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Industry Issues E-News

Editor's Message

CAFII Members and Friends:

This is the first issue of a new CAFII Industry Issues E-News, intended to be a value-added service for Members and Associate Members. We hope you find its content informative and useful; and its format reader-friendly.

In keeping with its title, the primary focus of this E-News is **not** intended to be regulatory matters. CAFII Members receive a separate newsletter dealing with Regulatory Issues and Trends.

The intended frequency for this E-News is monthly, with the exception of July and August, or approximately 10 issues per year.

I'd appreciate having your feedback on this first issue: egs. what do you like and dislike about the content; the number of articles included; and the format, ie. mostly short "teaser" synopses with a link to click if you'd like to read a longer, complete story on that subject. Send me an e-mail with your feedback: brendan.wycks@cafii.com.

Brendan Wycks, BA, MBA, CAE

CAFII Executive Director and Editor

U.S. Fed Trying To Understand Differences Between Banks And Insurers

During a National Association of Insurance Commissioners' International Insurance Forum on May 9, U.S. Federal Reserve Board Director of Banking Supervision and Regulation Michael Gibson said the Fed is still "in the learning phase" of understanding the structural differences between insurance and bank holding companies and how they manage risks across their various businesses.

The Fed continues to work with state insurance regulators to learn about the safeguards already in place to minimize risk exposure posed by insurers, compared to those used by banks, Gibson said. "There are things we would expect to see at bank holding companies that we often don't see in insurance savings and loan companies. We're trying to understand those differences and understand whether those are things we're comfortable with or whether those are things we're not comfortable with."

Prudential Regulation Reforms Won’t Impact Insurers’ Credit Ratings

Possible reforms in prudential regulation for insurance companies won't directly affect firms' credit ratings, but individual company responses to those changes could, says Moody's Investors Service in a new report.

Efforts to improve solvency regimes for global insurers are supportive of the interests of insurance company creditors, the rating agency says. It notes that reforms aim to address risks that are missing under the current rules, encourage insurers' to improve risk management, and to improve disclosure of certain financial data.

To read more, click here: http://www.investmentexecutive.com/-/prudential-regulation-won-t-impact-credit-ratings-on-insurers-moody-s-says?redirect=%2Fnews%2Fresearch%3Futm_source%3Dnewsletter%26utm_medium%3Dnl%26utm_content%3Dinvestmentexecutive%26utm_campaign%3DINT-EN-morning.

Life Insurer Merger & Acquisition Activity To Heat Up: Fitch

Canadian and European insurers expected to further rationalize their participation in the U.S. life insurance market

Fitch Ratings says it expects merger and acquisition activity in the life insurance sector to accelerate this year, as the industry continues to undergo strategic restructuring.

The rating agency notes that there has been a series of transactions in the life insurance business lately, which reflects what it sees as an ongoing trend in the industry for firms to refocus operations, and discontinue or divest businesses that have underperformed and/or no longer provide a strategic fit.

Some of this rationalization is being driven by persistently low interest rates, which has lowered the relative profitability of some traditional products, while also lowering the cost of borrowing if debt is used to finance the acquisition of these businesses, it notes. And, likely regulatory changes may be having an impact on these sorts of strategic decisions too, it suggests.

In particular, Fitch says that it expects Canadian and European insurers to further rationalize their participation in the U.S. life insurance market due to ongoing underperformance, and concerns over pending capital regime changes in their local markets, which could lead to an increase in required capital associated with having U.S. life insurance operations.

To read more, click here: http://www.investmentexecutive.com/-/life-insurer-m-a-activity-to-heat-up-fitch?redirect=%2Fsearch.

Insurers More Optimistic About Investment Opportunities This Year

While last year was challenging for the insurance industry in terms of economic uncertainty and persistent low interest rates, insurers are optimistic about investment opportunities and many are willing to take on more portfolio risk, according to a recent survey.

Still, results from the survey by Goldman Sachs Asset Management suggest that chief investment officers (CIOs) and chief financial officers (CFOs) differ in their opinions on investment risk.

To read more, click here:http://www.canadianunderwriter.ca/news/insurers-growing-more-optimistic-about-investment-opportunities-this-year/1002266847/1s4w30wMnl2zrW20588M2vx/?ref=enews_CU&utm_source=CU&utm_medium=email&utm_campaign=CU-EN05012013

U.S. Banks Face Increased Anti-Money Laundering Compliance Burden

With U.S. banking regulators ramping up their efforts to enforce anti-money laundering (AML) rules, banks are facing the prospect of higher compliance costs and heftier fines, Fitch Ratings says in a new report.

The rating agency notes that the US Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corp. (FDIC) have "recently increased the visibility of regulatory actions against banks" to enforce anti-money laundering laws.

To read more, click here: http://www.investmentexecutive.com/-/u-s-banks-face-increased-anti-money-laundering-compliance-burden-fitch?redirect=%2Fsearch%3Fp_p_id%3Dsearch_WAR_search10%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-1%26p_p_col_count%3D1%26_search_WAR_search10_search%3Dgeneric.

Financial Industry Must Reduce Risk Of Complex Products Being Mis-sold

The financial industry should be looking for innovative ways of avoiding product mis-selling, as it creates increasingly innovative and complex products, says the Chairman of the International Organization of Securities Commissions (IOSCO).

In a speech in early May to the Australian Shareholders' Association, Greg Medcraft, Chairman of both the Australian Securities and Investments Commission (ASIC) and IOSCO, said the financial industry has to reduce the risk of complex products being mis-sold to investors, particularly at a time when returns are low and investors are searching for yield.

To read more, click here: http://www.investmentexecutive.com/-/mis-selling-investment-products-not-sustainable-iosco-head-says?redirect=%2Fnews%2Ffrom-the-regulators%3Futm_source%3Dnewsletter%26utm_medium%3Dnl%26utm_content%3Dinvestmentexecutive%26utm_campaign%3DINT-EN-morning.

No Need To Adopt Fiduciary Duty, Compliance Officers Hear

Canada's investment industry has no need to adopt a fiduciary duty standard of care, according to panelists speaking at the Association of Canadian Compliance Professionals (ACCP) Compliance Forum in Toronto on Monday, because the current best interest standard is sufficient and the current debate is only confusing market participants.

"We have had common law evolving with respect to what is a fiduciary obligation for years and in that evolution it has always been clear and consistent," said Laura Paglia, partner, Torys LLP.

Currently, the Investment Industry Regulatory Organization of Canada (IIROC) already has a rule, said Paglia, which states that advisors have an obligation to know their clients and understand their personal and financial circumstances and to act in their best interest.

Moving from this established standard to a fiduciary duty is troublesome, she said, because it suggests that clients are vulnerable and completely dependent on advisors for advice, yet the fact is that people trust and rely on their advisors to different degrees and the legal analysis should reflect that.

To read more, click here: http://www.investmentexecutive.com/-/no-need-to-adopt-fiduciary-duty-compliance-officers-hear?redirect=%2Fsearch.

Many Canadians Not Confident Businesses Protecting Personal Information

Many Canadians are not very confident about their ability to protect personal information when using new technologies, and want organizations to inform them of how they use such information, results from a poll by the Office of the Privacy Commissioner of Canada suggest.

In a phone survey of 1,513 residents across Canada conducted last fall, 56% reported that they aren't confident in understanding how new technologies affect their privacy, the OPC said.

The number of Canadians who aren't confident about privacy risks has been steadily rising since 2000, and 70% of those polled also reported feeling they have less protection of their personal information in their daily lives than they did a decade ago, the OPC noted.

To read more, click here: http://www.canadianunderwriter.ca/news/many-canadians-arent-confident-businesses-are-protecting-their-personal-information/1002233256/.

CIP Society Speakers Discuss Impact Of Direct Writers In P&C

Property & casualty insurance brokers in Canada are losing market share to direct writers while customers are demanding more web and mobile services, but an executive with RSA predicts the decline of brokers' market share will slow down.

"We're quite bullish on the broker channel," said Shawn DeSantis, executive vice president of RSA Insurance. Brokers have 91% of the Canadian commercial market, he added, noting this creates opportunities to cross-sell personal insurance to existing customers.

DeSantis made his remarks during a presentation at the CIP Society Symposium 2013, held Thursday at the Toronto Region Board of Trade office by the Insurance Institute. His session, dubbed "The Direct Writing Landscape," included executives from DAS Canada and Desjardins General Insurance Group.

To read more, click here: http://www.canadianunderwriter.ca/news/cip-society-speakers-discuss-impact-of-direct-writers/1002258875/.

Guarantee CEO Shares Theories On Decline Of Foreign P&C Carriers In Canada

When he started his insurance career in 1985, Canadian-based carriers had about 33% of the Canadian P&C market, while today their combined share has risen to nearly two-thirds, said Alister Campbell, CEO of the Guarantee Company of North America, who was luncheon keynote speaker at the recent Chartered Insurance Professional (CIP) Society Symposium 2013 in Toronto.

Alluding to an increase in cross-border trade and the decline in manufacturing in Ontario, Campbell suggested, the trend in Canadian P&C is "exactly the opposite" of what is happening with other financial services and in other industries.

Another factor is Ontario's auto regulations.

"I suspect Queen's Park has something to do with this," Campbell said of the decline of foreign carriers' market share. "Ontario auto is one of the things that insurance people know about Canada when they think of Canada. They know its breathtaking lack of profitability."

To read more, click here: http://www.canadianunderwriter.ca/news/guarantee-ceo-shares-theories-on-decline-of-foreign-p-c-carriers-in-canada/1002259271/.

Investors Moving Online

BMO study finds that the number of Canadians investing online could triple within a decade

As Canadians spend more time online the number of people deciding to do their investing online will increase substantially within the next five to 10 years, according to a study released by Toronto-based BMO InvestorLine.

The study found that that 20% of Canadians invest online today and suggests that the number could triple within a decade given the large number of young Canadians interested in online brokerages.

This jump to virtual investing makes sense to BMO given that many Canadians already do their personal banking online. Personal banking tied for first in the survey for online activities with 77% of Canadians saying they pay their bills over the Internet. Banking tied with reading the news for online activities, followed by keeping in touch with family and friends at 75%.

To read more, click here: http://www.investmentexecutive.com/-/investors-moving-online?redirect=%2Fnews%2Fresearch%3Futm_source%3Dnewsletter%26utm_medium%3Dnl%26utm_content%3Dinvestmentexecutive%26utm_campaign%3DINT-EN-morning.

69% Of Surveyed Canadian Businesses Experienced Cyber Attack In 12-Month Period

Preparedness against cyber crime among Canadian businesses is lacking despite seven in 10 polled organizations being the victim of a cyber attack, suggests a survey by the International Cyber Security Protection Alliance (ICSPA).

“Across business communities, there is a general lack of strategy, procedures and trained personnel to combat cyber crime,” notes the survey report, *Study of the Impact of Cyber Crime on Businesses in Canada: Fighting Cybercrime Together*.

The report suggests two factors could be responsible for the lack of preparedness: the damages (financial or reputational) caused by cyber attacks have not been significant enough to merit shifts in attitudes and behaviour; and/or organizations do not have enough awareness and knowledge of what strategies they should be implementing to minimize their vulnerability to such attacks.

To read more, click here: http://www.canadianunderwriter.ca/news/69-of-surveyed-canadian-businesses-experienced-cyber-attack-in-a-12-month-period-report/1002297405/1s4w30wMnl2zrW20588M2vx/?ref=enews_CU&utm_source=CU&utm_medium=email&utm_campaign=CU-EN05102013.

Gartner Warns Insurers Not To Focus On Different Tech Strategies In Isolation

Information technology executives at insurance companies are working on strategies for mobile computing, social media services like Facebook, cloud computing and the increase in the volume of data, but computer research firm Gartner Inc. suggests chief information officers need to consider how these strategies will affect one another.

“Most insurers have focused on - and built strategies around - each of these forces in isolation," according to a recent report from Gartner Inc. of Stamford, Conn. "However, pairing two, three or even four of these forces will ultimately allow P&C and life insurers to innovate (including support of new insurance products), obtain new data in ways not previously possible.”

The report, titled “The Nexus of Forces Supports Industry Transformation, but Insurers Are Not Ready to Seize the Opportunity,” refers to four information technology and telecommunications trends.

To read more, click here: http://www.canadianunderwriter.ca/news/gartner-warns-insurers-not-to-focus-on-different-tech-strategies-in-isolation/1002288261/.

What Insurers Can Learn From Starbucks

(from the blog of Stuart Rose, Global Insurance Marketing Principal at SAS)

There are many people who think that insurance is fast becoming a commodity, with little differentiation between products, and where consumers choose their insurer purely on the basis of price. However a cup of coffee is a commodity, and yet Starbucks can sell a cup of coffee for $4 or more. The reason for Starbucks' success is often cited as the customer experience. Thus, could an insurance company create a unique customer experience to differentiate itself from its peers?

Customer-centricity is not a new concept, but it has taken on increasing importance in today's business environment, marked by empowered consumers who want to interact with a brand on their own terms.

For many organizations, the challenge lies in finding innovative ways to capture the "voice of the customer" and infuse customer insights across all business functions, from the point of sale to the call center, in order to create business value. But most insurance companies continue to be product focused, rather than customer or segment-focused.

So to create a customer experience that competitors cannot match requires three overarching elements:

To read more, click here: http://blogs.sas.com/content/insurance/2013/05/01/what-insurers-can-learn-from-starbucks/.

Global Insurance Advisory Leader Discusses Key Challenges Facing Insurers

In the video clips at the link below, Dave Hollander, E&Y's Global Insurance Advisory Leader, discusses the following key challenges and important changes facing insurers:

- Importance of security, cost-efficiency and the CIO as change agent
- Regulatory change, shifting to a customer centric model and increasing profitability
- How insurers are responding to multiple changes in the business environment

Click here to watch the **video clips**.

To read *Insurance & Technology's* recap of a recent interview with Hollander, go to **4 Major Challenges for Insurance CIOs: E&Y's Hollander**.

How Insurance Companies Can Better Incorporate Web Channel in End-to-end Distribution System: Insurance Podcast

http://feeds.accenture.com/~r/insurancepodcasts/~3/2Q2eazPrsV4/Bests_Review_Direct_Insurance_Accenture_Michael_Costonis_May_27_2009.mp3

Prospects Not Looking For Personal Connection: Study

While most advisors think it's a personal connection that closes a deal with a prospect, clients disagree

Finding a personal connection is far less important in the decision-making process for prospective clients than advisors tend to think, according to a recent study by Toronto-based Upside Consulting Group Inc.

The study, titled *Closing the Gap: Aligning Client and Advisor Needs to Grow the Wealth Management Firm*, found that while 94% of surveyed advisors believe a personal connection is a key reason as to why clients chose to work with them, only 66% of clients agreed.

"That's the big sort of wake-up call for advisors," says Amelia Young, principal with Upside Consulting. "Clients, particularly post-financial crisis, are just that much more skeptical and getting warm and fuzzy with a person is not enough."

To read more, click here: http://www.investmentexecutive.com/-/prospects-not-looking-for-personal-connection-study?redirect=%2Fsearch%3Fp_p_id%3Dsearch_WAR_search10%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-1%26p_p_col_count%3D1%26_search_WAR_search10_search%3Dgeneric.

Risk Readiness Among Organizations Declined Last Year: Global Survey

Organizations worldwide are showing a decline in risk readiness, with only three industries showing the same or an improved level of preparedness for major risks, suggests a new study from Aon Risk Solutions.

On average, readiness for the top 10 risks declined from 66% in 2011 to 59% in 2012, according to the 2013 Aon Global Risk Management Survey. Reported loss of income related to the top 10 risks increased 14%, the report says.

The top 10 risks (out of 50) globally, include:

1. Economic slowdown/slow recovery
2. Regulatory/legislative changes
3. Increasing competition
4. Damage to reputation/brand
5. Failure to attract or retain top talent
6. Failure to innovate/meet customer needs
7. Business interruption
8. Commodity price risk

9. Cash flow/liquidity risk
10. Political risk/uncertainties

The top three risks globally are also the top three in 24 or the 28 industries identified in the report.

To read more, click here: http://www.canadianunderwriter.ca/news/risk-readiness-among-organizations-declined-last-year-global-survey-says/1002242766/.

Risks For Directors And Officers Higher Than Ever, But Often Not Understood

The risk for directors and officers to be in hot water is especially high right now, as regulators and other authorities are increasingly scrutinizing those at the top of the ladder, according to a new report from Willis.

In a survey of 120 individuals from both the public and private sector, more than one in four said they had experienced a claim or investigation involving a director with their company, notes the report, conducted by Willis and international law firm Allen & Overy.

"Directors and high-ranking officers in public and privately-held corporations are under scrutiny like never before as they conduct business in an increasingly regulated and complex global business environment," Andrew Barton, counsel at Allen & Overy noted in a statement on the report.

"As regulatory authorities have responded to public and shareholder pressure in the wake of the credit crisis with more rules, heightened vigilance and tougher enforcement powers, corporate leaders find themselves exposed to even greater risks on a daily basis in going about their roles," he added.

In the poll, 89% of respondents said regulatory and other investigations were a risk for directors and officers, making it the top ranked threat. That was followed by criminal and regulatory fines and penalties, anti-corruption legislation (58%), securities and/or shareholder claims (51%), and the risk of being sued abroad (50%).

To read more, click here: http://www.canadianunderwriter.ca/news/risk-for-directors-and-officers-higher-than-ever-but-often-arent-fully-understood-report/1002252443/.