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CAFII ALERTS WEEKLY DIGEST: December 16-20, 2024

December 20, 2024

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.

The Weekly Digest will take a three-week winter hiatus, spanning the months of December 2024 & January 2025. Following the December 20/24 edition, the next Weekly Digest will be produced for the week of January 6 to January 10/25.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

FSRA Urges Stronger Oversight To Protect Life & Health Customers

Ontario's Regulator Highlights Agent Misconduct And Calls For Improved Compliance

By Freschia Gonzales, Wealth Professional, December 20, 2024

https://www.wealthprofessional.ca/news/industry-news/fsra-urges-stronger-oversight-to-protect-life-health-customers/387925?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20241220&_hsenc=p2ANqtz-9aOEu4EvWZk6z2A11vEfnuPKzX3-M55Blgt-9_cCG10hInKSFpGhc8ZubjJuv9bWHdzrnll7HHmcr2DlzJn7BZCqdEvw&_hsmi=339557948&utm_content=&utm_source=

Ontario's Financial Services Regulatory Authority (FSRA) released a report highlighting areas where the life and health insurance industry needs to improve consumer protection.

The findings are based on a review of 319 agents conducted between 2022 and 2024 through FSRA's Life Agent Misconduct Report and proactive supervision programs.

"While the 319 agents we reviewed don't represent the entire sector, some of their behaviours raise consumer protection concerns," said Huston Loke, executive vice president, Market Conduct at FSRA.

He encouraged insurers to examine their compliance systems and ensure that agents are selling insurance products that meet their clients' needs.

FSRA found certain practices among agents that do not align with consumer interests, including:

- Providing false or misleading information to insurers and consumers
- Engaging in coercion
- Acting as a front for unlicensed individuals
- Failing to provide written disclosure of conflicts of interest
- Neglecting to follow best business practices

The regulator took several steps to address these issues. It issued business practice letters in 57 cases, escalated 55 cases for further investigation, and closed 15 cases where no concerns were identified.

FSRA stressed that insurers are responsible for the conduct of their agents, including those contracted through distribution partners.

The regulator expects all industry participants to prioritise the best interests of consumers.

Looking ahead, FSRA plans to work closely with the industry to enhance the quality of Life Agent Misconduct Reports and share trends observed during its reviews.

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According to its press release, this initiative aims to help the regulator direct its supervision efforts toward areas of highest risk to consumers.

Why The Delay, Ottawa? Canada Is At A Crossroads On Open Banking

By Steve Boms, The Globe and Mail, December 19, 2024

https://www.theglobeandmail.com/business/commentary/article-why-the-delay-ottawa-canada-is-at-a-crossroads-on-open-banking/

Steve Boms is the executive director of the Financial Data and Technology Association of North America.

In the 2018 federal budget, the government announced its intention to pursue a made-in-Canada approach to open banking. That meant a system that would empower consumers and small and medium-sized enterprises to have control over their financial data and the ability to safely and securely use third-party tools to help manage their finances.

Yet what followed has been a paragon of bureaucracy: a two-part, four-year advisory committee study, the 18-month appointment of an open-banking czar in 2022 to provide recommendations to the minister of finance and years of consultations with industry.

After nearly seven years of delays, Canadians still don't have a financial services system with lower fees that lets them safely share their financial information with trusted apps to help manage money, find better deals and switch banks more easily. Entrepreneurs, meanwhile, have struggled to bring their fintech applications to market. In response, the government announced in its fall economic statement on Monday a one-year delay in Canada's open-banking journey.

The rest of the world is much farther ahead. Open banking has been enacted and expanded in the United Kingdom, United States, Europe, Australia, New Zealand, Brazil, Singapore and more. Consumer adoption of open-banking products in these regions has increased. In places like the U.K., for example, this means lower fees, better services and more options. Capital investment in fintech and the sector's economic output has grown in these places; meanwhile, in Canada, both shrank in 2023 for the second year in a row.

This fall marked the latest instance in which Ottawa's indecisive approach to open banking allowed another country to leapfrog Canada. On Oct. 22 the U.S. Consumer Financial Protection Bureau finalized a regulation that will enable a legally binding consumer financial data right south of the border. According to the head of the U.S. agency, this ruling will increase competition, improve financial products and services, and reduce junk fees. The U.S. regulator had only announced its intention to move forward with open banking a year earlier.

Even if the Canadian government does finally deliver its own promise to deliver open banking a year from now, the fintech sector rightly has significant concerns that the potential framework the Finance Department is considering could stifle innovation and further restrict competition.

Throughout the consultation processes led by the Department of Finance, the fintech sector's feedback has been unanimous: any effective open-banking framework must empower consumers and small and medium-sized enterprises to protect their data and access fintech apps.

This important concept underpins the U.S. regulatory approach and means that incumbent financial institutions such as traditional banks are not given special consideration to determine how or whether a consumer may use a third-party financial services provider. The U.S. regulator's framework imposes consumer protection requirements on fintech businesses but tailors these requirements based on the company's size. So, smaller fintech firms aren't held to the same heavy compliance standards as the largest financial institutions, recognizing that they may lack the resources to meet those burdens.

By contrast, the 2024 federal budget gave the Financial Consumer Agency of Canada responsibility for delivering and overseeing Canada's open-banking system. The agency is a small regulator with no expertise in technology-driven financial services and has previously warned consumers against using fintech tools.

The government has also been clear that, unlike other countries that have embraced open banking, it will not create a tiered process through which smaller companies that pose less risk to consumers can gain accreditation and come to market. Despite continuous concerns raised by the fintech sector and a growing number of tiered regulatory approaches internationally, this refusal by the government runs the risk of undermining the very innovation open banking is intended to facilitate.

This country stands at a crossroads on open banking. The question is: will Canada follow the successful models of other leading economies with modernized and secure financial systems? Or will the government prop up a system riddled with barriers to entry and entrench control with Canada's incumbent financial institutions?

OTHER CAFII MEMBER-RELEVANT NEWS

Market Conditions Continue To Be Favorable For Life Insurance Companies

By Kate McCaffery, Insurance Portal, December 18, 2024

Canadian life insurance companies, the four largest in Canada in particular, are benefiting from strong equity markets and demand for financial services in North America and Asia – favourable conditions that Morningstar DBRS says will likely continue going into 2025.

"Key downside risks include high U.S. equity valuations and mounting geopolitical tensions," they write in the commentary Canadian Life Insurance Outlook 2025: Market Conditions Favourable for Lifecos; Geopolitical Tensions Under Watch.

"Canadian lifecos have increasingly large fee-based, wealth and asset management businesses that are supported by market momentum," the report states. "Strong gains in the shares of certain lifecos could make buybacks less attractive and favour other means of capital deployment such as dividends or acquisitions."

Read full article (subscription required): https://insurance-portal.ca/life/market-conditions-continue-to-be-favorable-for-life-insurance-companies/

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Despite The Flaws Of 'Screen Scraping,' Ottawa Should Be Thoughtful In How It Phases It Out

By Parna Sabet-Stephenson, The Globe and Mail, December 14, 2024

https://www.theglobeandmail.com/business/commentary/article-despite-the-flaws-of-screen-scraping-ottawa-should-be-thoughtful-in/

Parna Sabet-Stephenson is the leader of Gowling WLG's Financial Services and Technology (FSxT) Group.

Whether they know it or not, an estimated nine million Canadians routinely share their private financial information through a process known as "screen scraping." Under this practice, consumers relinquish their bank login details to any number of tech service providers – few of which are subject to Canadian banking regulations – granting them broad permission to harvest their financial data for use in their products and services (fintech apps or accounting software, for example).

For years, major financial institutions and ambitious fintech companies alike have criticized the process. Fintech companies, especially, have been urging Ottawa to move decisively on a safer, more modern alternative – namely, a "consumer-driven banking" or "open banking" framework built on a secure application programming interface (API) to transmit confidential information.

Such a framework promises to kick open the door to a new era of transparency, security and consumer control around the sharing of sensitive financial information. To be sure, it's a door that's already wide open in Australia, Brazil, Britain and throughout Europe, and soon will be in the United States, as all of these places have enacted varying degrees and types of open-banking frameworks in recent years.

In the coming weeks, Canada is slated to finally follow suit, having pledged in its last federal budget to release its draft open-banking legislation before year-end. Many industry watchers hope and expect this would allow for the direct transmission of information to replace screen scraping, putting an end to a practice that, despite its myriad flaws, has fuelled a Canadian fintech ecosystem valued at more than US$300-billion.

Recently, The Logic reported that the federal government plans to go a step further, not just introducing open banking but actively cracking down on screen scraping in tandem.

This dual-pronged approach is a no-brainer. This outdated and insecure method of data transmission needs to go in order to protect Canadians and our financial system, boost trust, and accelerate the adoption of open banking in Canada.

But while the move to phase out screen scraping is great news, the real question is how – and how fast – Ottawa will make this transition as it rolls out open banking.

Speaking at an event in Gowling WLG's office in May, Julien Brazeau, an associate assistant deputy minister in the Finance Department and one of the architects behind Canada's future open-banking legislation, signalled that if Ottawa goes down that path, it would be taking a thoughtful, gradual approach to phasing out screen scraping.

But if this practice is indeed so fraught with privacy, cybersecurity and legal risks, why does Ottawa not insist on an outright ban from the start? There are a few important reasons for this.

First, Canada's open-banking legislation is expected to be narrow in scope initially, limited to only certain types of data – particularly those related to deposit accounts, payment products, investment products, lines of credit, and mortgages. In addition, fintechs receiving these data will initially not be permitted to edit it on banks' servers, which would prevent functionalities such as payment initiation or account creation.

For products and services reliant on data or functionality outside that initial scope, pulling the screen-scraping rug out suddenly is certain to hamper innovation. It's important, then, that Canada's screen-scraping phase-out at least be in lockstep with the scope of open banking's phase-in.

Second, as Canada begins to cautiously test the waters of open banking, screen scraping still offers a viable safety net in the event this transition encounters unexpected challenges. For example, if newly implemented APIs are found to be vulnerable to data breaches or other security risks, screen scraping may provide a necessary temporary workaround.

Finally, a very large question of accreditation looms over Ottawa's strategy. In a preview of Canada's consumer-driven banking strategy released as part of the federal budget, the government promised to include an accreditation process to "ensure that only those who meet certain requirements can participate in a data-sharing ecosystem." For the time being, it also ruled out tiered accreditation, which would impose varying requirements for different levels of access.

Will the accreditation rules be too rigid or onerous? It remains to be seen. What is certain is that the approach to accreditation must lend itself to a strategic phase-out of screen scraping. If the compliance burden proves overbearing, it's likely that many – particularly smaller players with fewer resources – may simply choose not to opt in, which would jeopardize the adoption of open banking in Canada.

The success of open banking will ultimately depend on Ottawa's ability to balance progress with pragmatism as it works to make screen scraping an obsolete practice.

A Digital Blueprint For Transforming Life Insurance Customer Experience

By Steve Cover, Digital Insurance, December 12, 2024

https://www.dig-in.com/opinion/digital-blueprint-life-insurance-customer-experience?utm_campaign=NL_DIG_Morning_Briefing_12132024&position=1&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_12132024&oly_enc_id=1794I9343067F0V

Customer dissatisfaction is a dire issue in the life insurance sector. A recent global survey report found nearly half of policyholders are unhappy with their experience. To many, this will be no surprise. Most companies in the life insurance

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sector – from carriers to distributors – understand the challenges at hand, but still the pace of change remains slow. Either industry participants are unsure of the how, or the prospect of transformation is too daunting. Or a combination of both.

Life insurers and distributors urgently need to shatter their reliance on outdated processes, technology and overcome cultural resistance. Only then will they be able to revolutionize their technology and operating models enough to fix the customer satisfaction problem.

Digital native customers demand speed, ease, and simplicity. Anything less and their business will be lost. Those companies that adapt to customer expectations for service and digitization stand to capitalize on their purchasing power.

Removing points of friction

Quick, frictionless progress is needed to keep prospects engaged during the buying process and meet expectations. Innovations like e-applications and e-signature solutions are already replacing off-putting, paper-based processes. But true efficiency also depends on the underwriting process.

Central to enabling smooth customer experiences is the act of moving crucial underwriting decisions closer to the front of the onboarding workflow. With the right technology linking carriers to advisors, customers eligible for automated or accelerated underwriting can be quickly identified. Analytics can offer intelligent recommendations and clear communication, keeping customers on their journey with greater clarity.

AI and predictive analytics can play a huge role in making this process the new standard, by fast-tracking lower risk applicants for automated underwriting. Not only does this secure more business, but it also reduces the time and money spent on underwriting resources. In life and annuity, where new customer growth is central to insurers' strategies and their stability in absorbing risk, carriers are willing to take on more risk to win business. The desire for a slick customer acquisition strategy exists. Now the technology to make it a reality needs to be deployed.

Automated underwriting coupled with a smart, AI-powered identification process means that underwriting resources can be devoted to only the more complicated applications, saving human attention for where it is required. But with the caseload reduction that automation can bring, even complex cases should become more efficient. Meanwhile, those that qualify for automation will benefit from a policy issuance time that lasts minutes, not days.

For customers not eligible for automated underwriting for a specific product, advanced data technology can be used to help advisors efficiently inform them of a product for which they would be automatically approved. For life and annuity distributors, this kind of technological assistance is akin to a car salesman keeping potential customers on the lot. If one option isn't right, technology and data support finding another that is.

Personalized product recommendations

Consumers want to be treated as individuals, not just numbers. Today, this means experiencing personalization when making decisions about their financial futures.

This is a tall order, but technologies like digitized workflows and AI have the potential to make personalization the norm. These innovations enable the life and annuity ecosystem to inject data intelligence back into client workflows to better understand customers, enabling carriers and distributors to identify potential areas for growth and make personalized policy recommendations.

Empowering financial literacy

At the same time, technology can be used to empower financial literacy by demystifying complex products and providing understandable information. This will serve as an increasingly valuable customer service component as L&A products are notoriously complicated for most Americans – and confusion is the enemy of sales.

LIMRA reports that the second main obstacle for consumers purchasing life insurance is a lack of understanding of what they need and how these financial products function.

Today, the industry is experiencing a massive life insurance gap while annuities continue to boom, bringing opportunity. Yet to take advantage of this, carriers and distributors must commit to providing clear information. Data management and illustrations technology can help educate the consumer at every touchpoint, from onboarding to servicing and claims. By using predictive analyses and automated visualizations to game real-time scenarios, firms can provide the guidance consumers need to build confidence with life and annuity products.

The era of self-service

Today, high-quality customer experience also means helping customers help themselves. Tools such as a large language model (LLM) chatbot can be used to help agents and advisors provide instant answers to questions about complex financial products. By digitizing lengthy and complicated documents and leveraging technology that can learn and intelligently distill this information, distributors can eliminate the need for a customer to turn to a call center, or worse, abandon the process.

Building a connected data infrastructure

The 2025 World Life Insurance Report revealed that 66% of U.S. life insurers named legacy system dependency as their top challenge in delivering a superior customer experience. When digitizing core systems, it's crucial to prioritize an interconnected ecosystem for seamless data flow, empowering all related functions. Many in the industry continue to struggle with integrating multiple accumulated point solutions and are instead challenged with fragmented systems and disparate datasets that hinder the ability to deliver fast, frictionless, and personalized service.

Win the race to true customer-centricity

When it comes to digital transformation, the life and annuity industry is decidedly behind other insurance lines. However, it is increasingly motivated to explore digital transformation.

But the clock is ticking to meet customer demands and understand their needs. Buyers are increasingly unwilling to tolerate drawn-out processes, so implementing digital business practices is essential if this corner of the protection market hopes to protect not just its customers, but its own future too.

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Lenders Are About To Face A Cap On Interest Rate Charges. Now Consumer Advocates Worry They'll Push Optional Insurance Products

By Erica Alin, the Globe and Mail, December 12, 2024

https://www.theglobeandmail.com/investing/personal-finance/article-as-lower-interest-rate-cap-looms-consumer-advocates-urge-ottawa-to/

The maximum interest rate that creditors can legally charge is set to drop in the new year, but consumer affairs experts and advocates are now urging Ottawa to expand the kinds of borrowing costs covered by the cap, warning the lower limit will likely spur high-cost lenders to turn to ancillary charges.

Ottawa has set the criminal rate of interest at an annual percentage rate (APR) of 35 per cent, down from the current ceiling of roughly 48 per cent, a measure billed as a crackdown on high-interest lending such as pricey instalment loans from alternative lenders. The change will apply to new loans starting Jan. 1.

But in its 2024 budget, the federal government said it was also considering including the cost of optional insurance products on high-cost credit in the new cap, an announcement broadly seen as targeting pricey creditor protection insurance. Such products help borrowers and their families pay off debt in case of job loss, disability, critical illness or death. In August, Ottawa published details of the proposals in draft amendments.

Some experts and anti-poverty groups say expanding the cap to insurance charges is necessary because of the risk that lenders will step up their efforts to sell creditor protection insurance, on which they often earn a commission, as the new interest rate limit puts pressure on the industry's profit margins.

"One concern is, with the lower interest rate cap, will lenders push credit insurance even more because it's a profit centre for them," said Gail Henderson, a law professor at Queen's University.

Organizations such as Acorn Canada, which advocates for low- and moderate-income people and championed the lowering of the criminal interest rate, have also long asked Ottawa to include creditor insurance in the overall cap.

The Canadian Lenders Association (CLA), on the other hand, has said the change will likely prevent the industry from offering optional default insurance to an estimated 3.6 million high-risk borrowers.

"Millions of Canadians are going to lose the right and the access to buy an optional insurance product that provides them meaningful financial protection and financial peace of mind in the event they run into death, disability or job loss," said Jason Mullins, the CEO of non-prime lender Goeasy, who spoke to The Globe and Mail in his capacity as the vice-chair of the CLA, which represents banks and instalment lenders but not payday-loan providers.

The CLA estimates that hundreds of millions of dollars in creditor protection insurance payouts helped borrowers keep up with debt payments when unemployment spiked across Canada in the early stages of the pandemic, Mr. Mullins said.

Other industry groups have criticized the idea of an expanded rate cap that would lump insurance with interest-related charges.

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The Canadian Life and Health Insurance Association said in a submission to the Department of Finance that it is concerned that the broad definition of insurance in the current proposals could capture a variety of products, including mortgage, property and auto insurance.

In general, there are also longstanding questions about whether the criminal rate of interest is enough or the best way to regulate the high-cost credit market.

Making it easier for borrowers to declare bankruptcy, for example, could incentivize lenders to better assess the debt burden their clients are actually able to carry, said Stephanie Ben-Ishai, a law professor at York University's Osgoode Hall Law School.

The minimum cost of filing for bankruptcy is currently around $2,000, a prohibitive amount for many low-income borrowers, she added.

Still, given that Canada does have a cap on interest rates, it makes sense for Ottawa to include credit insurance charges, Prof. Ben-Ishai said.

Advocates of the measure point to concerns that the optional coverage is often mis-sold. Canada's federal financial consumer watchdog has repeatedly flagged misleading sales of such products. But provisions recently added to the Bank Act should limit such sales practices at those institutions, Prof. Henderson said.

Still, those rules don't apply to high-cost lenders that are provincially regulated.

"The greater concern is the alternative lenders and people who are shut out of the prime lending market who have limited options and maybe are desperate for that money," she said.

A 2022 survey conducted by Acorn found that nearly 30 per cent of its members with high-cost loans said they had taken out the loans without realizing they would have to pay insurance charges or that the lenders suggested they sign up for coverage without explaining the product. Another 4 per cent reported being told that signing up for creditor protection was mandatory.

And creditor insurance can saddle high-risk borrowers with steep costs. B.C.'s consumer protection watchdog, for example, warns that the cost of optional products such as loan insurance can end up costing debtors more than the amount they borrowed.

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What's Holding Insurers Back On AI?

Carriers Struggle To Scale AI Initiatives Despite Projected $19.9 Trillion Economic Impact By 2030. Here Are Three Key Areas To Focus On.

By Davide Palanza, Insurance Thought Leadership, December 02, 2024

https://www.insurancethoughtleadership.com/ai-machine-learning/whats-holding-insurers-back-ai?utm_source=ActiveCampaign&utm_medium=email&utm_content=What%20s%20Holding%20Insurers%20Back%20on%20AI%3F%2C%20How%20Business%20Rules%20Engines%20Can%20Slash%20Time%20to%20Market%20and%20more&utm_campaign=Six%20Things%20December%20Wrap-Up%2012%2019%2024

According to a recent analysis by IDC Financial Insights, AI is expected to generate a cumulative economic impact of $19.9 trillion by 2030, reflecting a compound annual growth rate of 3.5%. Notably, 50% of this impact will be concentrated in North America, while 25% will come from the EMEA region, with the remaining 25% from Asia-Pacific. This distribution largely favors areas that had robust foundational infrastructure at the beginning of the AI revolution.

A crucial takeaway from the IDC report is that AI's economic influence extends beyond direct investments in AI services and solutions. Its disruptive potential is significantly driven by ripple effects throughout the economy. AI affects various sectors along the supply chain, affecting both backward providers of AI solutions (like network infrastructure, hardware, and data storage companies) and forward buyers of AI technology (businesses that integrate AI into their operations to enhance performance).

Additionally, the report highlights "induced effects," where AI influences consumer households, resulting in higher salaries for AI professionals and the emergence of new roles such as AI ethicists, algorithm auditors, and prompt engineers. This rapid adoption of AI technologies is poised to have far-reaching economic consequences, reshaping industries, creating markets, and transforming the competitive landscape.

Since 2023, the insurance industry has entered the digital business era, with generative AI emerging as a key player. While insurers are making substantial investments in generative AI, success rates for deploying this technology vary across different regions. According to a 2024 survey by IDC, nearly all industry professionals anticipate that generative AI will significantly alter competitive dynamics within 18 months, which has heightened the emphasis on integrating this technology throughout the insurance value chain.

Despite this enthusiasm, challenges persist. In 2024, only 68% of the average 24 generative AI proofs of concept met their key performance indicators, and only two were fully integrated into production. This highlights the difficulties organizations face when moving from experimentation to full-scale deployment. Over the past 18 months, insurance CIOs have launched numerous business-led AI initiatives, but these efforts have often resulted in scattered, fragmented, and sometimes redundant applications—a phenomenon IDC refers to as the "GenAI scramble."

Consequently, many insurance carriers have fallen into a productivity trap, focusing on short-sighted value-generation opportunities rather than fostering collaboration or planning for scalability. This approach has limited their ability to create reusable data and models across departments, leading to execution failures.

Underwriters in commercial lines are investigating how generative AI can enhance data submissions for complex risk programs and streamline access to unstructured information. Similarly, claims adjusters are assessing how generative AI

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can aid in cognitively demanding tasks such as fraud detection and improve claims negotiation strategies to minimize leakage. Compliance experts are also curious about how vendors are using generative AI to alleviate the challenges of regulatory reporting and compliance.

While these initiatives are noteworthy and offer valuable insights for technology leaders to better understand generative AI, they do not fully harness the transformative potential of this technology. To effectively leverage generative AI's capabilities and innovate business models within the industry, a more comprehensive integration and strategic approach are crucial.

Several key factors are preventing insurers from successfully moving AI projects from concept to production:

- **High Costs Undermining ROI Goals**: The top challenge is the inability to meet return on investment objectives. C-level executives face immense pressure to deliver ROI, and business leaders have little tolerance for generative AI project failures. Investments are scrutinized for tangible business impact. Contributing factors include weak strategies for monetization, superficial feasibility assessments, changing use case requirements during development, and ad hoc deployments that lead to poor infrastructure decisions.
- **Shortage of Skilled AI Developers:** Finding developers with the right AI expertise remains a challenge. Many organizations struggle to secure talent capable of executing AI projects effectively.
- **Poor IT and Line-of-Business Coordination:** AI projects are often viewed as IT responsibilities, with limited accountability from the business side. However, success requires strong collaboration between IT and business units. AI use cases frequently involve cross-departmental data, requiring multiple layers of validation to prevent issues like data toxicity or misalignment.
- **Inadequate Infrastructure for Scalability:** Organizations often struggle to move from experimental setups to scalable, AI-native infrastructure. Optimized and portable workloads are crucial, but many insurers face difficulties in making this shift. Inadequate architecture increases infrastructure costs, especially in areas like training, tuning, and inference.

Is generative AI just a passing trend? While challenges certainly exist, the preliminary data suggests that underestimating its potential would be a significant miscalculation.

Recent IDC surveys indicate that insurance organizations stand to gain considerable advantages from effectively implementing generative AI. Early adopters in the sector are already seeing marked improvements in operational efficiency, productivity, and profitability—especially those that have advanced their AI maturity and are better equipped to manage business risks. A clear link between digital revenue share and AI maturity underscores the necessity of enhancing digital capabilities to fully leverage these benefits.

To successfully pivot to AI by 2025 and drive meaningful business transformation, insurers should focus on three key areas:

- **Develop a Comprehensive AI Strategy:** Insurers must prioritize the early integration of generative AI technologies. Appointing an AI orchestrator can facilitate cross-functional collaboration, ensuring efforts are directed toward high-impact use cases. Enhancing customer experience through intuitive, AI-powered digital platforms is essential, along with reimagining business models to foster innovation and strengthen capital management.

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- **Establish a Unified AI Governance Framework:** Maintaining data integrity and alignment with overarching AI strategies is crucial. Insurers should prepare their data for readiness by consolidating systems and standardizing processes to unlock efficiencies. Additionally, addressing talent shortages and regulatory challenges through responsible governance solutions is vital.
- **Adhere to the "Buy, Reuse, Build" Principle:** Technology investments should focus on cost-effectiveness and operational efficiency. Insurers should first purchase or reuse existing tools before building custom technologies. This approach ensures efficient deployment and optimizes AI-related investments. Leveraging AI for cloud cost optimization and governance through FinOps practices will enhance resource management, ensuring that cloud infrastructure operates efficiently and maximizes returns on IT investments.

Insurance decision-makers will need to develop a strategic plan for AI adoption, including how to overcome key obstacles. Those that do will be able to move beyond the current "GenAI scramble" and successfully navigate AI-driven business transformation.