200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

CONFIDENTIAL TO CAFII MEMBERS AND ASSOCIATES; NOT FOR WIDER DISTRIBUTION

Regulatory Update – CAFII Executive Operations Committee, September 2024

Prepared by Robyn Jennings, Research Analyst.

Contents

cafii acifa
The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance
200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

If, for any reason, one or many of the embedded documents linked within this Regulatory Update do not work, please contact CAFII's Research Analyst, Robyn Jennings, directly, and she will provide you with a copy of the document(s) in question.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Federal/National

Canadian Association of Financial Institutions in Insurance (CAFII)

On September 11, 2024, CAFII Held a Webinar with Four Atlantic Regulators.

On September 11, 2024, The Canadian Association of Financial Institutions in Insurance (CAFII) held its fourth webinar of 2024 – *a Conversation with Atlantic Regulators*. CAFII's Executive Director, Keith Martin, moderated the webinar. He was joined by four insurance regulators representing the four Atlantic Canada provinces. All four have years of experience in the financial regulatory environment. They were:

- Jennifer Crummey (Director of Consumer and Financial Services of Newfoundland and Labrador),
- Rahul Deshmukh (Manager, Financial Institutions, Office of the Superintendent of Insurance (OSI)),
- Jennifer Sutherland Green (Deputy Director & Senior Legal Counsel, Pensions, Financial and Consumer Services Commission (FCNB)), and
- Lauren Keefe-Hogan (Registry and Licensing Counsel, Government of Prince Edward Island's Financial and Consumer Services Divisions).

Many representatives from CAFII's 15 member companies and 10 Associates attended the webinar, as did representatives from allied industry Associations such as the Canadian Life and Health Insurance Association, or CLHIA; and the Travel and Health Insurance Association, or THIA. Many insurance and financial services regulators and policy-making authorities attended as well, including the following government organizations:

- The Insurance Council of British Columbia;
- The Government of Alberta;
- The Financial Services Regulatory of Ontario, FSRA;
- Québec's Authorité des marchés financiers, or the AMF;
- The Financial and Consumer Services Commission of New Brunswick, or FCNB.

New Brunswick

After introducing the speakers, K. Martin began the webinar by speaking with Jennifer Sutherland Green about New Brunswick's regulatory priorities. J. Sutherland Green explained that for the next few years, FCNB's priorities are:

- Rule INS-001 Insurance Intermediaries Licensing and Obligations, and,
- Rule INS-002 Insurance Fees.

Both rules came into effect on February 1, 2023. They followed amendments to the Insurance Act, which gave the FCNB rule-making authority.

Rule INS-001 updates the licensing requirements for existing individual licensees, outlines supervision requirements, and strengthens market conduct standards. It also introduces new licensing categories for insurance agencies, MGAs, adjusting firms, and Restricted insurance representatives. Prior to the rule and amendments coming into effect, only individuals in the insurance industry were licensed in New

Brunswick. The new restricted insurance representative license is a limited insurance license. It requires those who engage in the selling of incidental insurance to be knowledgeable and accountable, and consumers are provided sufficient information to make an informed decision. The introduction of both these rules not only increased the number of licenses in New Brunswick but also expanded regulation to companies that were not previously overseen by FCNB, such as car dealerships.

Implementing these rules required considerable time and resources. FCNB gave itself a two-year window to transfer all licensees to the new system. During the first year that the rules came into effect, education was another primary focus. Ensuring people were familiar with the new requirements was an important objective. FCNB has moved to a new phase in which they now expect everyone to be familiar with the new rules, and the required compliance measures will be enacted where necessary.

For the coming 2-3 years, FCNB's priorities will be to continue implementing the new rule and using its compliance site visits and other reviews to ensure adherence to the new measures, including consumer protection. Compliance site visit reviews could include ensuring that the restricted insurance representatives are using the proper forms, that intermediaries are licensed properly, and that the designated representatives are using the report function properly.

As FCNB approaches the two-year mark for the rules, it has begun a systemic review to add clarity where needed and make the necessary adjustments. The FCNB wants to fully implement the feedback it has received. In addition, the FCNB is continuing some internal process improvement projects and updates to its website. It also has an ongoing project for a second phase of modernizing the Insurance Act.

Nova Scotia
Rahul Deshmukh then spoke about the priorities in Nova Scotia. He began by explaining that the Office of the Superintendent of Insurance (OSI) is focused on healthcare. From an insurance regulator side, R. Deshmukh is actively working to reduce the administrative burden on physicians through standardization. OSI has standardized the short-term disability forms it uses but is intent on standardizing more. K. Martin commented that CAFII is actively monitoring Quebec's Bill 68, which is trying to lower the administrative burden on physicians, which sounds to be aligned with OSI objectives.

R. Deshmukh then explained that the regulator is also planning to introduce continuing education for licensed agents. The goal is to introduce continuing education forms in the next year or two. Due to OSI's small size, this will be self-monitored and self-reported. Most insurers already have continuing education; therefore, it won't be a big change if any rules or regulations are implemented in the next few years.

Over the course of 2023, OSI held consultations with industry and stakeholders on auto review. No decision has been made regarding potential changes. As a division, OSI also takes consumer inquiries, including complaint forms, from the public if they have any claims issues or insurance in general. Many inquiries revolve around resolving complaints; OSI receives 20-25 complaints per week (20% of all inquiries). Consumers also complain about surcharges.

OSI is actively involved with CCIR and CISRO, working on various committees/subcommittees (GILQR, LLQP, Cybersecurity).

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Pre-COVID, OSI used to conduct LLQP exams in person, but now they are completely online. One issue that has arisen from this move has been an increase in cheating. Not all cheating accusations are valid, but confirmed instances have increased since the online shift. OSI is exploring options to reduce or manage this issue.

OSI is a part of the Federal Committee for Disaster Insurance, which is another area of interest for the regulator.

Prince Edward Island

Next, Lauren Keefe-Hogen explained Prince Edward Island's priorities. She began by explaining that her office, the Office of the Superintendent of Insurance for PEI, is a part of the Financial and Consumer Division within the Justice and Public Safety Department. As well as the responsibility for regulating insurance, her office regulates several other industries, including securities, real estate, debt collection, payday lending, trust and fiduciary companies, consumer and credit reporting, direct selling, and charitable lotteries. They are also responsible for administering several registries. Therefore, to adequately manage many different mandates, one of the regulator's key priorities is efficient resource management to ensure effective regulatory oversight and consumer protection.

Part of implementing this priority is modernization and technology renewal. The current plan is to leverage technology to enhance regulatory processes and reduce the administrative burden on stakeholders. Currently, L. Keefe-Hogen's office is engaged in three multi-year technology projects, which are in various stages of development and implementation. The most recent project is focused on replacing the old legacy licensing system. The current system is paper-based and, therefore, manual, which causes delays. L. Keefe-Hogen and her team are in the requirements-gathering stages of this project, but they are very excited about the prospect of providing PEI's licensees with more efficient service, more timely communications, and greater access to licensing data.

As part of the goal of technology renewal, her office is trying to accept electronic payments for insurance premium taxes. This also includes updating the website's content across her office's many mandates, including insurance.

Newfoundland and Labrador

Finally, Jennifer Crummey detailed Newfoundland and Labrador's priorities. Like PEI, J. Crummey's office is small with a wide-ranging and diverse mandate. This includes regulatory and registrar work across many different areas, including payday lenders, high-cost lenders, mortgage brokers, and real estate. One consistent priority is balancing the mandate between working as an insurance regulator while being responsible for consumer protection.

An important daily function of J. Crummey's office is the collection and assessment of consumer inquiries and complaints.

Another priority is maintaining reasonable service standards for licensing and application processes. Her office currently has an online process in place and is cognizant of the importance of timely and clear responses.

J. Crummey's office is mindful of legislation and regulations. It keeps an eye on regulatory happenings across Canada, both provincially and federally, which is why her office participates in various federal and provincial groups, including CCIR and CISRO. They are continuously looking at opportunities for harmonization or establishing some sort of commonality within broader applicable contexts.
Another area of interest is climate change. Temporary licensure is top of mind in relation to this issue.

In June 2024, Newfoundland and Labrador announced that it would implement diagnostic treatment protocol regulations, which would provide early access to treatment for sprains and strains resulting from auto accidents. These regulations are very similar to those already in place in Nova Scotia and Alberta. J. Crummey explained that her office is working with stakeholders to implement the regulations by December 2024.

K. Martin introduced the second part of the webinar, in which each regulator discussed one key issue impacting the insurance industry.

L. Keefe-Hogen spoke about the challenges within the insurance regulatory environment. She explained that one key challenge merging within PEI and across Canada is climate change. PEI is a small but densely populated island; therefore, it is uniquely affected by climate change. This includes extreme weather, rising sea levels, coastal erosion, and saltwater intrusion. PEI has already experienced substantial damage due to abnormally high hurricane occurrences. As an insurance regulator, there is much concern about how climate change will impact the industry provincially, particularly the increasing frequency and severity of claims. Many are wondering how this will affect the financial stability of the market.

Other concerns, not limited to climate change, are changing risk profiles, the availability of coverage for consumers, the worry that high-risk areas may receive limited coverage or see insurer withdrawal from coverage markets, ensuring the fair treatment of consumers, and providing timely and fair claims handling assessments. Another area, one of which is particularly relevant, is keeping up with technology. As a regulator, modernization is important. Currently, L. Keefe-Hogen's office is undertaking a modernization project. Data migration and data security issues are at the top of mind when it comes to modernization and digitalization.

Another challenge PEI experienced was implementing the IRS-17 regulation and the new OSFI forms. The transition to both these new regulations significantly changed PEI's accounting policies and processes, which could impact key financial metrics important in prudential regulation. PEI is working to ensure proper employee training on the new regulations and forms.

Balancing the need for thorough oversight without burdening industry is something PEI is monitoring. Regulators need to ensure that compliance requirements are manageable while effectively addressing the risk and ensuring consumer protection.

K. Martin asked L. Keefe-Hogen how her small team successfully manages such a large scope of issues. He mentioned that CAFII, like her team, is small, and is, therefore, curious if she has any advice. L. Keefe-Hogen responded that while it is a challenge, she has a core team of senior regulators that speak regularly about their many mandates. Lines of communication are open and active. She added that she relies heavily on collaboration with other jurisdictions, including the other regulators sharing information. Harmonization is important as a result.

K. Martin then asked R. Deshmukh to speak about technology issues in the industry, including the development of AI. R. Deshmukh explained that the insurance sector is experiencing many digital changes. While digitalization has many positives, it also has negatives.

AI is at the forefront of industry conversations, especially because it is changing so quickly. It has become an integral part of customer service and streamlined claims processing and underwriting. AI is also used in fraud detection and customer personalization.

Quantum computing is another growing technology trend. It has the potential to solve large, complex problems quickly. R. Deshmukh believes that it will revolutionize the insurance industry in the coming years. For example, it will optimize investment portfolios and team processing. It could also be used in fraud detection. However, there are some threats and issues with quantum computing, including cyber security and data breaches.

Another technology trend is insurtech innovations, such as blockchain, IoT (Internet of Things), and cloud platforms, all of which improve operational efficiency. Insurtech could address and streamline underwriting, claims, and risk management. Personalization through digitalization, like custom apps and portals, can enhance customer interactions and satisfaction.

Some of the industry's current issues with technology involve data privacy and security. Regulators are asking how data will be protected with increasing digitalization. Fairness and bias in AI are concerns, as is regulatory compliance in AI framework development and implementation. Regulators are asking what the ethical uses of AI and automation are. AI is costly; many insurers are struggling with the financial burden of AI implementation and maintenance.

Many regulatory challenges weigh on regulators' minds. These include AI governance, addressing emerging and changing tech, climate risk and disclosure, consumer protection and FTC, third-party risks, and innovation versus compliance. Balancing new technologies with regulatory standards without stifling innovation or breaking laws can be tricky.

Next, J. Crummey spoke about important trends in the insurance industry. She noted that technology and the use of AI are increasingly pervasive across industry, something regulators are grappling with. There has been a shift towards consumer-centric modelling, particularly for L&H providers who have heard an increasing desire for personalized healthcare considerations. Another trend is clients' interest in self-service options. On-demand features, like Amazon, are something clients want and expect. Individualization seems to be a growing expectation among consumers.

With a rapidly evolving regulatory environment, regulators must be increasingly adaptable. Climate change, AI and tech, and more have forced and will continue to force regulators to be flexible. Environment, Social and Governance issues (ESG) and Diversity, Equity and Inclusion (DEI) are being embedded in reporting requirements and business codes of conduct. Transparency and accountability have grown in importance as well. This ties into consumers' evolving expectations.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Embedded insurance is appearing increasingly across industry. The labour market will factor into the industry's evolution. Positions will change as technology does, and talent recruitment will be important to replace an aging population.

J. Sutherland-Green spoke next, explaining important changes with CCIR and CISRO. CISRO has completed significant cooperative national products, including the development of ongoing modernization of the LLQP, in conjunction with CCIR. Both have or recently had committees dedicated to FTC, climate change, consumer awareness, cooperative supervision, fintech, and more.

One recent and notable publication by CCIR is the report on the fair treatment of customers by Canadian insurers, which was released in June 2024. This report provides insight into governance and business culture in relation to the fair treatment of customer reviews. In April 2023, CCIR released the climate change, national catastrophes, and consumer awareness position paper, which focuses on actions insurers can take to ensure consumers receive and understand the information, advice, and incentives necessary to make informed decisions. In May 2023, CCIR and CISRO released a position paper on the upfront compensation of segregated funds, which followed a discussion paper on the same topic in 2022. Both organizations work closely on a wide range of topics.

J. Sutherland-Greene believes that CCIR and CISRO benefit from input from both smaller and larger regulators. Many of the Atlantic province regulators have small teams, so personnel often participate in multiple committees and files. This is a boon because these employees have a wide range of in-depth knowledge.

K. Martin concluded the webinar by thanking the four panellists.

CAFII Contacted the Department of Finance Requesting a Deadline Extension for Its Consultation on the Inclusion of Insurance Costs in the Calculation of Interest.

On August 27, 2024, in an email sent to the Department of Finance, with CAFII's Board of Directors CC'ed, CAFII's Executive Director, Keith Martin, requested an extension to the consultation deadline of September 11, 2024, for the proposed amendments to the *Criminal Code*, including provisions to include insurance costs in the calculation of interest. As per K. Martin's email, CAFII's members are concerned about whether this provision intends to capture optional credit protection and balance protection insurance. Furthermore, the email explained that CAFII members are also concerned about the implementation timeline of January 1, 2025 (four months or less). Typically, a change this substantive requires a minimum of 12-18 months to implement, considering it will need system changes and policy modifications. Presently, CAFII has not heard back from the Department of Finance.

Read CAFII's full letter to the Department of Finance requesting an extension of the deadline for submission on the proposed amendments to the Criminal Code here (*CAFII Submission to the Department of Finance on Proposed Amendments to the Criminal Code FINAL*).

On the same day that CAFII contacted the Dept. of Finance, Osler published an article (*Department of Finance proposed significant changes to federal financial institutions legislation and Criminal Code)* summarizing the changes proposed to the criminal code. The article summarizes the proposed amendments, of which there are five sections:

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

1. **Competition and consumer choice**
   i. Preventing consolidation among large banks
   ii. Strengthening the Ministerial application process
   iii. Broadening participation in auto leasing
   iv. Regulating bank control over deposit broker subsidiaries
2. **Consumer protection**
   i. Increasing anti-fraud responsibilities
   ii. Increasing branch network requirements and reporting
3. **Modernizing the financial sector framework**
   i. Prohibiting interlocking directorates in the financial sector
   ii. Increasing statutory thresholds
4. **Geopolitical risks**
   i. National security and integrity
   ii. Enhanced authority for Finance and OSFI
5. **Regulatory framework**
   i. Predictability
   ii. Strengthening oversight of artificial intelligence

According to Osler, the federal government introduced amendments to the criminal rate of interest provisions in Bill C-47, the Budget Implementation Act, 2023, No. 1. The amendments changed the definition of “criminal rate” in the Criminal Code from an effective annual rate of interest that exceeds 60% to an annual percentage rate (APR) that exceeds 35%, meaning that both the method of calculation and the interest rate cap were changed.

Subsequently, draft regulations were published on December 23, 2023, that set out important exemptions from the application of the criminal rate of interest cap, including in respect of certain commercial loans. These changes are set to come into force on January 1, 2025, although agreements or arrangements entered into before such date will benefit from the transitional provisions set out in Bill C-47.

Osler encouraged industry participants to submit comments before the consultation period closes on September 11, 2024.

For more information on the proposed changes to the criminal code, see the summary of Torys’ article.

Canadian Council of Insurance Regulation (CCIR)

On August 29, 2024, CAFII Met with CCIR to Request the New Reporting Requirements around Complaints Escalation be Changed.

CAFII’s Executive Director, Keith Martin, met on August 29, 2024, with Sarah O’Connor, CCIR Secretariat, to request that the new reporting requirements around complaints escalation be changed from May 1, 2026 (which would require collecting 2025 data) to May 1, 2027, to allow CAFII members to have 18 months to implement this change.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

The Travel Health Insurance Association of Canada (THiA)

On September 26, 2024, THiA Held Its Innovation Summit on Emerging Technologies, Consumer Expectations, and the Travel Health Insurance Industry's Shifting Global Landscape.

On September 26, 2024, THiA held its Annual Innovation Summit. This year's summit, *Navigating Disruption: Travel Health Insurance In a Time of Change,* focused on exploring the impact of emerging technologies, consumer expectations, and a shifting global landscape of the travel health insurance industry. CAFII's Research Analyst, Robyn Jennings, attended the event. Her summary is included below.

After opening remarks, the summit began with the first presenter, Ramy Nassar, who spoke about AI and industry. As Mr. Nassar explained, in the short term, we often overestimate AI's impact but then underestimate it in the long term. We must, therefore, change the way in which we conceive and speak of AI to consider technology's long-run impact.

AI and technology have evolved immensely since 1997. Now, AI is able to do more than ever before; it can mimic human interactions in the sense of relationship building, deception, and manipulation. AI is now utilizing non-deterministic actions. Therefore, we must think about AI in the future and ask how it will continue to progress, especially when it comes to fraud and insurance.

According to Mr. Nassar, there have been a few major shifts in today's AI landscape.

- The democratization and accessibility of LLMs have only increased. Edge AI has grown; it is when your technology can run algorithms locally. This means that people are putting sensitive data into their devices, and large companies no longer have access to that.
- A shift towards more strategic work. People use AI on a daily basis, which increases productivity. AI is, therefore, changing the nature of work itself.
- Accountability. Companies are being held accountable for AI outputs. An airline had a chatbot misquote a ticket cost and lost when the customer took them to court to say they should only have to pay what the chatbot quoted. Therefore, the AI is now considered a part of the company, like an employee.

How is travel insurance being disrupted? We have begun to see more AI-powered personalized risk assessments for tailored premium pricing. Hopefully, we will begin to see real-time travel disruption prediction and proactive customer communication, as well as predictive analytics to better understand travel trends and allow for dynamic product development. These tools do exist today, however, with AI, they will only continue to grow in importance and skill. There will likely be a growth in AI-driven underwriting for instant policy issuance and risk assessment.

What will the next 5 years look like? There will be shifts in the nature of work, including our definition and conception of work, which will have profound human impacts. There will be more serious threats from bad actors wielding unprecedented power. There will be an increasing intersection between AI, quantum computing, and synthetic biology (the coming wave); which means we need to ask how the collide of these three things will impact us. If government continues at the current pace, it is very likely that our policies and legislation will not keep up with this technology. We need to be asking what are the guardrails we need to put up. Furthermore, we must be conscious of biases. We must be conscious of the implicit assumptions that creep into AI and algorithm functions. Both will reflect and amplify our biases; therefore, we must have safeguards against ourselves.

In the travel insurance industry, over the long term, AI will be used to anticipate global travel trends and emerging risks for proactive insurance product development. Therefore, we need to be proactive in the risk assessment, including creating a KPI or benchmark for usefulness and success. Responsible AI adoption includes anticipatory thinking and the creation of regulatory frameworks, including governance structures. Organizations must remain conscious and vigilant of putting people first. We must stay focused on human relationships and the unique value that humans bring to industry. Leaders and regulators need to foster curiosity as well as a culture of learning and collaboration to succeed with responsible, ethical, and successful AI implementation.

Mr. Nassar concluded his presentation and opened the floor to questions from the audience. One member asked if we should be scared of AI. He replied both yes and no; it is the unknown that is scary. Instead of AI itself, he is more worried about how humans will decide to use AI than it taking over the world.

The second presentation of the day began. Noelle Roque spoke about embracing AI for business transformation and innovation. The transformation journey for technology and AI really began in the 1990s to 2000s. In the 1990s, the question was how can we transform and improve current business technology, which was answered through corporate restructuring and reengineering. Then, in the early 2000s, this transformation was about modernization with new tools and digital adoption (physical to digital). Currently, this improvement question has been answered with AI adoption. Now, we can solve historically unsolvable or challenging questions. What does this mean for the markets?

Ms. Roque moved on to the current state of affairs for AI and business leaders. According to her findings, 94% of business leaders surveyed agreed that AI is critical to success over the next five years. There was a 2.5x increase in AI adoption globally in 2022 compared to 2017, and 79% of leaders surveyed full-scale development for 3+ AI applications. That being said, 75% of North American firms were still testing the waters for AI adoption and integration in 2021.

So, what is getting in the way of AI adoption and deployment? While there is an understandable fear that AI will replace jobs, in fact, companies have hired more talent to help adopt, deploy, track, and manage AI. Currently, 11% of companies worldwide are using GenAI at scale, 22% regularly use GenAI tools in their daily work, and 75% expect their investment in AI to increase over the next 3 years. There is a growing need to take a more agile approach to GenAI because it has a big impact on organizations beyond revenues. It relates to workload, skill development, job titles and responsibilities, and consumer trust.

What would sustained adoption look like? To start, it would require a disciplined strategy to deploy genAI at scale. This would mean prioritizing use cases based on value, shifting from point solutions to reimagining complete workflows, and focusing on reusability and ability to scale. To do this, it takes creativity and curiosity.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

So, how can we integrate genAI tools with human capabilities? We combine genAI with traditional AI, digital, automation, and process re-engineering. We envision and design for customers a self-service future. We focus on change management to drive sustained adoption. How do we make sure customers cannot manipulate these AI tools? We incorporate guardrails that we then monitor to see where the gaps in security are.

Ms. Roque concluded her presentation by asking how we embed different practice controls and guardrails for common standards. Her answer was that we develop a governance structure to support rapid implementation and common standards, refine metrics to align with strategy, and enable a continuous innovation culture.

The first panel conversation of the day began. Will McAleer and Edona C. Vila discussed regulations and considerations for implementing new technologies. Ms. Vila commented that Canada is typically slower to regulate. While it tends to follow, it doesn't differ in terms of policies and legislation. No matter the type of innovation or technology, law isn't going to happen without use cases or a level of adoption in the market space. Canada is fairly diagnostic in its regulations. One criticism is that, in the adoption of connected devices in the consumer context, Canada needs a horizontal approach to the regulation of products to mitigate concerns around harm. Canada is moving towards this horizontal approach instead of its typical vertical one.

Ms. Vila told audience members not to be afraid of new technology. Instead, regulators should ask how we can solve emerging issues caused by new technology.

The panel opened the floor to questions from the audience. Someone asked what aspects of the law need to change for the success of new technologies. Ms. Edona replied that it depends on the law. In the case of consumer protection, there needs to be balance. Common law allows for evolution that occurs in society to be judged slowly rather than immediately, which is a good way to approach new technologies.

After lunch, the third presentation of the day began. Todd Hirsch gave a high-level overview of the threats and disrupters to the Canadian economy. To begin, he listed the following current issues generally impacting Canada:

- housing crisis and affordability and by extension, consumer affordability.
- High inflation. While this has lessened recently, prices, however, have not dropped. Consumers are still paying very high bills. Interest rates should continue to fall; however, this cannot be guaranteed.
- Extreme weather events and higher and more extreme climate change. We often talk about climate change in the far future, but we cannot miss the point that we are already experiencing more extreme weather events. This already has impacted the economy. The number of natural disaster claims has increased by 4x. This is a disproportionate growth in claims compared to the economic growth. 2008 saw 40$ M claims for natural disasters. In 2023, it was 3.1$ B for natural disasters, and 2024 is expected to far exceed 2023.
- AI and tech will affect the travel health industry by changing how we assess risk and personalized claims. Predictive analytics can help price policies more competitively and identify emerging risks faster.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

- Consumer preferences and trends are changing. There is a greater level of health consciousness, particularly around mental health. There is a growing demand for preventative care and not just emergency care.
- Customization and flexibility: People want more unique travel plans that are customized to them. Consumers want personalized options catered to their various activities and specific demographics. Consumer expectations around choice are exploding; Starbucks and Amazon are examples of this. Sustainable and ethical choices have become important to consumers who want companies to align with morals.

Mr. Hirsch explained that geopolitics is the biggest threat to the economy and industry. We live in a very fragile world with high tension and wars raging across the globe. Tensions are on the rise between the US and China; the US is supported by the G7, the European Union, and NATO, while China is supported by BRICS (Brazil, Russia, India, China, and South Africa).

Mr. Hirsch provided the historical context for where these geopolitical tensions arose. From the end of WW2 till the early 2000s, it was a time of collaboration and global unification in trade. By the end of the 1990s, globalization had largely increased global prosperity. By the 2010s, the global economy had begun to fall apart; more countries had begun to pull away from trade agreements, including the US. Now, this feeling of disinterest in globalization is intensifying; last August, the BRICS added Egypt, Iran, Ethiopia, Argentina, Saudi Arabia, and UAE. While unclear, it seems to suggest that there will be more and more delineation from global trade. Geopolitics, particularly relating to the US, will impact Canada and the travel health industry. With war, travel declines due to heightened perceived risk. There might be a loss of international agreements, meaning that there could be travel limitations in cross-border health insurance portability. Pandemics and health crises could occur again.

Mr. Hirsch concluded his presentation by stating that, for economic success, Canada must be able to pivot. This includes looking at issues from all angles. It is important to bring in people who look at things from different angles. Economics is inherently about human connection. When companies face volatility from geopolitics, remember that human connection is the foundation upon which everything is built; do not lose sight of this.

Moderated by Patrick Doyle, Jil MacDonald, Robin Ingle, and Sid Mouncey were the final panel and speakers for the day. Mr. Doyle asked the panellists their initial thoughts on the day's presentations. Ms. MacDonald said that, from the consumer perspective, it is clear Canadians want change in the ways in which insurers are providing for them, including increased digital options with some human interaction if needed. She asked insurers to think about leveraging the sheer volume of data that we are collecting and will continue to collect in order to better serve customers and their changing demands. Mr. Ingle spoke to the many AI conversations. He said not to fear using technology. It is not a loss of ground; it is there to help insurers have better front ends for their customer base. Mr. Mouncey commented that what stood out to him from the day's presentations was the mass amount of data available to insurers and how they plan to leverage it. He added that, clearly, data management will only be increasingly important.

When asked about innovation, Mr. Mouncey commented that innovation is currently focused on user experiences and customer services. His organization is also focused on cyber risk. Those are the areas of innovation that most excite and interest him. It is also all centred around helping customers. Ms.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

MacDonald said that, in terms of innovation, her company is always focused on innovation and self-disruption in a change-focused way. She is always focused on changing consumer experiences through partnerships and brand deals.

All the panels were then asked what keeps them up at night when it comes to industry. Ms. MacDonald said industry potential. The insurance industry is so regulated, particularly the requirements for consumers to receive coverage. Therefore, she feels insurers need to ask how they can better serve consumers and potential customers. Mr. Ingle said that nothing keeps him up at night. He is optimistic about the industry and sees it evolving in an exciting way. One thing he does see is the tendency to make issues monumental when, in fact, solving problems isn't as hard as we make it seem. Solutions need to involve customer consideration in order to be truly successful. He added that consumers are more intelligent than we make them out to be; give them the information and let them decide.

Mr. Mouncey said the biggest thing is the speed at which decisions are being made. For the UK, it is tedious, as if there is a seeming lack of urgency. This can be seen in the claims process. He finds this especially frustrating because of the sheer volume of data available allowing us to predict what will happen. This is a big reason he sees innovation as slow because decision-making is slow. The development of policy is also slow. He thinks the solutions are out there, but people move at a glacial pace, which then complicates the implementation. Mr. Ingle added a thought about leadership, stating that the CEO's role is to guide and help people, so having a diverse workforce is invaluable for both the company and the CEO because it promotes growth and learning.

When it comes to travel insurance, there is a real desire to innovate. Mr. Mouncey expressed his excitement about this, adding that because travel itself is exciting, travel insurance should reflect this. In fact, it should ideally be a tool for travellers to get more out of their travel.

When asked about AI, Mr. Mouncey noted that he hasn't seen fears about AI replacing humans. People are, for the most part, excited. They want to explore AI. Ms. MacDonald agreed; her coworkers and employees are excited by the future. People see this as an opportunity for improvement. Mr. Ingle explained that people know there are issues in the claims and assistance field; AI can be used to review claims efficiently. Plus, he added, there are issues with staffing, meaning that AI isn't going to replace anyone but rather will help the current employees process the claims they do receive, particularly the low-cost or non-valuable ones.

The summit ended with closing remarks. A networking event occurred immediately after.

On September 25, 2024, THiA Held Its Annual General Meeting.

On September 25, 2024, CAFII Executive Director Keith Martin attended THIA's Annual General Meeting at the Toronto Cricket Club. Michael Comacho's term as President has ended, and the new President for a two-year term is former Vice President Elliot Drage. Among the new Executives of THIA are Elliott Draga, President (Nordic Insurance Software); Patrick Charbonneau, Vice President (Optimum Re); and Michael Comacho, Treasurer (CSI Brokers).

THIA saw significant membership loss during the pandemic and also experienced revenue strain as it did not hold its annual conference, which is a major revenue driver. However, both of those challenges have

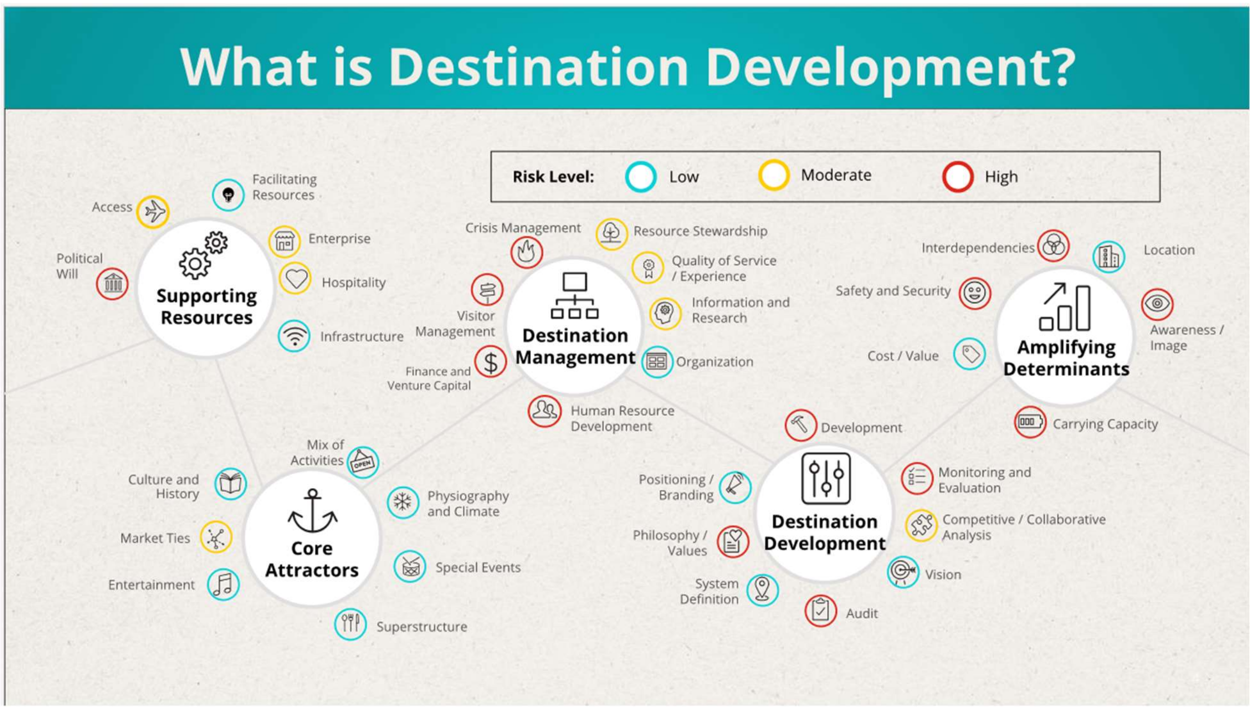
cafii acifa
The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

stabilized. Total membership was higher than pre-pandemic in 2024, with 420 individual and corporate memberships. Revenues are also at a healthy level, with THIA having run a small surplus in 2023.

A presentation was made by Clark Hoskin, Senior Manager, Economic Advisory Tourism, Destination & Economic Development, Deloitte who spoke on Destination Development, which consists of efforts to make destinations more attractive and to motivate tourists to visit these destinations. This includes several key elements of such a strategy, including supporting resources, destination management, amplifying determinants, core attractors, and destination development. (See Slide #1.)

Slide #1: What is Destination Development?



Deloitte does annual surveys of travel intentions. In 2024, 67% of Canadians indicated that they planned on spending the same or more on travel as in 2023, and 32% of Canadians said that they planned an international trip in 2024. Among the gaps in travel destinations identified by Canadians is a desire for more fitness/sports options (Gen Z and millennials), more all-inclusive packages (boomers), and more nightlife (Gen X). Deloitte has also found that in terms of destinations, Africa and the Americas are the areas of highest growth up to 2040, with visits to North America only growing by 2%, which could put strains on the local tourist industry.

A presentation was also made by Ken Fraser of the Fraser Group on a THIA commissioned study on 2022-23 travel claims, based on surveys with 15 travel insurers. The data was not completely comparable and the effort is a work in progress, with the intention to hold the survey annually and to continue to work to make the data more comparable.

On September 10, 2024, THiA Submitted Comments on the Ministry of Finance's Proposed Legislative Amendments to the Insurance Act.

In an e-blast circulated on September 10, 2024, THIA's Board Chair, Michael Carmacho, announced that THiA had submitted comments and feedback to the Ministry of Finance in the Province of Ontario on its proposed legislative amendments to the Insurance Act. The email has been included below.

> *Dear Members:*
>
> *It has been a busy summer for THIA's Regulatory Affairs Committee, in particular for Sean McGurran, Chair and Alice Zuquim, Vice Chair.*
>
> *On August 1st, we advised that the Ministry of Finance in the Province of Ontario is seeking comments (due September 9th) on proposed legislative amendments to the Insurance Act to create a regulatory framework for life and health managing general agents (MGAs) in the insurance sector to strengthen consumer protection.*
>
> *Please find attached a copy of THIA's submission, which was prepared by members of THIA's Regulatory Affairs Committee.*
>
> *Michael Camacho*
>
> *THIA Board Chair*

Access THiA's commentary submission here.

Provincial/Territorial

British Colombia

Insurance Council of British Colombia

Keith Martin Participates in a Panel Discussion at the Insurance Council of British Columbia's AGM in Richmond, BC.

Keith Martin participated in an industry panel organized in conjunction with the Annual General Meeting of the Insurance Council of BC on September 18, 2024, in Richmond, BC. The audience consisted of about 50 people, half of whom were executives of the Insurance Council of BC, including CEO Janet Sinclair, and the other half were members of the councils.

Kandace Hopkins, director of practice, quality, and assurance, moderated the one-hour panel session. The industry participants were Keith Martin, CAFII Executive Director; Nina Kavalinas, National Compliance at Financial Horizons Group and a volunteer with CAILBA; Harris Jones, CEO of Advocis; and Luke O'Conner, AVP of market Conduct Policy and Regulation at CLHIA.

The agenda focused on three questions (see below).

Agenda	Time
Moderator opening remarks and introduction of panelists (name, title, organization)	5min
1. What are the top two regulatory concerns or challenges being faced by your members? What would you like to see happen in these areas?	15min
2. We often hear from industry that more harmonization between provinces would be beneficial. What specific regulatory requirements would you like the Insurance Council of BC to focus on with respect to harmonization?	15min
3. What key message would you like to convey to the Council Members here today on behalf of your members?	15min
Audience Q&A	5-10min

Keith Martin mentioned the volume and pace of regulatory change, and the other panelists all agreed with that observation. Mention was made of their being fewer new regulatory initiatives during the pandemic, and now post-pandemic regulators and policy-makers are "catching up," resulting in a very high load of new initiatives. Keith Martin also mentioned that there were heightened expectations from consumers who expected their interactions on insurance to be as seamless as they are with Amazon, along with the relentless pace of technology change which is offering opportunities, but also risks and challenges, for industry and regulatory authorities.

Keith Martin emphasized the importance of principles-based regulation, noting that for such an approach to succeed there must be excellent and ongoing communication between regulators and regulated entities. An example was given of the original BCFSA rule on incident reporting, which included a requirement for a unique BC form to be filled out; after industry feedback that this was not necessary, BCFSA changed the rule to a guideline and said existing forms that met their data expectations, such as the OSFI form used by banks for reporting incidents federally, could be used. This was cited as an example of a successful consultation, which will produce the same desired outcomes for the regulator but in a much more efficient manner.

Keith Martin emphasized that despite some of the challenges raised today, Canadian regulators are among the best in the world and our regulatory system can provide important protections for consumers, which industry supports. Insurance is based on trust, fair treatment of customers is critical, and industry supports well-thought-out regulation that ensures that bad actors are dealt with. Finally, mention was made of other countries where the regulators are not in ongoing proactive communication with industry, and that the ability for industry to share insights and ask questions of regulators leads to better outcomes for regulators and for consumer protection.

All the panelists spoke about harmonization and the importance of a more streamlined regulatory system. There were also several references to the importance of CCIR and CISRO.

A few days after the session, Insurance Council of BC CEO Janet Sinclair wrote the following note to Keith Martin:

> ***From:*** *Janet Sinclair <jsinclair@insurancecouncilofbc.com>*
> ***Sent:*** *September 20, 2024 3:22 PM*
> ***To:*** *Keith Martin <Keith.Martin@cafii.com>*
> ***Cc:*** *Brett Thibault <bthibault@insurancecouncilofbc.com>; Galen Aker <gaker@insurancecouncilofbc.com>*
> ***Subject:*** *Thank you*
>
> *Hi Keith,*
>
> *Thanks so much for making the time to participate in the panel. In the discussions I have had with Council Members and staff following the session, many talked about the value they received from such candid and open conversations and several indicated it will help frame the work they do on Council. Your comments regarding the level of consultation and considerations for the restricted licence regime were heard and appreciated. We look forward to continuing those conversations with you.*
>
> *We recognize that preparing and scheduling to participate in these types of panels requires a tremendous amount of work by our panelists, particularly those that don't have a huge staff team. Your participation truly supports our efforts to foster and grow relationships with industry so that we can deliver regulation that is fit for purpose.*
>
> *I look forward to future opportunities where we can collaborate and have further discussions. Please don't hesitate to reach out.*
>
> *Thanks so much again.*
>
> *Kind regards,*
>
> *Janet*
>
> ***Janet Sinclair*** *(she/her)| Chief Executive Officer |* ***Insurance Council of British Columbia***
>
> *1400-745 Thurlow Street, Vancouver, BC V6E 0C5*
> *Direct Tel: 604-695-2001*

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

Alberta

Alberta Insurance Council

Keith Martin Meets New Alberta Insurance Council CEO Amina Deiab in Edmonton, Alberta

Keith Martin met with the relatively new CEO of the Alberta Insurance Council, Amina Deiab (appointed on April 22, 2024), on September 17, 2024, in her offices in central Edmonton. Ms. Deiab's biography can be found here:

https://www.abcouncil.ab.ca/about-us/

Ms. Deiab brought with her a new hire, Laura Ly, Director of Communications, and Joseph Fernandez, Registrar, who CAFII has met several times. The meeting was highly interactive, with Keith Martin sharing information on how credit protection insurance works, the members of CAFII who offer it, the key regulatory issues we focus on, and the key priorities for CAFII. There was mention of the intense volume and pace of regulatory change, the complexity of the regulatory environment with over 30 regulators and policy-makers across the provinces and territories as well as federally, and the importance of the CCIR and CISRO. Harmonization and principles-based regulation were discussed, as was the recent research that CAFII has commissioned with LIMRA on Canadian homeowners being underinsured or uninsured, with the key findings summarized.

Ms. Deiab is relatively new to her role, and she said she was still learning about insurance and found it invaluable to have this sort of conversation that gave her a good background on some of the key issues facing the industry. She was very interested in the work that CAFII has done around technology and AI and how it may impact the insurance industry and said she would appreciate being kept advised of what we learn. She was impressed with the investments in our website and our making it a financial literacy resource, and she asked her new Director of Communications to review it as she would, as Amina Deiab is committed to making the website of the Alberta Insurance Council more consumer-oriented.

Ms. Deiab was very interested in the annual CLHIA Conference on Compliance and Consumer Complaints, which she did not know about, and said she would be most interested in learning more and would enjoy participating in the Conference. Keith Martin said he would be pleased to convey that information to the CLHIA, which he has subsequently done.

Ministry of Finance, Alberta

Keith Martin Meets New Alberta Superintendent of Insurance, Chris Merriman, in Edmonton, Alberta

Keith Martin met with relatively new Superintendent of Insurance and Assistant Deputy Minister , Financial Sector Regulation and Policy, Government of Alberta, Chris Merriman (appointed on November 30, 2023) on September 17, 2024 in his offices in central Edmonton, close to the Legislative Assembly of Alberta. Mr. Merriman's biography can be found here:

https://www.alberta.ca/system/files/tbf-superintendent-of-pensions-effective-2023-1130.pdf

The one-hour conversation was very open and friendly, with Mr. Merriman spending a considerable amount of time sharing his regulatory perspective and speaking about his career background. He prides himself on not being "a bureaucrat" and having a strong private sector background, having worked at RBC and ATB Financial, before becoming a regulator with the Credit Union Deposit Guarantee Corporation (Alberta). He deplored the inefficiency that can be found in the public service, and said he was committed to ensuring regulation and oversight was actually achieving the objectives it was intended to. Useless or inefficient regulation should be removed, he said, and he spoke about how he liked to "shake things up."

Keith Martin shared CAFII's priorities, including the importance of principles-based regulation with a focus on outcomes for market conduct regulatory initiatives. Harmonization and the importance of CCIR and CISRO were also raised. Mr. Merriman said he valued dialogue with industry, appreciated CAFII's visit, and would like to continue the conversation.

Ontario

The Financial Services Regulatory Authority of Ontario (FSRA)

FSRA Continues to Meet or Exceed Performance Targets.

In an e-blast circulated on September 5, 2024, FSRA released its Q1 2024-25 service standards scorecard, in which it found that the regulator continues to meet or exceed 91.4% of its performance targets across all regulated sectors. The e-blast has been included below.

> *The quarterly report evaluates FSRA's operational and regulatory activities, including license renewals, regulatory applications, complaint handling, and the collection of annual information returns (AIRs).*
>
> *Based on this data, FSRA assesses the efficiency and effectiveness of its resources, business processes, and public service throughout the year.*
>
> *Key highlights from the Q1 report:*
>
> - *FSRA processed 100% of all Credit Union regulatory applications within 30 days*
> - *FSRA reviewed and decided on 100% of Defined Contribution plan wind-up applications within 90 business days*
> - *FSRA assessed and actioned 93.8% of Auto complaints within 90 days*
> - *FSRA assessed and actioned 81.5% of Mortgage Broker complaints within 90 days*
>
> *FSRA's service standards and the scorecard enhance service delivery, accountability and transparency. Where performance falls short, FSRA analyzes contributing factors and develops a plan to improve and meet service targets.*

FSRA Releases Its Final Approach to Principles-Based Regulations.

In an e-blast circulated on September 5, 2024, FSRA announced the release of its principles-based regulation framework. It also announced that it will be holding a webinar on the new guidance on October 7, 2024. CAFII's Research Analyst, Robyn Jennings, will attend the webinar. Her summary of the event will be included in the October Regulatory Update. The e-blast has been included below.

> *As a regulator, we set outcomes for regulated entities and individuals to achieve, which are based on the principles in our statutory objects.*
>
> *FSRA has also developed a set of framework principles which outline how FSRA will regulate and supervise entities and individuals. Principles-based supervision aims to be constructive, transparent and collaborative.*
>
> *At FSRA, a principles-based approach helps ensure:*
>
> - *Regulated entities are empowered to decide processes, procedures and cost-saving measures.*
> - *Ontario's consumers have access to innovative products and services and can make informed choices for their own financial service needs.*
>
> *The benefits of principles-based regulation include:*
>
> - ***Promoting Innovation**: FSRA will interpret and apply principles creatively, which means businesses can innovate new ways to achieve regulatory goals, leading to better outcomes for consumers.*
> - ***Flexibility**: Instead of rigid rules, principles-based regulation sets broad principles or goals, allowing businesses to find their own ways to meet them, encouraging innovation and adaptation.*
> - ***Protection**: Consumers are more likely to be protected from harm, as the regulator can adapt to new risks or situations more quickly.*
>
> *In certain areas, FSRA will need to continue to rely on detailed Rules and prescriptive requirements to ensure adequate consumer protection.*

For more information on FSRA's principles-based regulation guidelines, go to FSRA's webpage on the subject.

FSRA Welcomes New Member to its Stakeholder Advisory Committee.

In an E-Blast circulated on August 21, 2024, FSRA announced it welcomed a new member to its Stakeholder Advisory Committee (SAC). The full e-blast has been included below.

> *Ontario's financial services regulator, FSRA, is pleased to announce the appointment of new members to its Stakeholder Advisory Committees (SAC) for the 2024-2026 term.*

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

The SAC process affirms FSRA's commitment to maintaining an open, transparent, and collaborative approach that involves stakeholders, ensuring broad input and perspectives to inform its direction.

FSRA welcomes the new SAC members who will serve a two-year term starting in September.

These committees play a crucial role in providing valuable insights and advice to FSRA and its board, helping to shape policies and initiatives that impact Ontario's financial services sector.

After careful evaluation of the applications received, FSRA is pleased to announce the new members for the following SACs:

- *Auto Insurance (including Health Service Providers)*
- *Property and Casualty Insurance*
- *Life and Health Insurance*
- *Mortgage Brokering*
- *Credit Unions*
- *Financial Advisors/Financial Planners*

FSRA extends its sincere thanks to the outgoing SAC members for their invaluable service and contributions over the past term. Their efforts, influence, and dedication to FSRA's work and Ontario's financial services sectors are deeply appreciated.

Access the member list of FSRA's Stakeholder Advisory Committee for Life and Health Insurance here.

International Developments, Research, and Thought Leadership

Deloitte

On August 22, 2024, Deloitte Hosted a Webinar Discussing the Implementation of AI in Finance and Controls.

On August 22, 2024, Deloitte hosted a webinar titled *Controlling AI: Implementing AI into Finance and Controls.* Moderated by Katie Glynn (Deloitte Partner), Jennifer Gerasimov (Managing Director, Deloitte) and Casey Kacirek (Managing Director, Deloitte) discussed the current state of AI and discussed where it intersects with the financial industry, including controls and processes. Both speakers were also joined by several specials within Deloitte. CAFII's Research Analyst, Robyn Jennings, attended the webinar. Her summary has been included below.

Casey Kacirek began the webinar by commenting on a growing fear that technology and AI will replace employees. AI is a tool for augmentation rather than replacement. Human capability is adaptable; AI will only serve to increase our capacities. C. Kacirek explained that AI has been around for over a decade; it has not replaced humans but helped us. With the launch of ChatGPT, technology that was otherwise reserved for specialists has now become available to the general public. This has allowed for multiple

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

use cases of AI as well as generative content examples. This has been called the digital workforce area; humans are augmented by AI to increase productivity and outputs.

The core capabilities that GenAI allows are summarization, classification (categorization generation), querying (information extraction), generation (content creation, including translation), and review and reasoning (data interpretation). The combination of these capabilities allows for things like personalized generated ads.

K. Glynn asked the audience if their organization currently uses GenAI. While people responded, J. Gerasimov commented that finance plays a critical role in organizations adopting AI more broadly. This is because of budgeting and strategic investment; AI is expensive. Cost management and control, ROI, and employee training are just a few financial concerns when it comes to the deployment of GenAI. The poll responses indicated that the majority of audience members' companies are currently using or planning on adopting AI.

J. Gerasimov spoke about why it is important for companies to have a strong AI framework in place. There is a fair concern that AI models will make biased decisions if unmonitored or poorly monitored. There are ethical concerns that people or systems may be put at risk if AI is trained on inadequately anonymized data. There are concerns about a lack of transparency and accountability that may make it difficult to trust AI. Plus, there are many regulatory and legal changes on the horizon that may make companies hesitate. Companies should, therefore, implement a strong, robust AI risk management framework integrated into their broad risk management framework. Companies need to proactively review the AI models, including regular auditing and testing of all models. All teams working on AI need to be cross-functional. This will allow for dynamic implementation and monitoring of your new framework.

One important quality all AI risk management frameworks should have is adaptability. The regulatory landscape is changing quickly; therefore, being able to evolve with it is paramount to success.

Watch the full webinar on Deloitte's website.

Fasken

On August 29, 2024, Fasken Published An Article Summarizing OSFI's Updated Operational Risk Guideline and New Approach.

On August 29, 2024, Fasken published an article titled *OSFI Issues Updated Operational Risk Guideline and Pilots New Approach.* The article summarized the Office of the Superintendent of Financial Institutions' (OSFI) first quarterly launch of its new guideline on operational risk management and resilience. The revised guideline aims to modernize OSFI's approach.

The new guideline, *Guideline E-21 on Operational Risk Management and Resilience*, applies to all federally regulated financial institutions (FRFIs), including banks, insurance companies, and foreign branches. It states:

- *Operational Risk Management:* Identify and manage risks that have the potential to impact FRFI's operations.

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

- *Operational Resilience:* Deliver operations, particularly during tumultuous times and disruptions.

The original draft guideline, issued in October 2023, has been revised to reflect stakeholder and industry feedback. The overall goal remains – *for operational risk management practices to support operational resilience during disruption*.

E-21 lists the following specific areas of operational risk management to monitor in order to strengthen operational resilience.

- Business continuity risk management;
- Disaster recovery risk management;
- Crisis management;
- Change management;
- Technology and cyber risk management;
- Third-party risk management; and,
- Data risk management.

According to OSFI, full adherence and adoption of the guideline is expected as of September 1, 2026.

Read Faskens's article on OSFI's guideline here.

On August 20, 2024, Fasken Published An Article Summarizing Proposed Changes to the Federal Financial Institutions Statues.

On August 20, 2024, Fasken published an article titled *Finance Canada Consults on Changes to Financial Institution Statues.* The article explained that the Federal Department of Finance launched its third phase for reviewing Canada's Federal Financial Institutions statutes, which concerns proposed changes to the Bank Act, Insurance Companies Act, Trust and Loan Companies Act, and related legislation. In short, "the proposals respond to recent financial institution mergers, suggest banks should take on more responsibilities during the transition to digital banking, and continue the dialogue around national security risks. Some of the more significant proposals impacting financial services are summarized below."

The top three areas of interest are:

- Fostering competitiveness:
    - Measure will be put in place to prevent consolidation among large banks.
    - Minor changes will be made to the ministerial approval application process.
    - Restrict banks from exercising control over their deposit broker subsidiaries so that they would not unduly limit small/mid-sized bank access to brokered deposits.
    - Encouragement of the growth and expansion of federal credit unions.
    - Permitting federal institutions to engage in the leasing of light motor vehicles to consumers, subject to requiring the agreement of the auto manufacturer.
- Enhancing consumer protection in banking:

- Determining whether banks should be allowed to prevent or delay transactions they deem to be fraudulent and/or associated with a scam and, if so, under what circumstances.
- Requiring banks to give consumers the ability to turn off or adjust account capabilities to prevent fraud.
- Mandating policies and procedures for banks to detect fraud and scams.
- Building on the Bank Act's 50$ maximum liability for unauthorized credit card transactions and the *Canadian Code of Practice for Consumer Debit Card Services*, banks could have liability for unauthorized transactions, regardless of the means by which account funds were accessed (for example, card-based transaction, wire transfer, or electronic funds transfer).
- Expanded requirements for public disclosure of bank branch closures.
- Determining identification rules for opening deposit accounts at a bank's physical point of service should also be required for opening an online account.
- Increasing the amount of funds immediately available when cashing a cheque in person or when cashing a cheque by other means (for example, ATM or through a mobile application) and lowering maximum hold periods.

- Proposals affecting banking and insurance:
  - Restricting or prohibiting directors from holding a business interest in, or being an employee, executive, partner, owner, or member of the board of directors of, a second entity within the financial sector.
  - Adjusting the thresholds for the public holding requirement, which currently requires FRFIs with $2 billion in equity to have 35% of their voting shares publicly listed on a recognized stock exchange.
  - Introducing a service standard for the Department of Finance to provide, upon request, a written update to an applicant if no decision has been made within 120 days of receiving a complete application, to match Canada's international trade commitments.
  - Establishing a federal committee to enhance the oversight of financial sector risks related to integrity and security, including national security, and provide authority for the exchange of information among member agencies, with necessary safeguards.
  - Expanding the authorities of the Minister of Finance and Superintendent of Financial Institutions to require an FRFI to adhere to its policies and procedures concerning threats to its integrity or security and expanding OSFI's direction of compliance authority to include an act that may threaten the integrity or security of an FRFI or its affairs.
  - Options to improve regulatory predictability and understanding of regulatory actions and impacts.

Submissions on the consultation paper must be made by September 11, 2024.

Read Fasken's article on its website.

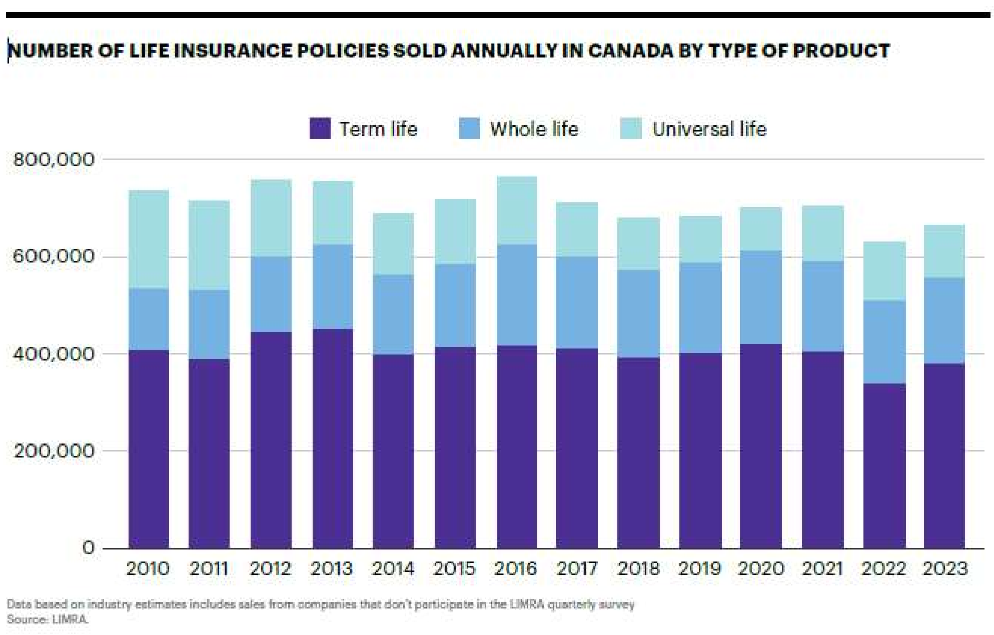
Insurance Journal

In July 2024, The Insurance Journal Published An Article on Underinsured Canadians and How Term Insurance Could Potentially Help.

In July 2024, the Insurance Journal published an article titled *Underinsured Canadians: Can Term Insurance fill the gaps?* The article summarized a recent LIMRA study revealing that the need for life insurance is greater among younger generations (millennials and Gen Z), households with an annual income of less than $50,000, Black and Hispanic communities, and women. In short, the article posited that product price and flexibility will help the aforementioned segments of Canadians that are more likely to lack proper and necessary financial protection.

In an article published in March 2024, LIMRA and LOMA Research Director and Consumer Markets Stephen Wood explained that preliminary data showed that 21% of Canadians do not have insurance but know they need it, while 10% of the population indicated they need more. Could term life insurance be the solution?

In fact, “individual life insurance products consistently garner the highest number of policies sold each year, compared to whole life insurance and universal life insurance policies, two permanent products.” This is likely due to term life’s affordability compared to the more expensive permanent life. Furthermore, term life providers tend to target young families, students, and self-employed individuals. In fact, according to the LIMRA’s data, more than half (56.5%) of the life insurance policies sold in 2023 were term life (377,060 out of 667,752 life insurance policies).



Matthew Rubino, responsible for LIMRA’s life insurance sales reports, states that the insurers participating in the survey represent 93% of the total life insurance market in Canada, measured in terms of new annualized premiums.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

According to LIMRA, term life insurance policy sales increased 11.8% in 2023 compared to 2022, though this may be due to the exceptionally low sales figures seen in 2022. While the COVID-19 pandemic did create unusual demand, thereby skewing the rate of sales, term policy sales have continued to grow 2-4% over the past decade.

In terms of products offered, "Seventeen insurers offer 10-year (T10) and 20-year (T20) term insurance products. Their offering totals 20 ten-year term insurance products and 20 twenty-year term insurance products." Vanessa Charbonneau, a financial advisor who sells term life policies, explained that "her term insurance sales slightly increased in 2023 compared to 2022. Why this inclination towards term insurance? "The first word that comes to mind is accessibility to insurance. People sometimes have preconceived notions that life insurance is hard to understand and expensive. Term insurance is for everyone: families, business people, companies... It's my entry point," answered Charbonneau." The fact that clients can convert term life insurance to permanent whole life at a later date holds considerable weight for those Canadians unable or hesitant to commit to the financial burden of a whole life policy. Conversion flexibility does vary depending on the insurer, however.

Another important factor in insurance sales is accessibility. Clients want sales platforms and policies that they can access quickly and understand and navigate easily. "Some insurers have very advanced platforms that allow the client to know if the insurer accepts the risk and issues the policy by email or on Teams. Others do not offer the decision at the point of sale."

Read the full article on the *Insurance Journal's* website.

McKinsey & Company

On August 15, 2024, McKinsey & Company Released an Article on Productivity in the AI and Automation Era.

On August 15, 2024, McKinsey & Company published an article titled *Shiny Objects: Insurance Productivity in an Era of AI and Automation*. The article, which is a transcript of a conversation between McKinsey senior partner Jörg Mußhoff and partners Elena Pizzocaro and Selim Sulos, explores how AI and automation enable productivity and why companies need to redesign their end-to-end processes to facilitate this. A full summary of the conversation has been included below.

J. Mußhoff began the conversation by asking S. Sulos why it is important to analyze productivity in the insurance industry. S. Sulos explained that productivity is not novel; over the past decade, most companies have looked at ways of maximizing productivity. After COVID-19, however, interest in increasing productivity while maintaining or lowering costs became an increasingly relevant conversation because of the increasing cost of claims and rising interest rates. E. Pizzocaro added that automation and AI facilitate this maximization, thereby, creating opportunity and need. S. Sulos concluded by stating the interplay between the tech world and insurance. Productivity is, therefore, also an important conversation for tech companies.

J. Mußhoff then asked how insurance companies worldwide are driving productivity and which approach they consider the best. E. Pizzocaro answered that the most successful approaches combine productivity maximization with new tech. Companies are rethinking the end-to-end journey by reimagining their core processes. Paired with cost analysis and supervision, companies can successfully increase their productivity levels. S. Sulos commented that combining progressive productivity paradigms with traditional approaches is a fine balance. Cost, confusion, and resource allocation are examples of issues that can arise.

How is the new approach different from the traditional one? S. Sulos explained that the new approach requires companies and CEOs to rethink the entire technology pipeline, potentially including data pipelines. While this can be costly in the short run, increased productivity should actually be cost-effective in the long run. The utilization of automation and gen AI to streamline otherwise time-consuming processes will be invaluable. Companies and employees can become more intentional in their energy outputs.

In fact, E. Pizzocaro explained that gen AI is currently viewed as the key component to changes in productivity levels. She estimated that it could impact productivity by 40-50% within a single process. This could be automating single tasks or assisting users in activity completion. S. Sulos expanded on E. Pizzocaro's statement by highlighting the modernization of legacy tech; "Gen AI can covert legacy code into new code, which provides companies with a more modern, nimble stack for a fraction of the cost."

Specifically within insurance, other areas in which productivity can improve thanks to Gen AI are underwriting and claims.

Concluding the interview, J. Mußhoff asked what the dos and don'ts are in terms of productivity and process improvements. E. Pizzocaro stated that leaders should pay attention to change management; in order for this kind of change to be permanent, leaders need to change more than technology and process designs; they need to change the way people work and think.

Read the full interview on McKinsey's website.

On July 30, 2024, McKinsey & Company Held a Webinar on Navigating the Next Wave of Tech Innovations.

On July 30, 2024, McKinsey & Company hosted a live virtual interview between Lareina Yee (McKinsey Senior Partner), Roger Roberts (McKinsey Partner), and Lucia Rahilly (McKinsey Editorial Director). The interview discussed the next wave of tech innovations and where leaders should focus to guarantee success. CAFII's Research Analyst, Robyn Jennings, found the recording after the webinar concluded and summarized it below.

For the past four years, McKinsey & Company have conducted research on tech trends within the business landscape. Lareina Yee explained that the goal of this research is to help leaders have a better grasp of what is upcoming in terms of technological changes. What McKinsey has found is that the pace at which these trends change is incredibly fast, particularly thanks to generative AI and digitalization. It is at the top of the mind for many executives trying to grow and improve their organizations. McKinsey looks at several markers to gauge where the trends are going, specifically:

- *AI Revolution:* Generative AI, applied AI, and Industrial machine learning.
- *Building the digital future*: next-generation software development, and digital trust and cybersecurity.

- *Compute and connectivity frontiers*: Advanced connectivity, immersive reality technology, cloud and edge computing, and Quantum technologies.
- *Cutting-edge engineering*: future of robotics, future of mobility, future of bioengineering, and future of space technologies.
- *A sustainable world*: electrification and renewables, and climate technologies beyond electrification and renewables.

While each of these trends exists on its own, many, if not all, impact the other.

The question for business leaders is: Are you tracking these trends because you will soon have to invest in them?

McKinsey has found that 2023 was the year of generative AI, with unprecedented growth in investment, interest, and innovation. Companies are only just entering the phase in which they can scale generative AI towards economic value.

Roger Roberts spoke about the practical application of generative AI. McKinsey has found that technologies typically progress through five stages of adoption: frontier innovation, experimenting, plotting, scaling, and fully scaled. As business leaders examine this landscape, they need to prepare for the trends that will impact them quickly. Adaptability is very important for both leadership and organizational frameworks.

Robotics is another area that is growing quickly. This is thanks to advancements in AI, which have allowed for a new era of robotic capabilities. The move from simple verbal chatbots in 2022 to advanced robotics is an indication of this growing trend. This does beg the question: what is the responsible use of this type of technology?

Lucia Rahilly asked how these trends impact talent. R. Roberts explained that, even though demand for tech talent declined in 2023, overall, this area looks bright because demand persists. In fact, from 2021 to 2023, there has been an 8% increase in tech trend job postings.

What should leaders do differently in order to monitor and mobilize against these trends? L. Yee said that leaders need to be aware of how they build their organization's ecosystem. This does not mean adopting all the trends listed above. Instead, leaders need to be selective of which trends to monitor and employ within their company as best relates to their specific business. This also means partnering and leveraging technologies already out there. These new technologies are costly; partnering allows for the use of pre-made tech and/or cost-sharing. Start-ups and new companies are great examples of optimal partners. Leaders should be thinking outside the box in order to keep up with the changing tech landscape.

R. Roberts said that, of all the trends mentioned, he expects digital trust and cybersecurity to only grow in importance and innovation. Additionally, he mentioned bioengineering due to its acceleration in terms of advancement in bioengineering AI technologies.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

How can executives disambiguate hype from genuine value? L. Yee said that, though all these trends have taken decades to grow, leaders should have the capability to sense trends and their histories. Understanding the origins of these trends is a good indication of longevity. She also mentioned the importance of looking at use cases for each new technology. Use cases are great examples of success, practicality, usefulness, and permanence.

R. Roberts said he was most excited about AI innovation, and L. Yee said she was most excited about quantum computing. She explained that this could completely change how we conceptualize cryptography.

Watch the full interview on the McKinsey website.

On July 18, 2024, McKinsey & Company Published An Article Detailing Profitable Data Models.

On July 18, 2024, McKinsey & Company published an article titled *From Raw Data to Real Profits: A Primer for Building a Thriving Data Business.* The article explained "how building a profitable data business hinges on having not only the right data but also the business model and enterprise capabilities to support it" and why now is the right time, according to McKinsey & Co., to do so.

For decades, business leaders have created, purchased, optimized, and sold data businesses. As technology capabilities and AI have increased, so too has the opportunity for the monetization of data. Four technological shifts, in particular, have allowed for the creation of new data products:

- ***Enhanced data-management efficiency**: Thanks to the greater sophistication of data tools and technologies, companies can more efficiently process, manage, access, and reuse data in real-time across different platforms. This efficiency is crucial for creating a scalable and sustainable data business.*
- ***Generative AI (gen AI):** A few years ago, converting unstructured data, such as text, images, and videos, into a standardized form so it could be accessed and analyzed was prohibitively expensive for most companies. Gen AI has made structuring such data more cost-effective, enabling broader use. Combined with the emergence of low-code and no-code analytics platforms that democratize AI and analytics, data businesses can now derive more value from their data.*
- ***Increased access to real-world data:** As Internet of Things (IoT) adoption accelerates, the costs and barriers associated with implementing sensor technology and capturing real-world data have significantly decreased. Companies can now gather real-world data more quickly and affordably and make it accessible to a broader range of applications.*
- ***Growing use of internal data products**: Industry leaders are increasingly treating data like a product internally so that a given data set can support many different use cases (see sidebar, "What is a data product?"). This "data packaging" gives them a head start in monetizing their data.*

In fact, McKinsey & Co. expects the desire for data-driven decision-making to only increase, which will create demand for data-based and AI products. It also expects a monopoly to form, in which a small group of data businesses, early to the game, will dominate the markets in the coming years.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

At its foundation, a data business must have access to a sizable amount of data (internal or external) or an approach to processing data and extrapolating business value from it that is unique enough to address an unmet market need.

McKinsey recommends three "broad strategies" for creating data sets:

- ***Create an industry standard, as Moody's, S&P Global, and Fitch did for credit ratings.*** *Typically, these data businesses start as data aggregators, assembling a massive amount of unique data. Some can reach a tipping point when a network effect scales the utility of their product until it eventually surpasses alternative offerings and becomes an industry standard. Succeeding here requires an asymmetric advantage in data access, a first-mover edge, or both.*
- ***Harness insights from an engaged user base.*** *With the appropriate data usage rights, organizations can turn data collected from an engaged user base into valuable insights for advertisers, suppliers, partners, and users. Benchmarks and behavioural data from digital interactions, for instance, can be sold "as is" via data marketplaces or combined with analytics and sold as insights directly to buyers. Companies can also use these insights to sell targeted ads on their digital channels. This strategy depends heavily on the uniqueness of the data and the company's ability to create a strong product value proposition for customers. The business case becomes more attractive if it can trigger a "flywheel effect" in which the sale of data products increases the sales or stickiness of core products. The financial services firm paved the way for incremental revenue by stitching its popular data and analytics products into an intelligent workflow solution that automated a critical business process for its customers and accelerated their decision-making. This integrated solution also boosted sales of the company's other offerings because customers preferred to stay in its ecosystem for other data and analytics needs.*
- ***Turn sizable organizational know-how into a product****. For example, knowledge and capabilities accumulated in building a tool to solve an internal business problem can sometimes evolve into a profitable offering.*

Exhibit 2

Building a data business takes careful strategy and awareness of the critical factors for success.

Strategies and critical success factors

	Create an industry standard	Harness insights from an engaged user base	Turn sizable organizational know-how into a product
Strategy	Build an industry data solution based on a massive amount of unique data	Develop a product that uses and augments customer insights to drive business value either within or outside of their industry	Use internally valuable data and insights to create a product that can be used by external companies
Critical success factors	• Significant amount of unique, insightful data • A first-mover advantage • Disruptive cross-industry innovation that could become the de facto answer to an underserved industry need	• Large, entrenched customer base • Ability to create a "flywheel effect" for the core business	• An internal data and analytics tool that is valuable to an external audience • Unique data collected as a by-product of core business operations

McKinsey & Company

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Leaders must define a strong customer value proposition to properly and effectively monetize data, which will likely take three to five years to achieve. McKinsey & Co. identified two product attributes that can impact customer value proposition and adoption:

1. ***The type of "intelligence" a data product offers:*** *The classic DIKW framework—data, information, knowledge, and wisdom—offers one hierarchy for assessing the potential value and durability of an offering (Exhibit 3). Companies can create profitable products by selling volumes of raw data or information—basically, data that has been contextualized in some way, such as purchasing habits extracted from sales data. However, the higher a data product ascends in this value chain, the greater its value for end users and the more difficult it is for competitors to replicate it, resulting in higher margins and customer retention over time.*
2. ***Product-Delivery archetype:*** *Raw data is usually delivered through a data platform such as a data marketplace. Other types of intelligence are offered through traditional insights platforms, such as an analytics tool, or intelligent applications integrated directly into an end user's workflow. Here, the more integrated an offering is within an end user's decision-making and workflow, the greater its potential value to end users, the higher the margins, and the more likely it is that end users will come to view it as essential to their daily work, reducing customer attrition (Exhibit 4). Over time, as your customer base increases, a virtuous cycle is created in which data and feedback from a growing body of interactions further differentiate the offering and increase customer loyalty.*

One common mistake companies make when building a data business is neglecting to adapt their organizations and capabilities to effectively support the delivery of data products. Companies trying to orient themselves toward a data business model need to consider profit-and-loss (P&L) expectations, new pricing and sales models, and investment in new technical skills.

- **Incentivizing growth potential over short-term profits:** One of the main reasons data products fail is unreasonable performance expectations. During the first few years, leaders should base incentives on KPIs that measure growth potential rather than short-term profitability.
- **Adopting new sales and pricing models:** On the sales side, most data businesses will need to hire new talent and upskill existing talent to explain and demonstrate a data product's value—tailoring and delivering demos, engaging customers early with pilot programs, developing relationships with senior technology or data decision-makers, supporting new pricing models (for example, freemium models), and helping clients understand deployment considerations.
- **Investing in specialized technical skills:** The goal is to support growth and sustainability of the data business and build out the company's capacity to monetize data. The type of intelligence a data business delivers within the DIKW value chain will dictate the kind of technical talent a company needs. Leaders seeking to provide raw data will need to invest primarily in data engineers, while those seeking to provide end users with more sophisticated insights, such as knowledge or wisdom, will need to increase their bench of data scientists as well as their AI and machine learning engineers.

Depending on the data frameworks, establishing a data business can take six to 15 months. Companies need to determine what foundational technologies they plan to offer.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

> *Data security, privacy, and ownership are significant concerns for any leader. But the potential impact these risks can have on a data company's business models and ability to expand raises the stakes significantly. As a result, leaders should ensure that their business, technology, cyber, and legal teams collaborate often and early on assessing the opportunities.*
>
> *Following are four issues that will require early attention:*
>
> *Understanding the rights you—and others—have related to data: What are the sources of your data—first parties, vendors, and so on—and how was the data acquired? Are there limits to how you may use the data or concerns about whether it is derived from underlying data sets that have issues (for example, training data for generative AI that may be copyrighted material)? Data businesses should assess their data and closely follow the evolving conversation over data rights, particularly as innovative technology collides with, and spurs, these conversations.*
>
> *Developing consistent data privacy principles at inception: Identifying how the business will collect, use, retain, delete, and protect personal data before products launch can shield data businesses from potential setbacks and time-consuming hurdles when introducing new products and features, as well as uphold trust with customers.*
>
> *Examining and tracking local laws: Varying country, regional, and sector laws may influence how a data business collects, shares, processes, stores, secures, and manages data. Additionally, some jurisdictions have more clearly defined regulations than others, which leads to greater predictability. Leaders will need to consider their appetite for the uncertainty and risk of operating in areas where regulations are not so clearly defined.*
>
> *Prioritizing data governance and security: This is typically the "weakest link" that prevents data businesses from scaling. Data governance and security capabilities, such as quickly identifying and resolving data issues and effectively managing data access and entitlements, are foundational to delivering a quality product to a growing user base.*

Read the full article on McKinsey's website.

Torys

On August 19, 2024, Torys Published an Article Detailing Canada's Advanced Review of Financial Institution Statutes.

In an article published on August 19, 2024, Torys detailed Canada's advanced review of financial institution statutes. In short, on August 12, 2024, the Department of Finance launched the third phase of its view of the *Bank Act,* the *Insurance Companies Act,* and the *Trust and Loan Companies Act* (the FI Acts). The Dept. began its review in 2023 by looking at emerging trends in the financial sector that could impact consumers, national security, fair competition, and the safety and integrity of the financial system. The second phase began in early 2024 and focused on measures to strengthen competition in the financial sector and uphold stability and security.

The third phase, currently underway, has five areas of focus. They are:

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

1. ***Supporting a competitive market structure and expanding consumer choice***: This category relates mainly to issues affecting federally regulated financial institutions (FRFIs), measures affecting federal credit unions (FCUs), and auto leasing. The Department of Finance is considering measures to prohibit the acquisition of control of a large bank (defined as a bank with equity of $12 billion or more) by another large bank, subject to prudential or financial stability exemptions, and is seeking views on whether other exemptions should be considered. The Department is also considering measures to modernize the application process for the entry, amalgamation, and change in ownership of FRFIs, such as requiring public consultations. In addition, as part of the Review, the Department of Finance is seeking views on how it could work with stakeholders to encourage the growth and expansion of FCUs. Finally, the Department of Finance is seeking views on allowing FRFIs to engage in the leasing of light motor vehicles to consumers, subject to measures that minimize the negative impact on the current market structure (like requiring the agreement of the auto manufacturer).
2. ***Ehancing consumer protections***: The measures in this category relate largely to the prevention of financial fraud and the protection of consumers in the event of bank branch closures. On financial fraud, the Department of Finance is considering whether banks should be required to prevent or delay transactions that are believed to be fraudulent. The Department of Finance is also considering the introduction of a maximum liability threshold for account holders, as well as requiring banks to have policies and procedures to detect fraud. The Department of Finance is seeking views on requiring banks that intend to close a branch or to cease teller-based activities at a branch to include detailed notices to the public and to the FCAC, as well as to expand data-reporting requirements for banks with respect to their branch network.
3. ***Modernizing the financial sector framework***: The measures in this category relate largely to updating corporate governance rules and statutory thresholds. As part of the Review, the Department of Finance is now considering whether to update the equity threshold at which FRFis are required to have shares and is seeking views on what the threshold should be. The Department of Finance is also considering measures to increase limits on specialized financing activities, as well as measures to update limits on investment powers (e.g., commercial lending) consistent with the recommendations made in our April 2023 bulletin. Other measures under consideration address restrictions on interlocking directorates within the financial sector and enhanced reporting in the financial transactions application process.
4. ***Adapting to geopolitical risks***: The measures in this category relate largely to enhanced oversight of financial sector risks related to national security. In particular, the Department of Finance is considering the creation by statute of a committee to facilitate consultations among members on how to address risks related to integrity and security and to provide for the exchange of information with necessary safeguards. The Department of Finance is also considering whether to expand the compliance authority of the Office of the Superintendent of Financial Institutions to include an act that may threaten the integrity or security of an FRFI, as well as expanding the authorities of the Minister of Finance and the Superintendent of Financial Institutions that refer to an FRFI's policies and procedures to protect itself against threats to its integrity or security to include a reference to the adherence by an FRFI to these policies and procedures.
5. ***Upholding world-class regulation***: The measures in this category relate largely to harmonizing regulations and enhancing coordination between federal, provincial, and territorial regulators. While specific details are light, the Department of Finance has indicated that it is considering

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

measures like periodic announcements on forthcoming regulatory actions, the development of a forum for coordinating international issues and improved sharing of integrity and security risks. Notably, the Review also highlights the Department of Finance's intention to develop a regulatory approach to artificial intelligence (AI) in the financial sector. In collaboration with an AI expert, the Department of Finance plans to consult a broad range of domestic and international stakeholders in its effort to identify and assess the potential risks of AI and to develop a federal strategy for AI in the financial sector.

Read Torys' full article, including detailed explanations for each of the five phases, here.

On August 12, 2024, Torys Circulates E-Blast Detailing Ontario's introduction of a New L&H MGA Licensing Framework.

In an e-blast sent out on August 12, 2024, Torys detailed the Ontario Ministry of Finance's (MOF) introduction of a new L&H MGA licensing framework. In short, the MOF is proposing an amendment to the *Insurance Act* that would introduce a new licensing framework to regulate Life and Health (L&H) managing general agents (MGAs) across the province. The proposal has three main components:

- ***Introduce a new L&H MGAs licensing regime****:*
    - ***New licensing class****. The proposal defines the activities for which licensing as an L&H MGA will be required. If an entity that undertakes L&H MGA activities also conducts agent activities, it must be dually licensed as an L&H MGA and as an agent.*
    - ***Who must be licensed****. The scope of L&H MGAs licensing requirements captures all entities that perform L&H MGA delegated activities on behalf of L&H insurer(s), including sub-MGAs, associate general agents, national accounts and third-party administrators. It excludes, however, Property and Casualty MGAs and Accident and Sickness-only MGAs.*
    - ***Licensing requirements****. To be licensed, L&H MGAs will be required to meet professional standards, establish and maintain a compliance system with appropriate reporting and record-keeping requirements, and have a designated compliance representative. FSRA will be given new rule-making authority to prescribe more specific licensing requirements.*
- ***Give the Financial Services Regulatory Authority of Ontario (FSRA) rule-making authority over such MGAs:***
    - ***New disclosure requirements****. Insurers and L&H MGAs will be both required to notify FSRA within 30 days of entering into, amending or terminating MGA agreements, in the case of insurers and sub-MGA agreements. In the case of L&H MGAs, the MGA and sub-MGA agreements and any amendment(s) thereto must be filed with FSRA.*
- ***Clarify the duties of insurers, MGA, and agents:***
    - ***Compliance system****. L&H MGAs will be required to monitor the compliance system(s) of all sub-MGAs within the originating MGA's distribution chain, and L&H insurers will be required to continue monitoring the compliance system(s) of all MGAs in their distribution chain.*

According to Torys, the amendments are expected to come into force in 2026, and a transition period will apply. Corporate agencies licensed by FSRA that perform MGA functions will have to either

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

transition to an FSRA L&H MGA licence or obtain an L&H MGA licence on top of an existing agent licence, as applicable.

The MOF is seeking consultation on the proposal.

Read Torys' full summary on their website.