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

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Regulatory Update – CAFII Executive Operations Committee, 27 April, 2021

Prepared by Keith Martin, CAFII Co-Executive Director

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Federal/National

Conference Board of Canada

Conference Board of Canada Shares Findings around Canadian Attitudes Towards Travel and Travel Insurance

Optimum Re held a 19 April, 2021 Webinar at which the Conference Board of Canada made a presentation on the future of the travel industry. It noted that there has been robust growth in travel until the interruption in 2020, with Canadians making 33 million overnight trips in 2019. However, the COVID-19 pandemic has dealt the industry a shock, with 78% of Canadians expressing an intention to travel in April 2019, 45% expressing such an intention in April 2020, and 22% expressing such an intention in January 2021. Of the two-thirds of Canadians who had trip plans in 2020, most cancelled or rebooked, and 87% of Canadians say they miss travelling. But the pent-up demand will ensure a rebound which will contribute to a recovery. Three quarters of Canadians say they won't travel internationally until they are vaccinated; two thirds say they won't even consider flying internationally or to the U.S. until at least late 2021. As well, 80% of Canadians do not want the Canada-U.S. border reopened now.

Insurers have an important role in getting Canadians travelling again. Consumers are now much more likely to seek out travel health insurance, and 35% of travellers are much more likely to make a booking if they knew their health was protected; 42% reported that they would be more likely to purchase insurance if the policy covered COVID.

The Canadian Life and Health Insurance Association (CLHIA)

In its Submission on the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, CLHIA Expresses Concerns Around the Provisions on Sales Incentives.

The Canadian Life and Health Insurance Association (CLHIA) in its submission to FSRA on its proposed new Unfair or Deceptive Acts or Practices (UDAP) rule, expresses concerns around sales incentives:

> *We appreciate that FSRA has made innovation a priority. However, in our view, this section would benefit from greater clarification and a better understanding of how it may impact the distribution of life and health insurance products. In order to fully consider various factors, and potential consequences, we would recommend that this matter be reviewed in greater detail with all stakeholders before proceeding. In this regard, we believe that this section should be pursued on a separate track.*

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> *However, we are concerned that this reworking of the Rule would lead to more complex regulatory oversight and more frequent consumer complaints. The issues related to rebating and inducements are different for the P&C industry than the life and health industry, largely because P&C insurance is typically written on an annual basis whereas life and health insurance products are intended to be held for years, and even decades. Traditionally, rebates have been viewed as running counter to the interests of a consumer because they are generally offered to a particular consumer (whether the consumer is an individual, or employer, for example if a group plan) to entice a purchase.*

Travel and Health Insurance Association of Canada (THIA)

In its Submission on the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, THIA Supports Rebating but Emphasizes the Importance of Harmonization

While THIA notes that Western provinces generally allow rebating, it also notes that FSRA's UDAP rule takes a different approach and that there is a cost to this lack of harmonization:

> *We note that the Proposed Rules are inconsistent in some respects with the approaches taken in other provinces of Canada to address certain matters that are within the scope of the Proposed 31950892.2 - 2 - Confidential \ Non Personal Data Rules. For example, in most of the Western provinces prohibitions against rebating and inducements have been either revoked or substantially loosened. Discrimination under human rights legislation is not part of the assessment criteria for permissible rebates or inducements in any of those provinces. We note that this country, with a population the size of California, has seventeen insurance regulators, while California has one. The differences in approach and the proliferation in divergent rules among jurisdictions come at a cost to the insurance system, which costs are ultimately born by policyholders. As such, we do wonder in respect of certain discreet parts of the Proposed Rules, such as in respect of rebating and inducements, if the benefits of harmonization may outweigh the benefits of the bespoke approach set out in the Proposed Rules. THIA supports aligning the rules relating to rebates and inducements with the rule applicable in Alberta or the comparable rule in B.C. or in Saskatchewan and Manitoba.*

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The Canadian Association of Independent Life Insurance Brokerages Agencies (CAILBA)

In its Submission on the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, CAILBA Argues Against Rebating

The Canadian Association of Independent Life Insurance Brokerages Agencies (CAILBA) in its submission to FSRA on its proposed new Unfair or Deceptive Acts or Practices (UDAP) rule, strongly argues against allowing rebating, which is one of the new features of the proposed FSRA rule:

> *In our view, rebating should be strictly prohibited to ensure the protection of consumers of life and health products. We believe this clarity helps ensure more equitable outcomes for all consumers. Rebating of any amount in any form creates an uneven playing field whereby a consumer can pay a different price for the same product depending on the rebate being offered by the broker. In addition, allowing rebating is in direct conflict with the Canadian Council of Insurance Regulators' "Fair Treatment of Customers' Guidance; put simply, how can consumers be treated fairly when they may be paying different prices for the same product? Aside from the inherent unfairness of providing products at different prices (often based largely on negotiating skills), it is clear to us that attempts to regulate the practice have created some unforeseen problems.*

Independent Financial Brokers of Canada (IFB)

In its Submission on the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, IFB Expresses Concerns Around the Provisions on Sales Incentives

The Independent Financial Brokers of Canada (IFB) indicates in its submission to FRSA on the UDAP rule that rebating opens the door to potential consumer abuse:

> *IFB recognizes that the intent of the proposed Rule is to modernize the current UDAP Rule. Concerns have been expressed by some stakeholders that the current Rule is too prescriptive and presents a barrier to innovation. Certainly, in today's world, consumers have become increasingly accustomed to conducting transactions in a seamless and more efficient way. For the insurance industry, the restrictions on face-to-face interactions brought about by the COVID-19 pandemic necessitated quick action to allow consumers and insurance advisors to conduct business in a virtual way. Many of these changes, such as digital onboarding and electronic signatures, have resulted in welcome efficiencies for life and health insurance consumers and advisors. However, IFB shares the concerns of some others that permitting rebating in Ontario will increase the risk of unfair sales practices, predatory pricing, and the likelihood of consumer harm.*

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The Financial Advisors Association of Canada (ADVOCIS)

In its Submission on the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, Advocis Recommends Prohibiting Rebating

The Financial Advisors Association of Canada, in its submission to FSRA on the new UDAP rule, recommends prohibiting rebating:

> *However, the proposed changes to the existing prohibition on incentives and rebating raise important consumer protection concerns in the life and health insurance sector that merit further review. Due to the specific nature of life and health insurance products, including how they are purchased by consumers and their intended multi-year time horizons, we recommend that FSRA continues to prohibit the practice of rebating in these sectors or holds a separate consultation on rebating in life and health insurance for broader review and assessment of the inherent risks.*

The submission goes on to say:

> *While a consumer may switch property and casualty insurers every year without experiencing a detrimental impact, life insurance is typically purchased as part of a long-term wealth and risk management strategy and is designed to create a stable, long-term plan for the insured's beneficiaries. It is selected with the assistance of a qualified advisor who provides advice and recommendations based on the consumer's specific needs and circumstances, including longer term financial goals, as well as which products the consumer qualifies for at purchase and will qualify for over the term of the product. Any rebate could incent consumers away from products that are better aligned with their specific individual needs, and it could lead to consumers purchasing products that benefit them in the short-term, but do not necessarily serve their interests in the long-term. This is possible regardless of the reason that the rebate is being offered or how transparently it is communicated.*

Desjardins

In its Submission on the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, Desjardins Supports Permitting Rebating

While Associations representing insurance brokers and advisors stood strongly in opposition to the FSRA proposal to allow rebating in its new UDAP rule, insurance carriers and the Associations representing them tend to be supportive. Desjardins, in its submission to FSRA, states that:

DGIG welcomes the new rule that allows insurers to offer rewards to their customers while ensuring that purchase decisions remain in the customer's best interests. We recommend that FSRA does not require insurance providers to provide unrequested and detailed explanations of how the amount of the rebate or any value of payment would be calculated. Instead we propose that insurers should be required to communicate to insurance consumers where they can learn more about the details of the rebate. This would help to reduce the paperwork that consumers receive.

Provincial/Territorial

Ontario

Financial Services Regulatory Authority of Ontario (FSRA)

FSRA Releases 2020 Annual Report on the Consumer Advisory Panel

On 8 April, 2020 FSRA released its Annual Report on the Consumer Advisory Panel. The Report states that

Established in January 2020, the Consumer Advisory Panel (the Panel) serves as an advisory body to the Financial Services Regulatory Authority of Ontario (FSRA) through FSRA's Consumer Office. The Panel provides advice from a consumer perspective on proposed FSRA policy changes and regulatory activities, and is an important part of FSRA's stakeholder engagement process.

Among the highlights noted were that

The Panel's nine members helped inform FSRA's policymaking by contributing combined experience and expertise in investor and pensioner protection, insurance reform, credit unions, financial services, advocacy and law, and academia.

The membership of the Consumer Advisory Panel is:

Sharon Altman-Leamen who is a Director of the Canadian Federation of Pensioners and a member of its advocacy team;

Kristian Bonn who is the Vice President (and future President) of the Ontario Trial Lawyers Association;

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Anish Chopra who has over 20 years of experience interacting with clients of all backgrounds across a variety of wealth channels, including investment advisors, financial advisors, and institutional and retail investors;

Rhona DesRoches who is the Chair of the Board of FAIR Association of Victims for Accident Insurance Reform;

Hitesh Doshi who is a professor at Ryerson University;

Roger Gauthier who has extensive knowledge and experience in the credit unions sector at the local, provincial and national levels;

Harold Geller who is a lawyer who represents investors and insurance clients;

Robert Gouley who has significant experience advising on investor protection issues and regulatory proposals, including the Fair Treatment of Customers Guideline adopted by Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulatory Organizations (CISRO);

Laura Tamblyn Watts who is a public policy lawyer with 20 years of expertise in the aging, financial, disability and consumer sectors.

Among the activities of the Consumer Advisory Panel in insurance were:

- *Fair Treatment of Customers Harmonization – FSRA's proposed guidance to harmonize its standards for the fair treatment of insurance customers with the national guidelines adopted jointly by CCIR and CISRO.*

- *Insurance Supervisory Approach for 2020-21 – FSRA's three areas of focus for its supervision in the Life and Health Insurance sector, including the fair treatment of customers, Life Agent Reporting Forms (LARF) and a thematic review of the insurer-managing general agents (MGA) relationship*

- *Unfair or Deceptive Acts or Practices (UDAP) Rule – FSRA's two-stage process for transitioning to a UDAP rule and more principles-based regulatory approach, by clearly defining outcomes that are unfair or otherwise harmful to consumers.*

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- *Insurer-MGA Relationship Review – FSRA's review of the insurer-MGA relationship to assess effective governance and risk management of MGAs, as well as identify potential gaps between the roles of insurance companies, MGAs and independent agents.*

The full report can be found here:

https://www.fsrao.ca/media/3476/download

British Columbia

British Columbia Financial Services Authority (BCFSA)

The British Columbia Financial Services Authority (BCFSA) Issues Consultations on an Outsourcing Guideline, and on an Information Security Guideline

The British Columbia Financial Services Authority (BCFSA) has consulted with industry around two new Guidelines that it is planning on issuing. CAFII has reached out to BCFSA to ask about the scope of the new Outsourcing Guideline and the new Information Security Guideline. CAFII inquired from BCFSA as to whether these guidelines apply to companies that are not incorporated in BC, and received confirmation from Stephen Wright (principal BCFSA analyst on both consultations) and Peta Wales (BCFSA Sector Liaison) that they did not:

> *Your assumption is correct in that the expectations communicated in the outsourcing guideline do not apply to FRFIs. While the expectations communicated in the information security guideline do not apply to FRFIs, we are considering introducing a rule that would require all insurance companies (including FRFIs that are licensed to conduct business in BC) to notify BCFSA in the event of a significant information security incident. As we begin work on the details of such a rule, we will reach out to your organization for your input.*

CAFII for that reason did not make submissions on these Guidelines. CAFII also learned from Sarah Hobbs, Director, Policy at CLHIA that the Association

> *didn't receive a lot of feedback from members on these as they both only apply to B.C. incorporated insurance companies. But we did mention in our draft submissions that BCFSA should consider waiting until OSFI finishes its review of technology risks before implementing the guidelines.*

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International Developments, Research, and Thought Leadership

Business Intelligence in B.C. Online Magazine (BIV)

BIV Interviews Melissa Carruthers of Monitor Deloitte, and Joshua Krenus, of Alteri Insurance, on Insurance and the Pandemic

Online magazine BIV (Business Intelligence for B.C.) interviewed Melissa Carruthers, national life and health insurance strategy and transformation leader, Monitor Deloitte, and Joshua Krenus, CEO, Alteri Insurance, as part of their special series on insurance and the pandemic.

Melissa Carruthers, when asked about the biggest changes made by the insurance industry, stated that:

> *I think that this was a real wake-up call for the life and health insurance industry in Canada and globally. And when it comes to being digital, and working virtually, that is something that is previously unknown to this industry. We tend to rely on traditional processes, face-to-face interactions, face-to-face sales. And so this was one of the big catalysts that is starting to drive a lot of transformation in the industry.*

Joshua Krenus was asked how his company responded to the pandemic:

> *Whether it was right or not, [we] began by responding and continuing to help with regards to premiums.... We can defer premiums, we can lower premiums, we can extend your policy term, we can look at your business individually and try to help you out that way. And that's kind of what insurers did. Very similar to other businesses, they tried to help out the wallet a bit instead of going after coverage. And now obviously, they're going to have to start thinking, "OK, what are we covering with regards to stuff like this moving forward?"*

The full interview can be found here:

https://biv.com/article/2020/10/pandemic-wake-call-insurance-industry

CIO Dive

Online Magazine CIO Dive Reports that AI and Chatbots are Becoming Viewed as Employees

CIO Dive says over half (56%) of managers and leaders say their use of technology for workforce augmentation, such as AI or chatbots, will increase over the next 18-24 months, according to the MIT Sloan Workforce Ecosystems survey of 5,118 managers.

NASA views its virtual bots as employees, according to an interview with Nicholas Skytland, deputy chief, Exploration Technology Office at NASA. The bots have unique IDs issued alongside virtual employee badges and integrate with existing IT systems.

The line between technology and employees blurred over the last year, even if companies are slow to accept automation as a member of the workforce. The pandemic pushed businesses to automate in order to scale without adding staff when faced with financial constraints and uncertainty.

About two-thirds (63%) of employees expect automation to help them do more in less time, according to a SYKES survey of 1,500 employed U.S. adults. But analysts expect automation to also replace human members of the workforce. Forrester predicts automation will eliminate nearly one-third of jobs by 2030, and contribute to new job creation by just 13%.

At Walmart, automated systems saved millions and augmented work freed up employees to help customers. A machine learning model optimizing markdowns saved the company $30 million and an augmented reality app to navigate backrooms frees employees from some stocking and inventory tasks.

For others, chatbots act as a digital face for the company. ServiceNow employs natural language chatbots as a virtual assistant for employee onboarding and Royal Bank of Scotland has chatbots for everything from contact centers to mortgage applications.

Online Magazine CIO Dive Reports that Two-thirds of Executives Plan to Boost Automation, AI Spend

Post-pandemic, leaders expect the workforce augmentation boom to continue. Two-thirds of senior executives across industries plan to increase investments in automation and AI as a part of their COVID-19 recovery strategy, according to a McKinsey report.

About 20% to 25% of the workforce in advanced economies could work from home between three to five days per week, reducing needed office space by 30% on average and possibly decreasing demand for public transportation and downtown restaurants and retailers, the study found.

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"In the computer-based office work arena, 70% of time could be spent working remotely without losing effectiveness, compared to most other arenas, where as little as 5% to 10% of work could be done remotely," researchers wrote.

In the year ahead, CIOs are enabling technology that can lower costs and improve efficiency throughout the organization. But companies and workers will probably need to make significant post-pandemic adjustments for the remainder of the decade, McKinsey said.

"The pandemic has, for the first time, elevated the importance of the physical dimension of work," according to McKinsey, which studied the extent to which several "work arenas" can operate without a loss of productivity or effectiveness.

It assigned a high "physical proximity score" to medical care and personal care such as gyms and hair salons, and a low score to transportation of goods and outdoor production and maintenance, such as farming and construction.

"COVID-19 may propel faster adoption of automation and AI, especially in work arenas with high physical proximity," researchers said.

"Remote work and virtual meetings are likely to continue, albeit less intensely than at the pandemic's peak, with knock-on effects for real estate, business travel and urban centers," McKinsey said. "Employers and employees who can work from home agree that remote work—at least for part of the workweek—is here to stay."

Companies will likely reduce business travel by 20% compared with pre-pandemic levels, the study found, which would have "a significant knock-on effect on employment in commercial aerospace and airports, hospitality and food service."

The McKinsey Report on "The Future of Work After COVID-19" can be found here:

https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19

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Reuters

Canadian Banks Shrink Workforces as they Invest Heavily in Technology

Reuters reports on 7 April, 2021 that Canada's top banks are shedding workers for the second straight year, moving toward leaner operations to satisfy investors demanding returns on tens of billions of dollars that lenders have poured into new technologies.

Five of Canada's six biggest banks cut their workforces 4.4% from a year earlier to a combined total of 291,409 full-time equivalent employees as of Jan. 31. That is down 5.2% from a peak in the third quarter of 2019.

Banks are likely to continue investing in technology at similar levels as the past few years, which will be "welcomed by investors as long as earnings and dividends continue to grow, and especially if tech investment displaces some labor costs," he said.

The pullback in headcounts follows combined quarterly year-on-year growth of 4% to 5% in 2018 and 2019 across the six big banks. The cuts have reduced efficiency ratios, or non-interest expenses as a proportion of revenues, by about 2 percentage points from a year ago at most banks, disclosures show.

The phenomenon isn't unique to Canada. U.S. and European banks last year joined Bank of Montreal (BMO.TO) and Canadian Imperial Bank of Commerce (CM.TO) in announcing or resuming layoffs, with the former expected to shrink headcounts by an average of 5-10%. While job cuts at banks in other countries have included technology roles, Canadian lenders are still growing in this area because their digital shift has lagged.

Toronto-Dominion Bank (TD.TO) has been expanding its technology teams while redeploying employees from temporarily closed branches to other areas, Chief Executive Bharat Masrani said in an interview.

TD's workforce has shrunk by about 0.7% from its peak in the fourth quarter of 2019, following quarterly growth of 4-6% over the prior year. "You should view this as the bank constantly adapting to evolving expectations," Masrani said. TD declined to comment on its technology spending plans.

Bank of Nova Scotia (Scotiabank) (BNS.TO), which has been divesting some international operations, and BMO, which has been working on improving efficiencies, have had the biggest year-on-year headcount reductions, 9.5% and 5.3% respectively.

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Royal Bank of Canada (RY.TO), the country's biggest lender, has been the only one to grow its workforce, by 1.9% from a year earlier, as it expands its wealth management divisions in the U.S. and Canada. A spokeswoman said RBC continues to hire "selectively."

In February, CIBC executives said the bank had saved C$800 million ($633.91 million) over the past five years by streamlining operations. It reinvested the funds in high-growth areas, and accelerated technology spending.

The other banks declined to comment.

Much of the technology investment so far has gone into automating manual processes such as enabling online mortgage applications and e-signing documents. Future investments will likely focus on beefing up cybersecurity, upgrading systems, and data and analytics, said Robert Colangelo, senior vice president for credit ratings at DBRS Morningstar.

Headcounts are unlikely to "grind lower for years and years," but they are expected to lag revenue growth, said Brian Madden, portfolio manager at Goodreid Investment Counsel, who estimates that lenders have invested a combined C$10 billion annually in technology in the last few years.

With labour the biggest part of non-interest expenses, and the pandemic's "unexpected turbo boost" to customer adoption of online banking, "most of the return on investment in tech spend is going to have to come from efficiency gains/headcount reductions," he said.

Global Risk Institute

Global Risk Institute to Hold Session on "Women, the Pandemic, and the Economic Repercussions" on Thursday, 29 April from 11am-12 noon

The Toronto-based Global Risk Institute reports that

> *The pandemic has had a disproportionate impact on women and racial minorities. We will explore the greater income and job losses for women in 2020 and 2021, what some of the underlying causes have been, and what the future outlook is for women's economic integration and leadership in the years ahead.*

The speaker will be Sarah Kaplan, Distinguished Professor, Director, Institute for Gender and the Economy and Professor of Strategic Management at the Rotman School of Management, University of Toronto

Registration for this open forum can be found here:

[GRI Women in Risk Session]

Insurance Business Canada (IBC)

Insurance Business Canada has Announced the Speakers for its 15 June, 2021 Panel on "Women in Insurance"

Insurance Business Canada has announced the speakers for its Women in Insurance panel (see below).

Cheryl Pounder
2x Olympic Gold Medalist
Canadian Women's National Ice Hockey Team

Lucy Hathaway
Chief Sales Officer
Allianz Global Assistance Canada

Monica Ningen
CEO and President
Swiss Re Canada and English Caribbean

Edwina McKennon
Broker Engagement Leader
APOLLO Insurance

Rissa Revin
General Counsel & Chief Equity, Diversity and Inclusion Officer
Cassels Brock & Blackwell LLP

Registration can be found here:

[Women in Insurance Panel]

UK Financial Conduct Authority (FCA)

UK FCA CEO Nikhil Rathi Outlines Innovations Taken by the Regulator Around Regulatory Sandboxes and Promoting Innovation

Nikhil Rathi, CEO of the UK Financial Conduct Authority (FCA), gave a 20 April 2021 speech to the UK's FinTech Conference, at which he stated that

> *Seven in ten of us now use the services of at least one fintech company. More consumers are adopting innovative ways of accessing financial services in the UK than in equivalent markets, for example using finance aggregator services to make it easier to save and manage outgoings.*
> *This success in financial innovation has been enabled by regulatory open-mindedness; a trait not always associated with regulators.*

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Mr. Rathi went on to say that

> *The choice created by competitive markets is, in itself, not a social or economic good. It only becomes one when it delivers better or cheaper products, an improved or more tailored service, and pushes incumbents to fight harder to attract and keep their customers. Crucially, consumers must be armed with information they can readily understand to help them make the right choice for them.*
>
> *In supporting innovation to deliver more competitive markets, another of our objectives is held in balance – that of consumer protection.*
>
> *Innovation comes with risk. New products and new firms fail. They can take consumers' money with them. As a result, we, as regulator, need to understand new ideas and stay close to innovative firms.*
>
> *That is why, less than a year after the FCA was founded, we set up Project Innovate. This recognised that the financial services industry has high costs of entry, and so those wishing to join – with genuinely new ideas that support markets and provide choice to consumers – require additional regulatory support.*

The full speech can be found here:

https://www.fca.org.uk/news/speeches/levelling-playing-field-innovation-service-consumers-and-market