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CAFII ALERTS WEEKLY DIGEST: April 21 – 25, 2025

April 25, 2025

The CAFII Alerts Weekly Digest is intended to provide a curated compendium of news on insurance, regulatory, and industry/business/societal topics of relevance to CAFII Members – drawn from domestic and international industry trade press and mainstream media – to aid in Members' awareness of recently published media content in those areas.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

Ontario Regulator Sends Total Cost Reporting Rule To Minister For Approval

By Kate McCaffery, Insurance Portal, April 15, 2025

https://insurance-portal.ca/article/ontario-regulator-sends-total-cost-reporting-rule-to-minister-for-approval/

Assuming Ontario's Minister of Finance approves a new Total Cost Reporting Rule recently submitted by the Financial Services Regulatory Authority of Ontario (FSRA), insurers will be required to start sending out enhanced annual statements to their segregated fund clients in 2027, for the year ending on December 31, 2026. In response to stakeholder feedback, however, the rule includes new exceptions for insurers.

Event changes (tax registration status changes, ownership structure changes and dealer changes), legacy systems and missing historical data are the three exceptions listed. Insurers using them are required to meet a number of other conditions in place of providing the enhanced reporting.

"FSRA recognizes that there are certain historical contracts where the insurer does not have the necessary data. The exception in the Total Cost Reporting Rule is intended to address this challenge," the regulator writes in its summary of feedback received during the consultation phase of the rule's development.

In one stakeholder's example, it was estimated that it would cost $1.4-million to update systems for 1,157 accounts for just one product which has been closed to new business since 2010. "An insurer is not required to provide the owner with an annual statement containing information from Schedule A to the extent that this information cannot be reasonably provided by the insurer's system, without it being upgraded," FSRA's summary of feedback states. "In order to report in this manner, insurers must satisfy all the conditions set out in the exception."

The rule also stipulates how to calculate fund expenses, trading expense ratios, management expense ratios and indicates that statements must clearly provide contact information for the insurer and for the agent who sold the product, or contact information for another agent with sufficient knowledge and expertise to provide advice. Under the new rule, insurers must also take reasonable steps on an annual basis to encourage clients to make contact with their agents, explaining the importance of maintaining up-to-date information.

The rule was developed to align with securities industry rules requiring product manufacturers to provide the same total cost and performance information to their clients. If approved, the rule will require segregated fund manufacturers to provide customers with enhanced annual statements clearly disclosing total costs and investment performance. The statements must be delivered within four months of the end of each fiscal year end.

OTHER CAFII MEMBER-RELEVANT NEWS

Life Insurance An Overlooked Asset In Economic Uncertainty: CCO

Why Unlocking Cash Values In Life Insurance Can Provide Extra Liquid Asset Options

By Seth Forward, Wealth Professional, April 25, 2025

https://www.wealthprofessional.ca/investments/life-and-health-insurance/life-insurance-an-overlooked-asset-in-economic-uncertainty-cco/388985?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250425&_hsenc=p2ANqtz--UMlFu58Hs8c0ESj9Vh-_kXDFpmCQmf8z1n10tcyT6RLM6jPunehmMaRcAo5YQ798xbOHcQCMVb3Mcu3n3dVKMo7UTVw&_hsmi=358491548&utm_content=&utm_source=

Accessing the cash value of a life insurance is not often the first option investors think of when they look for liquid assets.

But Andrea Frossard suggests that this strategy has been misguidedly overlooked, particularly amid volatile market conditions and a long-stagnant Canadian economy.

For individuals who have cash values within their life insurance policies, Frossard says they can either withdraw some assets, pay off premiums or take a loan against the cash value. She says that the heightened market uncertainty and difficult economic outlook for Canadians makes these options increasingly appealing, as individuals can increase their liquid assets without pulling from other pots.

“Not all insurance products have cash values, but many do,” said Frossard, CCO at Foresters Financial. “And what you can do with those cash values is you can either choose to use them to pay your premiums, for example, or you could take a loan against them, or you can actually withdraw some as well.”

But the process of pulling cash values out of policies should be done carefully with the help of a financial advisor, according to Frossard. She says advisors should be particularly conscious of the potential taxation consequences of withdrawals and loans against cash values, emphasizing the case-to-case basis this process requires.

“There could be some tax consequences, and that will vary by individual, but there certainly can be withdrawals and loans may be partially taxable if they exceed the policies adjusted cost basis,” she said. “Really understand all of your portfolio, and by that I mean all of the assets that you have. Also consider your liabilities, your income, etc, and make sure that you know this does make sense for you and your particular circumstances.”

She also warns that those looking to take advantage of their life insurance assets should be aware of the potential pitfalls surrounding death benefits. Taking a loan against your cash values can be beneficial in the short term, but she says this loan must be accompanied with a realistic plan to pay it off, as a death would pass on the loan and its interest to the individual’s next of kin.

“If you take a loan and the proceeds of the loan that haven't been paid off, if you pass away, it would be deducted from the death benefit, as well as any interest that would have accumulated,” she said.

Continuous growth is a particular advantage of the cash value in life insurance policies according to Frossard, who points out that the same cannot currently be said about markets.

“One of the things with life insurance policies that have cash values is there's a guaranteed cash value, and it grows year over year. If you're in a participating account, you can also have dividends that can further increase that,” she said. “The nice thing about that is, in these uncertain times, those values are not going to be moving all over the place like the markets are moving these days.”

Frossard also points to the convenience of putting a loan against a policy, as there is no approval process involved in the procedure.

“Another factor is just convenience, policy loans are often quicker,” she said. “You don't have to do credit checks, there isn't an approval process. It's your policy, you have access to those cash values if you choose to do so.”

Life insurance assets are often used for reinvestment, travel plans and tuition for children among other ways individuals can utilize their cash values. The cash value aspect of life insurance policies is often forgotten by policy users, according to Frossard.

“People tend to be purchasing life insurance to protect their loved ones after they're gone, and they don't necessarily think about the fact that there is that other piece of the insurance policy that also exists that they can access,” she said. “It's important to remind people that they may actually have something that they can easily access as an asset to help through some of these challenging times.”

With an unprecedented generational wealth transfer underway, Frossard says investors should be speaking with advisors about their weighting of liquid assets and non-liquid assets in their estate, pointing to the taxation consequences of non-liquid assets such as real estate and businesses. She also says there is an opportunity for those inheriting an estate to understand the usages of life insurance for their own wealth plans.

“As baby boomers pass on wealth, millennials and Gen Xers become the new stewards,” she said. “And it's crucial for advisors to help older clients structure their estates wisely, while also engaging the younger beneficiaries early with education and planning, understanding the life insurance products that are available to them to help build their own legacy.”

How To Address Gen AI Privacy Challenges

By Chris Corrado, Digital Insurance, April 22, 2025

https://www.dig-in.com/opinion/how-to-address-gen-ai-privacy-challenges?utm_campaign=NL_DIG_Morning_Briefing_04232025&position=1&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_04232025&oly_enc_id=1794I9343067F0V

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Generative AI (Gen AI) presents many opportunities for insurance organizations. However, in insurance, where business relies on effectively handling personal data, Gen AI also poses critical security and compliance challenges. Some of those obstacles include data residency and personal identifiable information (PII) risks.

Data residency refers to the location geographically where data is stored and processed. With regards to data residency, insurers must ensure that customers' data remains protected and within insurers' control, or it could have significant implications for compliance, security, and customer trust. This is often done through the use of virtual private clouds (VPCs), which provide isolated network resources that mimic an on-premises data center, or on-premises solutions. This need for protection becomes even more essential with the introduction of Gen AI.

When Gen AI runs within an insurer's own tech stack, either hosted in a VPC or on-premises, it keeps customers' data under the organization's oversight. However, when Gen AI operates in a multi-tenant public cloud, such as AWS, Google Cloud Platform (GCP) or Microsoft Azure, risks are introduced since these solutions process data in shared environments. While these options offer scalable and cost-effective ways for deploying Gen AI, they can not only raise issues with security, but can often lead to insurance organizations having limited visibility as to where customers' sensitive information may travel.

For example, consider the journey of a query. Data is pulled from an insurer's knowledge base and then fed into a large language model (LLM) to deliver a response. If the LLM is not under the insurer's control, the organization is possibly exposing customers' PII to third parties. This data could include names, email addresses, account numbers and social security numbers. Given the varying AI regulations emerging, this is a significant red flag - never mind the broader implications from potential bad actors.

This is made even more complicated when feeding customers' data into an LLM from unstructured sources like SharePoint, Dynamics, Salesforce, and PDFs. When this is done within a public cloud-hosted LLM, additional issues can arise with data flow, storage and compliance.

Controlling where customer data is stored when leveraging Gen AI enables insurance businesses to more effectively protect themselves from unauthorized access and cyber threats, and safeguard customers' personal information.

How can insurance organizations best navigate this? The following recommendations include some best practices to consider:

- **Enterprise LLMs**: Insurance businesses should opt for self-hosted or private LLM instances where they have total control over the data flow. This presents the highest level of security.
- **Data processing agreements (DPAs)**: If an insurer must use external LLM providers, they need to make sure robust DPAs are in place. These contracts should explicitly outline data handling and compliance commitments.
- **Data anonymization**: Where possible, insurance organizations should anonymize or pseudonymize customers' PII data before it ever reaches the LLM. This is a strong first line of defense.
- **Access controls**: Insurance businesses should implement strict access controls. Only those who need to input or retrieve sensitive information – like customers' PII – from the system should be able to do that. There are some solutions available that not only enable insurers to have the right access controls in place, but they also intercept prompts containing PII before they reach the LLM and provide meaningful answers while ensuring PII exclusion from LLM processing, providing an extra layer of privacy and control.
- **Audit and monitoring**: Insurers should regularly review logs and policies. Continuous monitoring is essential to catch any potential compliance breaches.

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Data governance is paramount to preventing data leaks internally and externally. With the appropriate protections in place, Gen AI can empower insurance companies with the insights they need while keeping an organization's and customers' data safe and compliant.

Insurers Unconcerned About Canadians' Shifting Travel Patterns

By Kate McCaffery, Insurance Portal, April 18, 2025

https://insurance-portal.ca/article/insurers-unconcerned-about-canadians-shifting-travel-patterns/

Alongside everyday costs, travel costs are rising. Awareness of the risks associated with travel would also appear to be increasing, making Canadians more willing than ever to buy travel insurance. That said, they more frequently may need assistance choosing coverage, as the plans and the conditions under which Canadians travel become ever more dynamic.

Although it is early for statistics to be available, social media pictures from the recent March break holiday, for instance, show empty airports, purportedly the departure lounges for flights to United States destinations.

In a new note from Morningstar DBRS, the ratings firm cites data from OAG Aviation Worldwide Limited (OAG), a global travel data provider. When comparing forward bookings made as of March 2025 with those made in March 2024, OAG found a decline of more than 70 per cent in bookings to the U.S. in the coming months. (Airlines claim the softness in the transborder market is not as significant as indicated by the OAG data.)

“Canada-U.S. air travel activity has slowed, and this trend could be exacerbated over the summer months, as forward bookings appear to have dropped considerably,” the firm's researchers write in a commentary on the credit risk profiles of Canadian airlines, entitled The Summer of 2025 May Not Bring Much Joy for Canadian Airlines.

In 2024, Canadian travellers took 39-million trips to the U.S. In February 2025, the number of Canadians flying home from U.S. destinations declined 13.1 per cent. Those returning by automobile dropped 23 per cent, year-over-year.

Those studying travel patterns say this is in part because air travel is frequently booked long in advance, while car trips are more spontaneous, perhaps better reflecting sentiment at the time. “It's starting to come through in some of the bookings,” says Will McAleer, executive director of the Travel Health Insurance Association (THIA). “However, current travellers, they're all booked (in advance).”

Pamela Wong, head of affinity at Manulife Canada agrees, saying advanced bookings are typical for more expensive travel. “At an aggregate level, there haven't been any big shifts,” she says, “but I think the mix of travel will likely shift.”

In short, they say Canadians still want to travel. A recent survey conducted for Blue Cross of Canada found that would-be travellers are simply getting creative in the face of rising costs, at least, and likely in the face of rising concern about travel to the U.S., as well.

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Conducted in November 2024, the annual survey focused on the cost pressures related to travel, on geopolitical uncertainty, climate concerns and the socially conscious choices being made, particularly by younger travellers.

It found 81 per cent of those surveyed said they are changing their travel habits due to cost, a 17 per cent increase over last year's figures. Among those surveyed, 36 are already reducing the number of trips they take, 35 per cent are seeking less expensive accommodation and destinations, 25 per cent are staying closer to home and 22 per cent are shortening their trips.

The November Blue Cross survey of 2,072 Canadians further found that 47 per cent said they were less likely to visit the U.S. in the next 12 months, a sentiment which has not been probed or revisited yet in light of recent events.

When asked if Canadian's shifting travel patterns are of consequence to insurers, those who discussed the matter with the Insurance Portal were unconcerned – the general sentiment being that Canadians will continue to travel, they will likely just be more selective about where they go.

Not all policies are created equal

Traditionally, price has always been a large deciding factor for those purchasing travel insurance. "It was always a high factor because travel insurance, if you're in the least unhealthy, it can be very expensive," says Sylvain Lamanque, senior vice president with SecuriGlobe Inc. He also notes that there have also been premium increases in the past 12 to 14 months, up to 30 per cent in some cases from some carriers. "So, from a behaviour standpoint, they (consumers) are shopping more."

Across the board however, those discussing the matter said price today needs to take a backseat to a real analysis of the coverage available. This was always necessary, they note, but takes on a new importance in light of the fact that Canadians are seeking more diverse experiences.

Potentially, Canadians need an agent or an advisor's experience in selecting coverage. Those in the business of selling, meanwhile, need to be aware that there are coverages available that can save clients a lot of money if the U.S. is not a factor in their travel plans.

Carriers covering U.S. costs, Lamanque points out, have those costs increased by 30 per cent, right off the top, because of the exchange rate alone. The country is also a notoriously expensive place to receive medical treatment. "What impacts cost is the claims experience – claims experience that most carriers are experimenting with right now," he says. "From what we hear, their loss ratios are deteriorating. One of the key reasons is the cost of U.S. healthcare."

McAleer agrees. "The U.S. is the highest cost jurisdiction on earth to receive medical care," he says, adding that those travelling to Europe and avoiding the U.S. altogether can likely realize some cost savings as underwriters recognize the lower treatment costs when deciding premiums. "That can allow for some pretty significant savings."

Obtaining the right coverage

Those staying inside of Canada can enjoy even greater savings. Despite the relatively affordable premiums for interprovincial travel, however, many clients need reminding that the coverage is necessary. Blue Cross executives, Joanne Parent, vice president of national travel insurance sales and Joseph Russo, director, national travel and insurance say they anticipate at least 25 per cent of travellers who used to visit Florida and Arizona will be travelling in Canada in the future.

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"Some people will think that universal healthcare means that no matter which province you go to, you're going to be covered. The fact is some medical bills will not be covered interprovincially. You need to take that into consideration," McAleer says, adding that ambulance and air ambulance are not covered. "That can be very expensive if it isn't covered." Prescribed medications inside of the hospital also are not covered. "You want to make sure that you do have a travel within Canada policy. The great news is that those are very cost effective, simply because many of the costs are still covered."

Know that as travel patterns change, there are different options for travel insurance that maybe they haven't been used to selling. - Will McAleer

For all travel, he further encourages consumers and their agents to remember three "golden rules." These are to know your health, know your trip and know your policy.

"Know your health first," he says. "Know what conditions you've got before you apply for that insurance." Next, know your trip and understand all of the activities you plan to undertake to ensure that your policy will cover them. Finally, know your policy: Making sure that clients understand whether or not their policy is going to cover existing medical conditions and planned activities is absolutely vital, he adds. "You want to make sure that the type of activity is going to be covered under your travel insurance plan. Some policies will cover high risk activities. Others may not."

The assistance part of a travel insurance policy is also very important – this was noted by Wong and Parent, along with McAleer who points out that this assistance also needs to be available on the ground in the country of travel. "You want to make sure that there's the ability to get you the help you need when you need it. It's more than just being able to pay for the bill," he says. "Know that as travel patterns change, there are different options for travel insurance that maybe they haven't been used to selling."

Behaviours and purchasing patterns

Where people have traditionally shopped for travel insurance strictly on price, with travel conditions that are more dynamic, sometimes changing daily, agents may be pleased to find that clients are more receptive and willing than ever to do the right amount of due diligence. "It needs to be part of people's overall trip planning," Wong says.

According to Blue Cross, 51 per cent of the Canadians surveyed for its travel study said they were more likely to purchase travel insurance today than in the past.

Broken down, according to the company:

- 26 per cent of Gen Z clients purchase travel insurance for some trips; 35 per cent purchase the product for all trips.
- 27 per cent of Millennial clients purchase insurance for some trips; 34 per cent of Millennial clients purchase travel insurance for all trips.
- 22 per cent of Gen X clients purchase insurance for some trips; 40 per cent purchase for every trip.
- 15 per cent of Boomer clients purchase insurance for some trips; 57 per cent purchase the product for all trips.

What is changing also, say industry watchers, is the timing during which Canadian travellers are making the decision to purchase travel insurance.

"Uncertainty and the climate have made customers buy a bit differently. They buy later usually," Lamanque says. In past years, he says snowbird clients would buy in May for departures in November and December. Today they are waiting until October and November to make their decisions. "We've seen a softening in the snowbird market," he says.

Driving this is the fact that many are on fixed incomes that are not stretching as far today, thanks to inflation. "They're reducing the length of their trip. Some are changing destinations," he says.

He adds also that trip cancellation insurance is popular. "They're being very careful about that."

At Blue Cross, Parent and Russo say the company's cancel-for-any-reason (dubbed CFAR) coverage is also popular with clients, as are provisions like the company's flight delay service. "It maybe wasn't so popular a few years back, but clients really appreciate this," Parent says. Russo adds: "Everyone is finding their own way to make travel work without breaking the bank."

Mortality Differentials Of Black Adults Examined By Statistics Agency

By Kate McCaffery, Insurance Portal, April 17, 2025

https://insurance-portal.ca/article/mortality-differentials-of-black-adults-examined-by-statistics-agency/

Statistics Canada researchers have released a new Health Reports paper, Understanding mortality differentials of Black adults in Canada, which attempts to explain mortality differences between Black and White adults by understanding the paths contributing to the mortality patterns observed in previous studies.

"To better understand why Black adults in Canada experience higher mortality risks for certain diseases, it is useful to examine the health events that occur before death, accounting for other known social determinants of health and other disease conditions," they write. "Differences in diagnosis rates, disease severity and hospitalizations can provide insight into the factors driving the relatively higher mortality risks of Black adults."

The statistics agency's highly technical report looks at HIV/AIDS, diabetes, prostate cancer and uterine cancer. Among Black men, for example, the likelihood of being diagnosed with prostate cancer or dying from it was high compared with White men. "For example, after accounting for known social determinants of health, Black men were 68 per cent more likely to be diagnosed with prostate cancer and 19 per cent more likely to die from it," the report's researchers write.

Also among the findings, the report says Black women with uterine cancer had a survival rate that was two times lower than that of White women. "An additional analysis revealed that delayed diagnosis played a larger role in uterine cancer mortality among Black women (14.9 per cent) compared with White women (8.9 per cent). This suggests that improving early detection and timely treatment among Black women could help reduce survival gaps."

Travel Insurance: Health Stability Poorly Reflects Risk

By Marie-Ève Martel, Insurance Portal, April 17, 2025

https://insurance-portal.ca/article/travel-insurance-health-stability-poorly-reflects-risk/

Two cardiology experts are encouraging insurers to assess the risk of rehospitalization in travel insurance based on the applicant's actual health condition rather than relying solely on the stability of their medical status. They are proposing a software solution with algorithms that could enable coverage for individuals who would previously have been declined.

The risk of a patient being rehospitalized is often poorly assessed by insurers, who base decisions primarily on the stability over time of a pre-existing condition, says Dr. Christian Lamarre, co-founder of Medtech Insurance.

The idea to innovate came after his father, Dr. Claude Lamarre, was denied travel insurance for a cruise. He had received a pacemaker five and a half months earlier following an episode of bradyarrhythmia within that period. To be eligible for coverage, his condition needed to have been stable for at least six months.

“Yet he had no other health issues—he was in perfect health,” says Dr. Christian Lamarre, who says this anecdote was the spark for the Medtech project, launched just over two years ago.

An emergency physician and family doctor, Dr. Lamarre partnered with cardiologist David Ian Paterson—who has authored more than 200 publications on heart attacks—to establish Medtech Insurance. The startup has received financial backing from Amazon Web Services and the NVIDIA Inception Program.

Age as a discriminatory factor

Age should not be the only risk factor when insurers decide whether to cover older clients, the doctors contend. “These factors are not necessarily evaluated or made objective when determining a patient's stability,” says Dr. Lamarre. “Some policies require six months of stability instead of three, but there’s nothing magical about the time that has passed. And if age is chosen as a determining factor, it discriminates against older people who are otherwise healthy.”

Generally, insurers require a stability period of three months prior to departure for travellers aged 0 to 54, and six months for travellers aged 55 and up, regardless of trip length.

“When you look at cardiac issues, there are short-term risk factors that predict events within three to six months,” adds Dr. Paterson. “But there are other factors, like cholesterol, that predict risks over the long term—over ten years. It’s a completely different picture.”

Yet such factors are not considered when determining travel insurance coverage, which leads Pierre Saddik, an actuary specializing in travel insurance and president of Saddik International, to believe that the current evaluation method is outdated. He also believes that a patient’s medical history does not necessarily reflect their current state of health.

“Some insurers have little interest in changing their approach if it doesn’t increase profits,” he says. “But in doing so, they’re ignoring potential clients.”

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Saddik draws an analogy with auto insurance to illustrate his point. “It’s like saying a car isn’t insurable in the first month after its brakes are repaired,” he explains. “A body that has just undergone surgery is considered to be in poor condition during the first few months, even though it has just been treated.”

Meanwhile, a patient who has taken care of their health—like Dr. Lamarre’s father—is penalized, whereas another individual who never consulted a doctor before buying travel insurance could be far more at risk and not even know it, Saddik adds.

Tailored premiums
Based on an in-depth literature review, Medtech’s founders analyzed numerous factors that can predict the risk of rehospitalization following a cardiac event. From this, they created a dynamic risk calculator to determine an individual’s actual insurability.

After training the tool on major cardiac issues such as angina, arterial blockages, or pulmonary edema, the model was expanded to include other health concerns common among older patients, such as fall or fracture risk, pulmonary issues, and even traveller’s diarrhea.

The sum of all these combined factors enables near-instant, dynamic calculation of a personalized insurance premium, reflecting the insured’s actual health condition. Clients complete a detailed questionnaire online.

“We realized that many highly predictive questions are rarely or never asked,” notes Dr. Lamarre. “Even with years of data, without predictive data, our risk analysis cannot be sufficiently accurate.”

“One reason why these questions aren’t always asked is that insurers fear losing a sale by asking too many,” Saddik explains.

Adding more questions and allowing artificial intelligence to calculate risk also removes the subjectivity of the attending physician, who may be influenced by the patient’s desire to travel.

Having clients complete the health declaration themselves also makes them more accountable in the process.

‘Revolutionary’
Stéphan Bernatchez, chair of the board at brokerage Fort Assurances and also a Medtech board member, finds the initiative by Drs. Lamarre and Paterson “revolutionary.”

“What’s fantastic is that it’s an underwriting tool,” says Bernatchez, a former property and casualty insurance expert. “It’s as if, beyond the age of a building, you also get the engineer’s sprinkler report and a roof condition report. You have all that at underwriting, which lets you see if the risk is better or worse based on the data.”

“This means that even if a client had a heart attack five months ago, if all other indicators show low risk, they could still be insurable,” Bernatchez adds.

Bernatchez explains that the result is more travellers will be insured, leading to additional revenue for insurers, and insureds will pay a fair price for their coverage.

A model yet to be adopted
Still relatively new, Medtech's calculator has attracted interest from some insurers, but none have yet adopted it.

"We have a complete digital solution that can be customized with the branding of any insurer who decides to adopt it. They would have their own portal, and our secure platform would operate in the background via an API [application programming interface]," explains Christian Lamarre.

However, many insurers lack the technological infrastructure to integrate Medtech's tool.

"I'm not convinced that current platforms used by insurers are powerful enough to support additional questions or integrate our advanced calculators. The formulas may be a bit too sophisticated for what's currently on the market," says Dr. Lamarre, who, along with his partner, will publish an article on their project in the Travel Insurance Journal in fall 2025.

Banking On A Wedge Between Canada And The U.S.

By John Turley-Ewart, The Globe and Mail, April 17, 2025

https://www.theglobeandmail.com/business/commentary/article-banking-on-a-wedge-between-canada-and-the-us/

Opinion

John Turley-Ewart is a contributing columnist for The Globe and Mail, a regulatory compliance consultant and a Canadian banking historian.

Good news for Canadian bankers: Ottawa's reported interest in meeting with officials from the largest U.S. banks operating in Canada may signal a regulatory review process that will reduce compliance costs, unnecessary rules and make our banks more competitive in the U.S. and globally.

The initial Bloomberg report framed the proposed meeting between Department of Finance officials and U.S. bank representatives as a response to President Donald Trump's make-believe world where American bankers can't do business in Canada.

Finance and U.S. banks operating here have nothing to gain from sifting through the ill-informed musings the 47th president of the United States had on Canadian banking. U.S. banks are not disadvantaged by Canadian regulations.

Instead, Canadian officials should be eager to quiz U.S. bank executives on changes to American bank regulation that will drive a wedge between Canadian and U.S. bank supervision – changes that will disadvantage our banks if Finance does not take steps to level the playing field.

The most obvious divergence is on Basel III, the 2017 international regulatory reforms that Canada began implementing in the belief that the U.S. would, too – thinking which has proven credulous. Basel III is DOA in the United States. But in Canada banks face increased capital charges (higher operating costs) and endure punitive taxes over and above the usual corporate tax rate.

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The differences are likely to grow.

Consider efforts to install Michelle Bowman as the new top bank regulator at the U.S. Federal Reserve Board. Ms. Bowman is a seven-year veteran of the Fed who was nominated by Mr. Trump. In her recent testimony before the U.S. Senate Banking Committee, Ms. Bowman's agenda was clear: "The U.S. regulatory framework has grown expansively to become overly complicated and redundant, with conflicting and overlapping requirements. This growth has imposed unnecessary and significant costs on banks and their customers."

Ms. Bowman's agenda is being reiterated by U.S. Treasury Secretary Scott Bessent. He told a meeting of the American Bankers Association last week that the Treasury Department will play a larger role in bank supervision to ensure cost-cutting, support for economic growth and to bring greater public transparency to bank oversight. "Regulation through supervision has too often taken place behind a veil of secrecy that precludes scrutiny by the public and their elected officials."

This is not a Trumpian exercise in presidential fiat. Demands for bank regulatory reform, from large and small U.S. banks alike, have been bubbling on the political surface for years and the outcome is here – the U.S. is about to embark on a large-scale and material streamlining of its bank regulatory system to reduce compliance costs for American banks.

Reform is needed in Canada as well, to sustain competitiveness and to better serve the public. New U.S. supervisory initiatives make those changes imperative.

Last year, the C.D. Howe Institute conducted a rigorous review of Canadian bank regulation and concluded that The Office of the Superintendent of Financial Institutions' (OSFI) approach to rule-making is reactive and is motivated by an almost exclusive focus on "stability and consumer protection" without any effort to connect that to "innovation and competition." As such, thorough cost-benefit assessments are not the norm when they should be, leaving banks to pay a high price for unnecessary and excessive rules.

Growing redundancies are examples of excessive rules. Bank supervision is shared between OSFI, Canada's primary prudential supervisor, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the agency that combats money laundering and terrorist financing, and the Financial Consumer Agency of Canada (FCAC), which advocates for consumers' interests.

Today, both FINTRAC and OSFI oversee anti-money laundering (AML) frameworks at Canadian banks, which is costly and less effective than leaving OSFI that duty and FINTRAC to devote all its resources to investigations, prosecutions and overseeing nonbank businesses.

While U.S. lawmakers complain about insufficient transparency, compared with Canada, bank regulation in America operates in the bright light of day. Canada's Bank Act prevents OSFI from discussing all supervisory findings and remediation programs imposed on banks found non-compliant with rules. This put OSFI in an invidious spot last October when TD Bank's U.S. AML problems were fully revealed. OSFI could say little, forcing Canadians to depend on U.S. regulators and the Department of Justice to tell them what went wrong and how it was being addressed.

Regulating banks helps ensure stability, but how supervisors do it matters. Canada now has good reason to do better.

The Impact Of Tariffs On Insurance Industry

By Kaitlyn Mattson, Digital Insurance, April 14, 2025

https://www.dig-in.com/news/the-impact-of-tariffs-on-insurance-industry?utm_campaign=NL_DIG_Morning_Briefing_04152025&position=1&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_04152025&oly_enc_id=1794I9343067F0V

There is a 10% tariff on most imported goods into the U.S. as of April 5. The Trump administration announced a revision to its tariff policy on April 9, including a tariff of up to 145% on some goods from China.

Jonathan Todd, partner at Benesch Law and Phil Nester, senior managing associate at Benesch Law, shared responses on how this could impact the insurance industry.

These responses were shared on April 11 and reflect the tariff situation at that time.

How do current and proposed tariffs impact the cost of insurance claims?
Todd: New tariff actions in 2025 are expected to result in dramatically increased market values, replacement costs, and repair costs of property. Anything built or manufactured in the United States from imported raw materials or parts, or imported as a finished good, will face increased cost pressures. Most items imported into the United States after April 5th or 9th will bear additional duties of 10%, which was recently adjusted. The 10% rate is scheduled to remain in place until July 9th. Products from China have a higher 125% reciprocal tariff at this time. The key here is that in some cases those duty burdens will compound with other tariff actions resulting in net duties that are far higher. This will not always correlate to a one-for-one percentage increase in costs of items at ultimate retail sale although appreciably higher costs are realistic near term.

How do current tariffs impact the insurance industry? Can you provide examples of which sectors?
Todd: The insurance industry is grappling with the effects of escalating tariffs, which are driving up costs for imported goods, repairs, and replacements. These impacts are particularly pronounced in sectors reliant on foreign materials and products such as automotive, construction, agriculture, and consumer retail, where higher duties are inflating insured values and claims costs. The auto industry is the clearest simple example. Automobiles presently face 25% duties when imported into the United States from outside the USMCA territories. After May 3rd, automobile parts will also bear 25% duties when imported from outside the USMCA territories. This means that both the replacement cost and repair cost of vehicles can be expected to rise as existing domestic inventories are exhausted. Similar examples can be found in sectors ranging from construction to consumer retail.

What are the potential long-term impacts of prolonged tariffs?
Todd: The timeline and magnitude for our current geopolitical environment remains to be seen. Near term, there may be changes in buying habits for lower-cost industrial and consumer options. It is also fair to say that insurers need to prepare for a possible increase in claims filing where insureds or their third-party claimants previously would have resolved matters due to higher liquidity. The reciprocal effect of this is that policy renewals and procurement will drive premiums and deductibles higher. Longer term, if the President is successful in motivating the reshoring of domestic manufacturing capacity (or nearshoring once there is a resolution to tariffs against Canada and Mexico), while reducing

income tax burden, then the economic environment may take on a very different character to reshape the last decades of globalization.

Are there sectors within the insurance industry that won't be affected?

Nester: Tariffs will cast a long shadow across the insurance industry. However, certain sectors will initially prove to be more resilient than others by the nature of their product lines. For example, the pricing models and risk profiles actuaries use for life and health insurance consider fewer economic factors that are tied to the valuation of tangible goods, which are the current tariff targets. If the President continues to use tariffs as a longer-term economic strategy, the breadth and magnitude of their impact will be felt in less-obvious sectors as well. For example, the nature of intangible risk for which cybersecurity insurance provides coverage may appear to be insulated from tariffs, but changes in overall economic trends affecting consumer spending and business investment will cause indirect consequences that will be felt in all lines of insurance. Our long-term view is that the unwinding of the global economy will trigger a resetting of the insurance industry that will need to adjust to underlying risk profiles affected by the impact of prolonged tariff policies.

How long does it take for increased tariffs to translate to increases in insurance premiums?
Nester: The timeline for tariff increases to translate into higher insurance premiums is nuanced, but we expect there will be a three to six month lag due to regulatory approval processes at the state level. Inventory turnover in sectors where global supply chains play a critical role and swift adjustments are not feasible supports this timeline as well. Insurers are monitoring regulatory developments and supply chain dynamics to refine their underwriting strategies and pricing models. A shorter-term surge in insurance premiums is expected in sectors that are heavily reliant on imported goods, but the longer-term effects will depend on retaliatory measures in response to tariffs and the broader recalibration of global trade relationships.

Are there legal and regulatory considerations for insurance carriers to be aware of?
Nester: Insurance carriers will need to adjust their financial reporting, underwriting processes, and compliance frameworks to incorporate cost increases into their statutory accounting principles' (SAP) reserve surplus calculations and to disclose supply chain risks under FASB accounting standards. Changes in rate filings that are tied to tariff-inflated costs will be scrutinized by state regulators, so insurers need to prepare for the disclosure of actuarial justifications for premium adjustments upon request.

We expect regulators will also take a hard look at changes in policy language that support tariff-adjusted valuations as well as exclusions that are linked to supply chain disruptions. Insurers that fail to implement such changes increase their solvency risks, claims disputes, and regulatory penalties from an environment where there will be heightened scrutiny.

Anything else you would like to share?
Todd: Tariffs will increase insurance claims costs and market volatility, forcing insurers to raise premiums, reduce coverage, or adjust their asset investments to protect margins amid economic uncertainty. Insured satisfaction with claims response and with premiums on new policies will quickly emerge as the challenge for insurers to retain their policyholders. Even if this new trade policy yields near-term price volatility, and price escalation, this volatility will of course be blunted by policy limits. Response beneath policy limits very well may increase due to the higher market, replacement, and repair costs, which in the aggregate may be significant. Still, appropriate policy limits on issued policies and appropriate underwriting of new policies will mitigate the impact of these factors for insurers, as disciplined risk

management will be needed for insurers to navigate tariff-driven disruptions while balancing policyholder retention and profitability.

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CAILBA 2025 National Conference

https://cailba.com/2025-national-conference/

When: April 30th - May 2nd
Where: Le Centre Sheraton, 1201 René-Lévesque Blvd W, Montreal, Quebec, H3B 2L7
Phone: 514) 878-2000

Le Centre Sheraton Montreal is a stylish landmark in the heart of downtown Montreal and just steps away from the iconic Bell Centre and the vibrant St. Catherine Street. A short stroll connects visitors to Montreal's famed 19-mile Underground City, a marvel of urban design filled with boutiques, restaurants, and passageways that come alive year-round. With its stunning skyline views and proximity to the historic charm of Old Montreal, Le Centre Sheraton is a gateway to discovering the city's rich heritage and dynamic energy.

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https://www.clhia.ca/web/CLHIA_LP4W_LND_Webstation.nsf/page/AD9B1618FBC1C2E5852584EA006C7099

Release Date: 01/09/2020
Staff Reference: Ethan Kohn; James Wood; Margaret Campbell

When: May 14 - 16, 2025
Where: Charlottetown, PEI
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