilizing big data, a new report from KPMG suggests. According to KPMG's new report, *"Insurance frontiers: Here to horizon,"* 86% of chief executives at insurance companies surveyed said that they are concerned over how millennials will change their business – particularly when millennials are not following historical norms in terms of predicted life paths or milestones.

The report also found that 84% of Canadian millennials do not trust traditional advertising. Ninety five per cent (95%) also said that the most credible source of product information is their friends.
"The insurance industry will look radically different in 10 years from how it does today," said KPMG partner and national insurance sector leader Chris Cornell.

KPMG suggests that data will allow insurers to better understand their customers "in ways not previously possible." Insurance companies can use big data to inform assumption setting, better understand risk drivers, anticipated behaviours or events, make quicker underwriting decisions, and support strategies and decisions.

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"Forging a new path won't be easy; insurers must digitize their operations, products, and processes, and use data-driven insights to address this seismic shift in customer dynamics. The one-size-fits-all approach won't work anymore," Cornell commented.

All people generate a lot of data – from the day they are born to their death, Cornell explained. To harness this potential, insurers have to put into place stronger data collection and analysis tools. Cornell says this requires a "total rethink" of how to collect, store, analyze, and use data.

KPMG also found in its report that while insurtechs have helped accelerate the rate of change in insurance, many are focused on enhancing or improving only a segment of the insurance value chain, instead of disrupting the entire industry.

Cornell stated that strategic alliances present "a massive opportunity for Canadian insurers," adding that insurers should not constrain themselves to just their current organizational structure and instead try to step back and envision what the insurer of the future would look like.

"By envisioning what is possible, insurers can look at how third parties and strategic alliances could help them achieve that vision," he said.

KPMG Holds its Annual Insurance Conference on 29 November, 2019

KPMG held its annual insurance conference, "Insurance Frontiers: Here to Horizon" on 29 November, 2019 at the Metro Toronto Convention Centre. CAFII Co-Executive Directors Brendan Wycks and Keith Martin were both in attendance. The session focused very heavily on the transformative changes coming to insurance due to technological developments. In particular, five broad themes were identified as most impactful in 2019:

1. Seismic shift in customer dynamics;
2. Business model disruption, innovation, and technology change;
3. Focus on strategic alliances and partnerships;
4. Game-changing regulations (International Financial Reporting Standards [IFRS] 17, Office of the Superintendent of Financial Institutions [OSFI] guidelines);
5. Building a future-forward workforce

Finder

Comparison Website Finder Launches Office in Canada

Comparison websites have become a staple of several overseas insurance markets giving consumers the chance to compare deals online with, traditionally, the cheapest option listed at the top. Their emergence has hit the personal lines industry in the UK in particular, with brokers concerned not only about being cut out of the loop, but also by the fact that consumers are increasingly comparing policies based on price over coverage.

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Now one of the leading global financial comparison websites is heading to Canada – with Finder to officially launch with headquarters in Toronto. It has already secured partnerships with the likes of AMEX, BMO, Fairstone, TD Bank and Mogo, and, according to its statement, "will continue to bring more partners on board with a focus on mortgages, insurance and digital banking products."

"The comparison market in Canada is less established than in countries like the United States and the United Kingdom, and we think there's a huge opportunity to help Canadians make better financial decisions," said co-founder of Finder Fred Schebesta.

"Canadians owe a combined $2.16 trillion in debt and households are only putting 14.9% of their disposable income toward principal and interest payments. That's almost on par with the peak debt servicing levels we saw in 2007 in the lead up to the global financial crisis.

"We've only just officially launched in Canada and we already have hundreds of thousands of visitors to finder.com/ca each month. That shows us that Canadians are hungry to compare their options and save money."

The company, which has a crew of more than 400 globally and is live in 80 countries, now has six employees working in the Toronto office. The Australian-born business is its home country's most visited comparison website.

Majesco

Insurance Products will Increasingly be Non-Traditional

As an increasing number of clients come from cohorts younger than Generation X, the availability of non-traditional insurance products is going to increase, an insurtech industry watcher suggests.

"I think we are increasingly going to see the development of some new innovative products – whether you call them on demand or you call them micro insurance – it will be products that fit [clients'] specific needs at a point in time," said Denise Garth, senior vice president of strategic marketing industry relations and innovation at software provider Majesco, in a recent interview.

"Four or five years ago the predominant buyers were still [baby boomers] and Gen X," said Garth, referring to people born between 1946 and the early 80s. "Increasingly Millennial and Gen Z are becoming the buyers," added Garth, referring to people born after 1981. She was commenting on major technology trends she foresees in 2020.

There is going to be more focus from some innovators on the coverage needs of clients for a specific point of time – rather than "one-size-fits-all" insurance policies, said Garth. She cited Duuo – through which The Co-operators covers homeowners who rent out their places like hotels – as one example. Slice Labs is the technology provider for Duuo, which The Co-operators launched in response to coverage gaps in traditional homeowner policies for people providing accommodation on services such as Airbnb.

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Clients will want "on demand" insurance for both P&C and life and health, Garth says. For example, someone might want a higher level of life coverage for a skydiving trip. "You are having a wedding and you want to have event-based insurance to cover what could happen at that wedding. The possibilities are pretty endless," said Garth.

"Insurers getting smarter at saying 'one size does not fit all,' so they begin to develop products that are very specific for a niche or a market segment and then they kind of wrap a whole different kind of digital experience around that to go after [clients] in a very digital way," said Garth.

"Traditionally over the years, every industry kind of had their boundaries. The music industry, the book industry, the automotive industry et cetera, and those silos and barriers are crumbling faster each day, so I think we are just going to begin to see this continue to grow." As an example. Garth cited Tesla, which started selling insurance for its own cars in California this past August. "I think we are going to see further experimentation and a further crumbling of those silos by embedding the purchase of insurance into other things because that's how people live," said Garth.

International Underwriting Association

International Underwriting Association reveals 2020 priorities

Insurance Business Canada reports that the International Underwriting Association (IUA) had unveiled its 2020 business plan, which puts a spotlight on climate change and cyber warfare risks. "The business challenges facing companies are evolving and the work of the IUA is changing to reflect this" stated International Underwriting Association (IUA) chief executive Dave Matcham.

"The association is establishing a new market group to examine the growing impact of climate change policies on a range of insurance activities, including investment, underwriting, and risk management," announced the IUA, which has already received nominations for the new committee from more than 20 companies.

"Meanwhile, cyber is continuing to dominate member discussions across a wide range of different lines of business. The IUA's dedicated cyber committees are focussing, in particular, on the consequences of cyber warfare with a major new research paper due to be published this year."

Tali Sharot, Professor of Cognitive Neuroscience, University College, London, England

Why 80% of the Population May Decline Insurance They Need

Canadian Underwriter reported on 21 November, 2019 on the comments of a neuroscientist on why it is difficult to convince prospective clients that something really bad might happen to them. What you are up against is the normal brain function for four-tenths of the general population and the fact that people still smoke is one clue, a speaker suggested Monday at the Top Broker Summit. Keynote speaker

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Tali Sharot showed the summit a slide with a photo of a cigarette package warning the buyer that smoking kills. "Threats and warnings like this only have limited impact because people say, 'Yes, smoking kills but mostly it kills the other guy,'" said Sharot, a professor of cognitive neuroscience at University College in London, England.

Optimism bias is the tendency to imagine the future as being more positive – for people to over-estimate the likelihood of positive events and underestimate the likelihood of negative events. "When we renovate our house, we think about how lovely this house will be and we don't necessarily focus on that burst pipe or that tree that might fall into the roof," said Sharot, who has a PhD in psychology and neuroscience from New York University.

Optimism bias is something developed over about a million of years of evolution of humans and their ancestors, suggested Sharot. Overall it's a good thing because if we expect the future to be bright, it reduces stress and anxiety. About four in ten people have "somewhat of an optimism bias." Of the 20% who don't – about half of them have clinical depression, said Sharot. The downside is most people do not tend to take rational precautions.

"If we underestimate our risk, we might not buy insurance when we should," said Sharot, author of *The Optimism Bias: A Tour of the Irrationally Positive Brain*. So if you are focused on telling clients what horrible things might happen to them by accident, you might need to re-frame your message, suggested Sharot.

"Highlight the gain instead of focusing on all the terrible things that can happen or the dangers out there," she said. "You might say, 'Well, if you have this insurance, then you will be safe. There will be progress. Perhaps if you have it you will feel better.'" Sharot has a lab where researchers study brain mechanisms that give rise to how people make decisions and how people think about the future. In an experiment, researchers found everyone's brain did a good job of encoding good information but not as good of a job at encoding unexpected bad news.

A case in point is people's perception of the risk their marriage will end. "Of every five couples walking down the aisle, approximately two end up splitting their assets but when you ask newlyweds about their own likelihood of divorce, they estimate it at about zero per cent and even divorce lawyers, who should know better, usually underestimate their own likelihood of divorce," said Sharot.

IT Community Spiceworks

Survey by IT Community Spiceworks Finds that *Better Data Management Practices a Top Goal for many Organizations in 2020*

Digital Insurance reported in a 10 January, 2020 article that organizations have made it a high priority to better manage their data and keep it secure. And in 2020, many will be spending more on IT to meet these goals.

A study by IT community Spiceworks, based on a survey of 1,005 business and technology buyers from organizations across North America and Europe that it conducted in July 2019, showed that aging technology infrastructure and growing security concerns were among the drivers for IT budget Increases for this year.

Of those organizations surveyed, 44 percent plan to increase their IT budgets. Those organizations that expect IT budget growth anticipate an 18 percent increase, on average. Only 8 percent of the respondents expect IT budgets to decline in 2020. One quarter of the organizations surveyed reported that a recent security incident was driving them to increase their 2020 IT budget.

Many businesses might have the ability to deploy more cutting-edge technologies as their IT budgets grow and it becomes critical to replace outdated hardware, software, and services, according to Peter Tsai, senior technology analyst at Spiceworks.

The survey showed that adoption rates of artificial intelligence (AI) technologies are expected to nearly triple, from 15 percent in 2019 to 42 percent by 2021, while adoption of hyperconverged infrastructure, edge computing, and serverless computing technologies are expected to double to 46 percent, 43 percent, and 40 percent over the same time period, respectively.

When examining how technology budgets will be allocated in 2020, the findings showed that on average organizations surveyed plan to spend 33 percent of their IT budgets on hardware, 29 percent on software, 22 percent on hosted/cloud-based services and 15 percent on managed IT services.

TD Insurance

TD Insurance Offering Online Advice to Direct Customers

Canadian Underwriter reported on 14 November, 2019 that TD is enhancing its digital offerings to consumers and putting greater emphasis on the customer experience as a way to increase its footprint; to do that, providing relevant advice will play a key role in building trust.

TD wants to "instill customers with the right trust and confidence that they are getting the right coverage, they are getting the right product and so on," TD vice president of digital performance Espen Molin told *Canadian Underwriter* during the company's recent Tech Day at its offices in downtown Toronto. "That is a key priority for us."

The value of advice is nothing new to brokers: they have been promoting their advice-based distribution model throughout their history. But directs are now also starting to talk the talk, with TD saying that providing advice is critical to customers because insurance is a product everybody needs. "It's also a service that is sometimes a little bit complicated or confusing to understand, so the advice piece is really important," Molin added.

Why is advice-giving a key priority for a direct like TD?

"We are really in the business of trust," said Molin. "So it's really important for us that we have that trusted relationship with our customers."

The emphasis on advice comes as TD enhances its digital offerings in response to growing consumer demand. In the last year, Molin said there's been a 40% bump in active digital users and an increase of 60% in digital transactions within the insurance space. Mobile usage has more than doubled over the last year, making up half of all visitors to the company's insurance platform.

For TD, a key component of "advice" involves creating strong digital content to educate consumers about a product. Creating positive digital experiences and good content, whether for an app or website, is important to "engage and deepen" relationships and boosting business, Molin said.

Easy-to-access information is another important aspect, from finding policy information to managing it. When customers can do that themselves, "it also lifts the conversation we can have with customers," Molin said. Instead of questions like when the next payment is due, "we can really start to focus on bigger value-adds."

When a customer or prospect comes across the website or app, a "holistic approach" is needed, Molin said. "It's not only about the policy and the details of the policy, but it's also really about how can they manage their home, and what can they do to improve things in the home that will both help them and help us from a claims perspective."

Accenture

Global Study of Insurance Executives Find Greatest Risk to their Business is Not Successfully Scaling Artificial Intelligence for their Business

Forget about attracting talent, keeping up with rapid change, or complying with a myriad of regulations – what's really keeping insurance executives up at night is scaling artificial intelligence (AI) for their business.

Canadian Underwriter reports that according to a November, 2019 report from Accenture, based on a global survey of 1,500 C-level executives across 16 industries (including 113 executives in Canada), 81% of insurance executives believe they risk going out of business in five years if they don't scale artificial intelligence (AI), compared to 75% across all other industries globally.

Almost all (94% of) insurance executives acknowledge they know how to pilot AI, but they struggle to scale it across the business, found the report, *AI: Built to Scale*. This percentage is drastically different from other industries, where just over three-quarters (76%) say they know how to pilot AI but struggle with scale.

The report polled 1,500 C-suite executives from large companies in 12 countries across 16 industries to uncover the success factors for scaling AI.

FM Global

FM Global Reports that Compliance is not Resilience in Cyber-Risk

In dealing with risks, especially something new and uncharted such as cyber, complacence is one of the worst mistakes businesses can commit. According to Pankaj Thareja, cyber security consultant at FM Global, some business leaders do not realise how huge their digital footprint is, even when their business is heavily reliant on technology, which may lead them to becoming complacent.

Also, some leaders think that merely complying with regulations is enough to prevent being victimised by cybercrime. However, Thareja said that is not the case. "Some business leaders think, 'we are compliant to regulatory bodies, so we are safe', but compliance doesn't necessarily mean the business is safe," Thareja told *Corporate Risk and Insurance*. "Being compliant only means that the business has met regulatory standards. Some also think 'we have never been hacked before and our firewalls will protect us from outside world', but this is also being complacent as that is no longer enough."

He added that complacent businesses usually think the following measures are enough: outsourcing their cyber security program to third parties; believing their internal IT team can manage threats and secure their business data in isolation; and thinking that they won't be targeted because they don't hold confidential customer information, such as credit card details.

In the event of a cyberattack, financial recovery can take a long time – from months to even years, depending on the severity of the attack and its impact. Cyberattacks can shake the confidence of clients and damage a business's reputation, causing loss of market share and missed growth opportunities. According to Thareja, restoring a business back to normal needs extended time and commitment. "The key factor that determines the length of recovery time is the strength of your cyber resilience programme and commitment from management to have continued business survival," he said. "Often cyber risk is seen as an 'IT issue', though the impact goes beyond specific IT issues as they can potentially derail the entire enterprise. Cyber risk should be treated as a business risk and top management support is necessary in building a resilient enterprise."

Swiss Re

Mike Hudzik, Managing Director, Head of Casualty Underwriting, US & Canada, Swiss Re, says that Social inflation is Hurting Insurance

Business Insurance Canada reports that social inflation is one of the latest buzzwords in insurance. It is used by insurers to describe the rising costs of insurance claims resulting from things like increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards. While the core components driving social inflation have been evident for some time, their impacts on the insurance industry have only really started to come to a head in the past couple of years.

"Probably one of the biggest drivers of social inflation is the general anti-corporate sentiment that exists, reaching back to the financial crisis," said Mike Hudzik, managing director, head of casualty underwriting, US & Canada, Swiss Re. "It seems like it's a long time ago in our rear-view mirror, but it really created an environment that continues to gain momentum today. Since that time, there's been a

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greater division or separation of wealth, and there's just generally a feeling that someone needs to pay when there's some kind of damage or injury sustained, regardless of negligence.

"Social inflation comes from a number of things, including how juries are composed these days. The jury composition impacts the outcomes of verdicts in a big way. The biproduct of this is something that's always existed, but seems magnified now, which is the targeting of large corporate risks. They've always been in the crosshairs of the plaintiff's bar, but they're an even bigger target these days. That comes from the investment in advertising and other actions by the plaintiff's bar, and it also includes things like litigation funding. There's just a more pronounced movement towards this type of targeting as a result."

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Appendix A

CAFII Alerts 19 October 2019 – 16 January 2020

Date of Email Alert	Topic of CAFII Alert
22 October 2019	BC Ministry of Finance Tables Bill 37, The Financial Institutions Amendment Act, 2019 Setting Out Policy Change Proposals Arising From 10-Year Review of Financial Institutions Act/Credit Union Incorporation Act
28 October 2019	FSRA Seeks Feedback on Draft 2020-2021 Priorities and Budget
29 October 2019	BC Financial Services Authority To Open For Business On Friday, November 1, 2019
30 October 2019	Ontario's Regulator Explains How Principles-Based Regulation Still Has Teeth
30 October 2019	"Most Canadians are "dangerously underinsured" report warns"
4 November 2019	FSRA Reveals Members of Stakeholder Advisory Committees (Including SAC for Life & Health Insurance)
4 November 2019	Insurance Canada Awards Introduces Awards 2019 Judges, Including CAFII Co-Executive Director Brendan Wycks
6 November 2019	AMF Publishes New Content on the General Public Section of its Website on "Making an informed decision when buying insurance on the Internet"
11 November 2019	Why 'Salesperson' Will No Longer Be Defined In Ontario's Insurance Act
11 November 2019	Should Banks Have A Hand In Promoting Financial Literacy?
13 November 2019	Canadian Snowbird Association To Take Ontario Government To Court To Challenge Legality Of Terminating Out-of-Country Emergency Medical Insurance Coverage
14 November 2019	FSRA (Ontario) To Issue Revised Guideline On Fair Treatment Of Customers
14 November 2019	CCIR To Study Incentive Programs As Part Of "Fair Treatment" Education Mandate; and Related CCIR Fall 2019 Communique Focused On Fair Treatment Of Customers
20 November 2019	FSRA steps into global sandbox; Ontario's new financial services regulator will cooperate with its global counterparts
20 November 2019	More Canadian Households Own Life Insurance, Finds LIMRA
22 November 2019	Saskatchewan FCAA Confirms January 1, 2020 As Proclamation-Into-Force-Date For Province's New Insurance Act -- With The Exception Of Seven (7) Key Provisions
26 November 2019	The Number Of Canadian Households With Life Insurance Reaches Unprecedented Levels
27 November 2019	Travel Health Insurance Association (THIA) Warns That Selfies, Binge Drinking Could Cost You Your Travel Insurance
28 November 2019	British Columbia's Amendments to Financial Institutions Legislation: Impact on the Insurance Sector
28 November 2019	Commonwealth Bank of Australia (CBA) Pleads Guilty To Criminal Breaches
5 December 2019	Insurance Councils of Saskatchewan Provides Backgrounders and Further Information Re Implementation Of The Insurance Act - Saskatchewan
5 December 2019	Financial and Consumer Services Commission of New Brunswick (FCNB) Issues Consultation Paper on Restricted Licensing Regime for "Incidental Selling of Insurance"
5 December 2019	CCIR Communique: Fall 2019

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Date of Email Alert	Topic of CAFII Alert
5 December 2019	THIA Regulatory Affairs Bulletin Re BC's New Financial Services Authority (BCFSA) and Bill 37, Financial Institutions Amendment Act, 2019
8 December 2019	Travelling to the U.S.? Watch out: Ontario is about to scrap out-of-country emergency health care coverage. Here's what you need to know; and Two Related Letters To Toronto Star Editor
18 December 2019	New Brunswick Proposes To Regulate The Incidental Sale Of Insurance
19 December 2019	Ontario Legal Challenge Update From Canadian Snowbird Association
20 December 2019	FSRA Board Chair Bryan Davies Delivers Special Tip-of-the-Cap Thanks To CAFII
20 December 2019	BCFSA Information Bulletin 19-001 – New Fee Schedule
20 December 2019	Sun Life Financial To Apply For CAFII Initiation Membership (Imminently)
1 January 2020	Ontarians urged to get travel insurance as out-of-country OHIP coverage officially ends
2 January 2020	Snowbirds fighting Ontario health insurance cuts
8 January 2020	B.C. Charities Barred From Accepting Life Insurance Policy Donations, Says Lawyer
8 January 2020	Pre-Existing Conditions Still A Barrier To Affordable Life Insurance
8 January 2020	Financial and Consumer Services Commission of New Brunswick (FCNB) Appoints Kevin Hoyt As New CEO
14 January 2020	As province's out-of-country health coverage ends, so begins an opportunity for brokers
15 January 2020	Saskatchewan's New Year's Resolution? A New Insurance Act to Ring in the New Year
15 January 2020	AMF Letter Received By A CAFII Member Re Auditing Of That Company's Website(s) For Provision Of A Product Summary/Distribution Guide To Consumers For Insurance Distributed Without A Representative