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CAFII ALERTS WEEKLY DIGEST: August 12-23, 2024

August 23, 2024

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

The Weekly Digest will begin its summer hiatus, during which it will be produced every two weeks. This hiatus will begin July 1 and continue until August 30, 2024. The Weekly Digest will resume regular production as of September 2, 2024.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

FSRA Finalizes Line-Ups Of Stakeholder Advisory Committees

Interim Chief Expresses Gratitude Following "Overwhelming Response"

By Terry Gangcuangco, Insurance Business, August 22, 2024

https://www.insurancebusinessmag.com/ca/news/breaking-news/fsra-finalizes-lineups-of-stakeholder-advisory-committees-502538.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240822&_hsenc=p2ANqtz-_blQ69FWY2Dtvmx6WFbVTjZl5FS66NWKIo4EnKhzgPsC8LL5dxXtkRa46PLemcW4mObRB3qSJI9U2DUIeSVWx8gpsVMQ&_hsmi=321288107&utm_content=&utm_source=

The Financial Services Regulatory Authority of Ontario (FSRA) has announced the appointment of new members to its stakeholder advisory committees (SAC) for the 2024-2026 term, reaffirming its commitment to a transparent and inclusive regulatory process.

The SACs are essential in providing FSRA with diverse perspectives and guidance, ensuring that the regulator's policies and initiatives are informed by broad stakeholder input.

The new members, who will begin their two-year terms in September, will play a vital role in shaping the future of Ontario's financial services sector, according to the FSRA.

"We are grateful for the overwhelming response to our public call for applications," FSRA interim chief executive Stephen Power (pictured) stated. "The dedication and passion demonstrated by all applicants are truly commendable.

"Your willingness to contribute your expertise is vital to the ongoing success and evolution of our regulatory efforts."

Following a thorough review process, FSRA confirmed 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, and financial advisors/financial planners.

FSRA also expressed its appreciation to the outgoing SAC members for their significant contributions over the past term, acknowledging their efforts in supporting the agency's work and the broader financial services industry in Ontario.

Meanwhile, as the membership of the pensions SAC is staggered, a new round of appointments is expected this fall. The committee will also see terms extended to two or three years.

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A Better Way To Meet Compliance Disclosure Requirements

Let's Use Principles-Based Regulation To Clients' Advantage

By Susan Silma, Investment Executive, August 21, 2024

https://www.investmentexecutive.com/inside-track_/susan-silma/a-better-way-to-meet-compliance-disclosure-requirements/

I have always enjoyed acclaimed author and speaker Simon Sinek. Many of you will be familiar with his "start with why" lesson, which has inspired me to think differently about communication and leadership.

Start with why

For those of you unfamiliar with Sinek's thesis, he argues that too many of us begin with the "what" — what we do, what we sell and so on. He would say those things are uninspiring and undifferentiable. Instead, he suggests we start with "why," focusing on our purpose and the reason behind what we do. He argues that the "why" of any business — its purpose and belief — is really what sets it apart, and many of the leaders who have the greatest influence on the world think, act and communicate their "why."

Move to how

Recently, I started to think about the "how" — how we do things. In our industry, we are surrounded by regulation that's complex, ever-increasing and seems to impact much of what we do. Whether it's requirements around anti–money laundering, client-focused reforms, privacy, trusted contact persons, total cost reporting, needs analysis, fair treatment of customers or so many other regulations, keeping up with compliance is a challenge.

While all these requirements were designed by regulators to protect clients and help them understand their interactions with our industry, I'm sure all of us have experienced negative client reactions to the complicated disclosure they receive in response to the myriad requirements. To put it mildly, clients are overwhelmed. And that's recognizing that product disclosure, in particular, has been streamlined over the years.

Frustratingly, all that disclosure has not resulted in clarity for clients; instead, it has had an impact that ranges from neutral to viscerally negative. Even when one piece of disclosure hits the mark, it's drowned out by all the rest. Clients continue to express the view that insurance and investments are complicated, and that we speak a different language than they do.

Recent research by Bain & Company on customer behaviour and loyalty in the global insurance industry confirms our experience in Canada. According to the research, the industry delivers in several areas that customers value, including quality, risk reduction and anxiety reduction. However, there are other areas in which the industry does less well and that clients indicate influence their purchase decisions and their willingness to recommend insurers and advisors. These areas include simplifying, informing and providing access.

Not to be overlooked is the cost of compliance. Compliance teams have grown significantly. They are necessary, of course, but are they always focused on the right things? To be certain of our compliance, we overbuild processes and collect information through complex journeys. Because our systems don't always talk to each other, we often collect duplicate information. Too often, we must rely on human intervention to make sense of the complex outcomes of our

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compliance processes. Finally, while we're continuing to move away from paying for stamps to deliver paper documents to clients, the cost of delivery is not yet insignificant.

We can do much better on "how" we comply with regulations.

Seize the opportunity of how

As an industry, we used to expect and receive specific requirements from the regulators focused on the "what." Tick that box, in exactly this way. More recently, the regulators have shifted to principles-based regulation, focusing more on the "why," on the outcome they're trying to achieve for clients. Regulators are increasingly, and within defined guideposts, leaving it to each firm to determine "how" to meet the requirements. This is a huge opportunity that for the most part we have only gingerly begun to leverage.

Here are a few tips for advisors and firms on taking advantage of this opportunity.

For advisors

- Understand your "why" (unrelated to disclosure).
    - Simon Sinek would tell you your "why" is not about building a successful business — that's a happy outcome of a deeper purpose.
    - Once you understand the compelling deeper purpose that inspires you, be sure your clients understand it and that it resonates with them.
- Back to your conversations and communications with clients: Clients don't want chapter and verse about anything in our industry. Remember, clients are overwhelmed.
- Focus on continuing to use plain language, not acronyms. But plain language on its own is not enough. Prioritize what you choose to discuss with clients, because everything is not equally important. Clients want a meaningful understanding of a few key things important to the decision you're asking them to make or the message you're delivering.

For firms

- Include your communications team in the development of all client-facing documents and communications, including (perhaps especially!) documents driven by regulatory requirements.
    - Remember that the regulators want clients to understand the information we give them.
    - Communications experts should challenge lawyers and compliance professionals for clearer, more succinct explanations, and should hold the pen when client-facing documents are created. That would be a fantastic way to move the needle.
    - With few exceptions, we do not have to use the defined terms from the regulations in our client-facing disclosures and conversations.
- Review your compliance processes and technology, and challenge the accountable teams to iteratively simplify them — to drive efficiency and cost-effectiveness, and to improve the client journey. Encourage those teams to think beyond systems that check only the "what"; instead, imagine systems that check whether the intent of the regulation is met. Increasingly, this is what regulators will assess.
- Compliance teams should continue to develop their skills in identifying better ways to meet the principles behind any regulatory initiative. While we can't ignore the detail, principles-based regulation makes clear there is more than one acceptable way to meet the regulatory objectives.

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Let's be sure to take advantage of this "how" opportunity to support meaningful interactions with clients, without getting bogged down in detail, while also saving compliance dollars.

Managing General Agencies: A Closer Look At Ontario's Proposed Licensing Requirements

By Kate McCaffery, Insurance Portal, August 9, 2024

https://insurance-portal.ca/life/managing-general-agencies-a-closer-look-at-proposed-licensing-requirements/?utm_source=sendinblue&utm_campaign=daily_complete_202408-09&utm_medium=email

Megaphone
Ontario's Ministry of Finance is proposing a new legislative framework in the province to license life and health (L&H) managing general agencies (MGAs), by making amendments to the province's Insurance Act which could come into force as early as 2026.

"Currently, the Insurance Act does not specifically regulate L&H MGAs or third parties and their role in performing delegated activities for insurers," the ministry states in its proposal to amend the Act.

New rule-making authority
Proposed changes include creating minimum standards through a dedicated licensing class for the entities, along with those who perform similarly delegated activities. The changes would also give the Financial Services Regulatory Authority of Ontario (FSRA) new rule-making authority to license L&H MGAs, and outlines the duties of insurers, MGAs and agents.

The rules do not apply to property and casualty (P&C) or accident and sickness-only MGAs, as these are distinct in the industry, providing underwriting and product development, despite the industry using the same terms to describe them.

"The proposed creation of a licensing regime for L&H MGAs will increase compliance requirements on all L&H MGAs and, by extension, insurers," the ministry states. "Currently, insurers and MGAs have contractual agreements which may vary from one to another. It is expected that introducing a standard L&H MGA license will streamline compliance requirements and bring about overall savings."

An uneven playing field
At the heart of the proposed changes are the findings from reviews undertaken by FSRA and the Canadian Council of Insurance Regulators (CCIR) which found evidence of unfair consumer treatment resulting from poor conduct on the part of some L&H MGAs and their agents. Insurers' oversight has come into question and the ministry says all parties have indicated that the current regulatory framework creates inconsistency and an uneven playing field where some agents are trained and supervised more strenuously than others.

"Over the past decades, the L&H insurance sector has evolved considerably from a direct access agent distribution model," they write, "to a third-party distribution model where an insurer distributes through independent agents, MGAs, national accounts (NAs) or third-party administrators (TPAs). Today, L&H insurers enter arrangements with third parties to better control costs, achieve economies of scale and stay competitive."

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They note that MGAs are the main distribution channel for L&H insurers, accounting for 65 per cent of all new individual premiums in the sector. In practice, they note that some insurers rely on their MGAs to oversee agents to meet the insurers' own compliance obligations, giving rise to a gap, since there is no formal requirement for MGA licensing in legislation.

Agent oversight
The proposal also notes the challenges some MGAs have in overseeing their agents, similarly because there is no formal requirement in legislation or related rules obligating them to work with MGAs in matters of supervision and compliance. "L&H MGAs may be faced with resistance from agents when trying to access individual client files and reason why letters due to lack of an explicit regulatory requirement," they note. Later they note that some agents may also resist disclosure to MGAs as they see their obligations as being to insurers only. "Agents are expected to work with and support their MGAs in establishing and maintaining a compliance system that is reasonably designed to ensure agents are in compliance."

Applicability
"Currently, the Act requires agents, brokers, insurers, health service providers and adjusters to be licensed. The Ministry of Finance is proposing to mandate all L&H MGAs and entities performing delegated L&H MGA activities to be licensed," the proposal states. "The proposed L&H MGA licensing class means that any entity – including sub-MGA, NA or TPA who perform any of the same activities as a L&H MGA – would require a L&H MGA license."

Despite the new licensing regime, the ministry goes on to maintain that insurers remain ultimately responsible for delegated activities. "Notwithstanding the proposed licensing of third parties involved in distribution, insurers shall continue to have an obligation to ensure that agents selling their products are suitable and compliant," the proposal states. The proposal goes on to state that an insurer's compliance system should be tailored to include oversight of all agents acting on its behalf.

Other highlights:

- Under the existing law, an agent cannot apply for an adjuster's license. The proposal extends the same prohibition to MGAs.
- FSRA will be empowered to establish minimum professional standards and establish and maintain a compliance system with appropriate reporting and record-keeping requirements.
- Professional standards speaking to the good character and reputation of the company will also apply. Entities applying for a license must also not make any material misstatements or omissions in applying.
- Licensed entities must carry appropriate errors and omissions insurance and liability insurance.

Compliance
Under the proposal's changes, MGA's will also be required to maintain a compliance system to oversee agents and sub-MGAs alike. "In short," they state, "the L&H MGA is responsible for monitoring the compliance systems of all sub-MGAs within the originating MGA's distribution chain and the insurer is responsible for monitoring the compliance systems of all MGAs in its distribution chain."

MGAs, meanwhile, must prepare and submit reporting on an annual basis to insurers. This reporting can include any findings of unsuitability, summaries of how the MGA's compliance system is achieving stated outcomes (suitability, reporting and compliance effectiveness assessments among them), any remedial steps being undertaken to address

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suitability findings and consolidated reporting about any sub-MGAs that are also part of the distribution chain for that insurers' products.

Both insurers and MGAs will also have 30-day reporting obligations to FSRA when entering into, amending or terminating contracts with each other.

In the event where an MGA ceases to operate, loses its license or where contractual relationships break down, insurers must ensure policy holders receive service from agents who are monitored by an appropriate compliance system – either the insurers' or that of another MGA.

"If a L&H MGA or agent loses its license, the insurer who authorized their activities must be responsible for continuing to meet its obligations to affected consumers." They add: "When an insurer-MGA relationship terminated, the insurer needs to ensure there is continuation of service and be accountable for any obligation to the end policyholder."

The Ministry of Finance would also require MGAs to have a designated compliance representative who is a qualified officer or a partner with no conflicts of interest and who is operationally independent from any sales function.

Contracts
When outsourcing functions to MGAs, the proposal goes on to say requirements to abide by compliance and monitoring standards should be clearly stated in written contracts. More, they say many insurer-MGA contracts today may be too vague or generic.

"It is important to note that the objective of the proposed legislative amendments is to ensure the entire distribution network complies with the Act, regulations, rules and licensing conditions," they conclude. "The proposal does not prescribe how individual parties may choose to meet their responsibilities."

Comments in response to the proposal and the related questions published by the Ministry of Finance are due by the end of September 9, 2024.

OTHER CAFII MEMBER-RELEVANT NEWS

Increases In The Cost Of Public Healthcare Outpace Income Growth

By Kate McCaffery, August 21, 2024

https://insurance-portal.ca/health/increases-in-the-cost-of-public-healthcare-outpace-income-growth/?utm_source=sendinblue&utm_campaign=daily_complete_202408-21&utm_medium=email

Because Canadians do not incur direct expenses for their use of the healthcare system and because the tax system is such that Canadians cannot readily determine the value of their contribution to public healthcare insurance, many often misunderstand the true costs, according to a new report from the Fraser Institute, entitled The Price of Public Health Care Insurance, 2024.

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"In 2024, preliminary estimates suggest the average payment for public health care insurance ranges from $4,908 to $17,713 for six common Canadian family types, depending on the type of family," they state. They add that between 1997 and 2024 the cost of public health care insurance for the average Canadian family increased 2.2 times as fast as the cost of food, 1.7 times as fast as the average income and 1.6 times as fast as the cost of shelter.

Average income and average total tax bill of representative families, 2024*

Family type	Average cash income	Average total tax bill	Tax rate	Health care insurance ▼
2 parents, 2 children	$176,266	$75,904	43.1%	$17,713
2 parents, 1 child	$171,329	$73,693	43.0%	$17,198
2 parents, 0 children	$147,542	$70,824	48.0%	$16,528
Unattached individuals	$55,925	$24,122	43.1%	$5,629
1 parent, 1 child	$72,608	$22,903	31.5%	$5,345
1 parent, 2 children	$80,862	$21,032	26.0%	$4,908

**Preliminary estimates*

In other terms, between 1997 and 2024, the average Canadian family's cash income increased by 141.7 per cent. During the same period, shelter costs increased by 150.5 per cent. Comparatively, health care insurance costs for the average Canadian family grew 239.6 per cent.

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Income, cost of health care, and selected expenditures of the average Canadian family[1] (current dollars)

Year	Average cash income	Health care insurance	Consumer price index[2]	Shelter[3]	Food[3]	Clothing[3]
1997	$46,429	$3,356	90.4%	$9,893	$6,071	$2,075
1998	$48,362	$3,611	91.3%	$10,209	$6,033	$2,132
1999	$50,470	$3,878	92.9%	$10,433	$6,207	$2,182
2000	$54,468	$4,209	95.4%	$10,658	$6,380	$2,233
2001	$55,678	$4,581	97.8%	$11,193	$6,689	$2,305
2002	$56,488	$5,056	100.0%	$11,727	$6,999	$2,377
2003	$57,901	$5,326	102.8%	$12,308	$7,134	$2,439
2004	$60,547	$5,513	104.8%	$12,348	$7,270	$2,421
2005	$63,576	$5,784	107.0%	$12,432	$7,318	$2,545
2006	$67,021	$6,150	109.1%	$12,876	$7,490	$2,498
2007	$76,559	$6,966	111.5%	$15,265	$7,934	$3,026
2008	$72,852	$6,971	114.1%	$13,973	$8,030	$2,895
2009	$72,953	$7,530	114.4%	$14,397	$7,455	$2,764
2010	$74,139	$7,783	116.5%	$14,598	$7,560	$2,711
2011	$76,638	$8,003	119.0%	$16,091	$8,664	$2,986
2012	$78,577	$8,310	121.7%	$16,779	$8,118	$3,049
2013	$80,574	$8,418	122.8%	$16,503	$8,446	$3,742
2014	$82,552	$8,523	125.6%	$17,341	$9,008	$3,569
2015	$85,137	$8,856	126.6%	$18,853	$9,572	$3,569
2016	$84,085	$8,869	128.4%	$17,584	$9,127	$3,690
2017	$87,380	$8,899	130.9%	$18,457	$9,123	$3,859
2018	$89,778	$9,122	133.4%	$19,240	$9,290	$3,851
2019	$92,600	$9,465	136.2%	$19,821	$10,696	$3,314
2020	$96,683	$10,367	137.0%	$20,164	$10,945	$2,959
2021	$99,876	$10,229	141.6%	$21,076	$10,773	$2,454
2022[4]	$104,274	$10,424	151.2%	$22,539	$11,731	$2,488
2023[4]	$108,329	$10,830	157.1%	$23,809	$12,607	$2,514
2024[4]	$112,235	$11,395	159.7%	$24,786	$12,814	$2,459

1. The average family includes unattached individuals.
2. The consumer price index was 100 in 2002
3. All expenditure items include indirect taxes
4. Expenditures for 2022-2024 were estimated using the results of the 2021 Survey of Household Spending and adjusting final results for inflation. Inflation numbers for 2024 are estimates.

Taxpayer-funded cost

Many, however, grossly underestimate the true cost of healthcare, they add. “When people speak of free health care in Canada, they are entirely ignoring the substantial taxpayer-funded cost of the system,” they write. “The available numbers can be difficult to digest. For example, health spending figures are often presented in aggregate, resulting in numbers so large they are almost meaningless.”

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For example, they say $225.1-billion in tax dollars were spent on publicly-funded healthcare in 2023. This works out to approximately $5,614 per Canadian.

Although the cost of health care insurance for the average family has increased at a slower pace in the last 10 years, growing at an average of three per cent per year, when compared to the period between 1997 and 2014 when health care costs increased 5.7 per cent each year, on average, the report still notes that the estimated cost of public health insurance for all family types included in the study is higher in 2024 than in pre-pandemic years.

Why Meeting ESG Regulations Remains The Biggest Challenge In Any Risk Management Function

Evolving Landscape Has Led To A Radical Change In Approach – But What Should Companies Consider?

By Kenneth Araullo, Insurance Business, August 19, 2024

https://www.insurancebusinessmag.com/us/risk-management/news/why-meeting-esg-regulations-remains-the-biggest-challenge-in-any-risk-management-function-502050.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240820&_hsenc=p2ANqtz-8Vr8k1hTT60UdIbeaBub3_p4-7mFUE1PTw5wr8CzMaeADeovWim94ZiwQJ7t_G3tqVmXdDeTdv3IiOZjieqYSI1GzmEw&_hsmi=320900290&utm_content=&utm_source=

The EY Global Integrity Report 2024 highlights that ESG-related regulatory reporting and data integrity have emerged as significant risks for organisations. As climate-related goals transition from voluntary commitments to mandatory obligations, the conversation around net-zero emission targets and broader ESG issues has shifted notably over the past two years.

This shift has been from ambitious aspirations to a focus on regulatory compliance, as detailed by EY global ESG leader Katharina Weghmann (pictured above).

Traditionally, many organisations established lofty goals, issued audited Global Reporting Initiative (GRI) reports, and disclosed their climate impacts in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

However, in recent times, the discussion has pivoted to the significant challenges and risks associated with ESG, particularly those emerging from evolving regulations, a lack of harmonisation across sustainability reporting standards, and concerns around data integrity.

According to Weghmann, these challenges have led many organisations to reconsider their approach. Faced with the growing complexity of corporate disclosures and the need to publicly report on progress towards sustainability goals, some organisations are scaling back their targets to focus on what is achievable and measurable or aligning their objectives strictly with current regulatory obligations.

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This trend towards minimal compliance is further influenced by the political landscape, with upcoming elections in more than 60 countries in 2024 potentially affecting the stringency and direction of ESG regulations.

Weghmann notes that while the intention behind stronger mandatory reporting requirements is to improve transparency and accountability, the unintended consequence may be that organisations shift their focus from ambitious but difficult-to-measure ESG goals to simply ticking the compliance boxes. This approach may prove counterproductive, especially as ESG regulations continue to evolve globally.

Heightening scrutiny to meet ESG regulations
EY's report found that 37% of respondents identified keeping up with and complying with new and changing ESG regulations across various jurisdictions as one of the most significant challenges in meeting their ESG compliance obligations.

Weghmann points out that this challenge is compounded by the rapid proliferation of ESG-related legislation worldwide. Between 2011 and 2023, more than 1,255 ESG regulations were introduced globally, further complicating the landscape for organisations trying to meet their compliance requirements.

The report further outlines seven key areas where CFOs, chief sustainability officers (CSOs), and other senior executives face the most difficulty in addressing ESG challenges. One critical area is mapping and measuring the sustainability journey.

According to the report, 34% of respondents admitted that they have limited reliable data to measure progress against performance targets. Weghmann highlights that the ability to measure and report against ESG ambitions and targets is crucial and drives the need for better, auditable data at the group level, often across multiple markets, business units, and brands.

Another area of concern is the role of CSOs in key decision-making processes. The report notes that 29% of respondents are worried that, without the appropriate level of influence or authority, CSOs may not receive sufficient dedicated resources and budget for ESG initiatives.

Weghmann suggests that ensuring CSOs have a seat at the decision-making table is vital for integrating ESG into the organisation's core strategy, value creation, and culture.

The report also warns against adding sustainability solutions merely to meet regulatory requirements rather than building them into the organisation's strategy from the outset. This approach can create the perception, both internally and externally, that ESG is an afterthought rather than an integral part of the organisation's long-term strategy.

Meeting the growing regulatory demand
Weghmann advises that organisations should focus on implementing the right processes, systems, and internal controls to strengthen transparency and reporting. As legislation and regulations evolve, organisations will need to push ESG data to the level of financial reporting and ensure it can withstand the scrutiny of an audit — a requirement under some of the new ESG regulations, including the Corporate Sustainability Reporting Directive (CSRD).

Building a robust risk management programme around ESG activities is another challenge identified in the report. While there is increased focus on what to report and how to report it, organisations often overlook the critical need to develop a risk management framework for their ESG activities.

Weghmann also points out that while organisations are familiar with managing financial reporting risks, they need to put similar effort into managing nonfinancial reporting risks. This is particularly important given the increase in regulations and disclosure requirements, which now involve multiple parts of the business and processes, necessitating a multidisciplinary approach.

The report also addresses the hidden perils of greenwashing and greenhushing. Employees who have not traditionally been involved in ESG reporting are now being inundated with new requests for information, acronyms, and standards.

Weghmann notes that this added pressure can lead to errors or omissions in reporting, which could expose organisations to accusations of greenwashing, underreporting, or even fraud.

As ESG efforts increasingly become mandatory, the stakes for organisations have never been higher. Weghmann concludes that while the challenges posed by the evolving ESG landscape are significant, they also present an opportunity for organisations to adopt a more mature approach to their sustainability efforts.

This means moving beyond mere compliance to embedding ESG integrity into the core of their corporate strategy, balancing ambition with ethical behaviour, and focusing on long-term value creation rather than short-term gains.

The Vital Role Of Cybersecurity In Life Insurance

By Jennifer Smith, Digital Insurance, August 08, 2024

https://www.dig-in.com/opinion/the-vital-role-of-cybersecurity-in-life-insurance?utm_campaign=NL_DIG_Morning_Briefing_08092024&position=2&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_08092024&oly_enc_id=1794I9343067F0V

The ongoing shift towards data-driven, digitalized life insurance processes has improved outcomes for policyholders. Likewise, collaboration with software vendors has accelerated insurer's innovative strides in the Life and Annuity (L&A) space.

However, this digital transition has also made insurance firms more attractive targets for cybercrime.

In many cases, insurance firms don't discover they've been the target of an attack until it's too late. Less than one week after last year's infamous MOVEit hack, nearly 7 million patients of Delta Dental, the largest insurer in the U.S., had their financial information compromised.

In February, Fidelity Investment Life Insurance Co. discovered a third-party data breach that compromised the personal and financial information of 28,000 customers three months after it had occurred. A data breach that exposed the data of 1.5 million clients of Keenan & Associates, most of whom in the fields of education, healthcare, and public sectors, was only discovered five months later.

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The list goes on.

Hackers profit from the troves of data life insurers gather to enhance their business models and customer service. Without comprehensive cybersecurity, compliance, business continuity and policyholder trust are all on the line.

What's at stake

Policyholders entrust such personal data to life insurance companies – name, address, date of birth, social security, banking information and medical history. Maintaining trust, therefore, is vital to the life insurance sector.

A single data breach – even a small one – could be enough to alarm customers and tarnish an insurer's reputation. To minimize that potential outcome, insurers can educate policyholders of their cybersecurity measures and, in turn, strengthen their relationship from a brand perspective. After all, policyholders are the ones paying insurers a premium to protect them and their families from unexpected circumstances.

That is why it is so critical that life insurers take a holistic approach to cybersecurity and integrate stringent protective mechanisms into every aspect of their operations. The information they store on their customers' behalf is the very data cybercriminals can utilize to target them with fraud – crimes that drain life insurance consumers of more than $74 billion a year.

Encryption, multi-factor authentication and real-time monitoring are just a few of the measures that software vendors can leverage to prevent such fraudulent activities. Such solutions also help life insurers remain compliant with regulations such as GDPR in Europe and HIPAA in the United States, which mandate that organizations handling sensitive personal information adhere to strict data protection standards. Failure to do so adequately can result in severe penalties and reputational damage.

Business as usual

In addition to protecting sensitive data, preserving trust and preventing fraud, effective cybersecurity bolsters the resilience of business operations.

Life insurance companies rely heavily on their digital infrastructure to manage policies, process claims and communicate with policyholders. Cyberattacks that can damage these operations often lead to website and service outages. Though at times these are purposefully initiated by insurance companies following a suspected breach to prevent a data leak from spreading further, such outages mean that policyholders are at least temporarily unable to file claims, pay bills online or access other digital services. Life insurers who include incident response plans and disaster recovery protocols into their cybersecurity postures can recover from these events quickly and ensure their operations continue with minimal disruption.

Leveraging multiple layers of cybersecurity is also valuable for life insurers who invest heavily in intellectual properties – whether in collaboration with software vendors or developed on their own. Robust cybersecurity measures, including advanced access controls and real-time monitoring, safeguard proprietary information from theft and unauthorized access.

Cybersecurity – a must have

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Comprehensive cybersecurity requires multiple practices and tools to safeguard insurance operations and sensitive policyholder data from evolving cyber threats like phishing, ransomware and cyber-espionage. Cybersecurity is a strategic imperative, fundamental to the life insurance sector's operational integrity and growth. Without it, life insurers risk falling victim to such debilitating cyberattacks. Life insurers can only maintain their policyholders' trust if holistic cybersecurity solutions are put in place to protect the very vulnerabilities initiated by the digital age.

Regulators Need More Rigour: C.D. Howe

Paper Argues For More Systematic Cost/Benefit, Post-Implementation Analysis

By James Langton, Investment Executive, July 29, 2024

https://www.investmentexecutive.com/news/from-the-regulators/regulators-need-more-rigour-c-d-howe/

Financial sector regulators need to do a better job of targeting, evaluating and justifying their rule-making efforts, argues an upcoming report from the C.D. Howe Institute.

The Toronto-based think tank is set to issue a paper co-authored by Paul Bourque, former president and CEO of industry trade group the Investment Funds Institute of Canada, which finds that regulators have generally done a good job of identifying and addressing financial stability risks and consumer protection concerns; however, they need to do a better job of evaluating the costs and benefits of their policy solutions, including implications for competition and productivity.

“Rules and regulations are important in the financial services sector to protect consumers and ensure system stability. However, at some point the costs to firms of remaining in compliance crowd out investments in innovation and productivity,” the paper said.

The paper, co-authored with Gherardo Gennaro Caracciolo, a lecturer with Simon Fraser University and former policy analyst with C.D. Howe, advocates for better balance between ensuring financial stability and consumer protection on one hand, and fostering efficiency and innovation on the other.

“Our findings suggest that, moving forward, enhancing comprehensive cost/benefit analysis could achieve a more balanced regulatory framework, fostering both stability and innovation for better consumer outcomes,” it said.

While there is a general requirement for federal agencies to carry out cost/benefit analysis as part of their rule-making efforts, the paper argued that this doesn’t result in “precise and systematic guidelines” for this sort of work.

And it notes that the Ontario Securities Commission is the only provincial securities regulator that’s required to carry out a cost/benefit analysis when it introduces, or revises, a rule.

“As a result, among Canadian financial regulators, we struggle to find consistent applications of cost/benefit analysis,” it said.

“Canadian financial markets would benefit from a consistent and coordinated approach to cost/benefit analysis from federal and provincial financial regulators,” the paper argued. “Combining resources and expertise would enable a

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harmonized approach to the assessment of the costs and benefits of important rule implementation across all financial services markets."

It also suggested that "post-implementation impact analysis will help to decide what works and why."

While there are examples of regulators carrying out an analysis of the efficacy of policy efforts — such as the Canadian Securities Administrators' recent review of the impact of the Client Relationship Model (CRM2) reforms — the paper said this kind of analysis is relatively rare.

"In the aggregate, Canadian financial regulators have not integrated these disciplines across their membership in a way that would deliver a consistent policy development process with predictable results," it said.

"A disciplined approach to policy development, employing market failure, cost/benefit and post-implementation impact analysis is the first line of defence in curbing the tendency to overregulate," it concludes.

"By striking a better balance between regulatory objectives and compliance costs, Canada can create a more efficient and effective regulatory framework that promotes financial stability alongside innovation and growth, leading to improved consumer outcomes," it said.

Accelerated Underwriting In Canada: Ensuring Sustainable Growth

By Munich Re. Canada

https://www.munichre.com/ca-life/en/perspectives/2024/accelerated-underwriting-in-canada.html

Accelerated underwriting (AUW), a growing practice even before the pandemic, is now firmly established in the life insurance application process. AUW is the waiving of certain traditional underwriting requirements (e.g., fluid evidence, vitals) for a subset of applicants that meet favourable risk requirements in an otherwise fully underwritten life insurance process. While the interpretation of AUW can vary from one insurance company to the next, what is universal is that the "no fluid" aspect of AUW translates into a faster, less invasive buying experience for the majority of life insurance applicants.

But giving up underwriting evidence for speed is not without risk for insurers. Less evidence translates to diminished confidence in the health of the applicant, which can throw the "risk versus reward" formula off-kilter if other risk-mitigating steps aren't taken.

As the industry continues to develop, refine, and expand AUW, it is imperative that we consider the implications and address the challenges of these programs. The entire industry has a role to play in ensuring the sustainability of AUW in Canada, from enforcing good risk management practices to challenging ourselves to rethink product and underwriting designs. Insurers must be confident in their underwriting while still delivering the same value to customers at speeds they now expect, all while managing their risk exposure. How do we strike this balance?

Giving it away?

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Munich Re, Canada (Life) produces the Canadian Individual Insurance Survey, an annual publication that captures industry insights and trends across Individual Life and Critical Illness products. According to historical survey results, ten years ago the maximum no-fluid limit was $500,000, and around 15% of new individual life policies were underwritten without fluid evidence. Today, 60 to 70% of individual life policies are placed without fluids at limits as high as five million dollars. So now, the five million dollar question is: what have we lost by foregoing fluid evidence, and can we get it back?

With fewer data points of evidence gathered during the application process and limited third-party data sources in Canada to fall back on, it becomes more challenging to assess risk in an AUW program. Applicants have a greater opportunity to take advantage of information asymmetry—that is, the applicant may know more about their own health than what is being shared with the insurer. In theory, the less confidence an insurer has in an underwriting assessment, the higher the premium that should be charged to compensate for the lack of evidence. And yet, from our survey, we've seen the average premium for a Term 10 policy drop from $2.10 ten years ago to about $1.90 today. That decrease in premium is consistent with the average improvement in overall mortality for those years and likely reflects the cost savings from insurers requiring less underwriting evidence. The pricing may also reflect the impact of COVID-19 and changes in the interest rates over the years. But have we also compensated for the reduced level of confidence that we have, and is it enough?

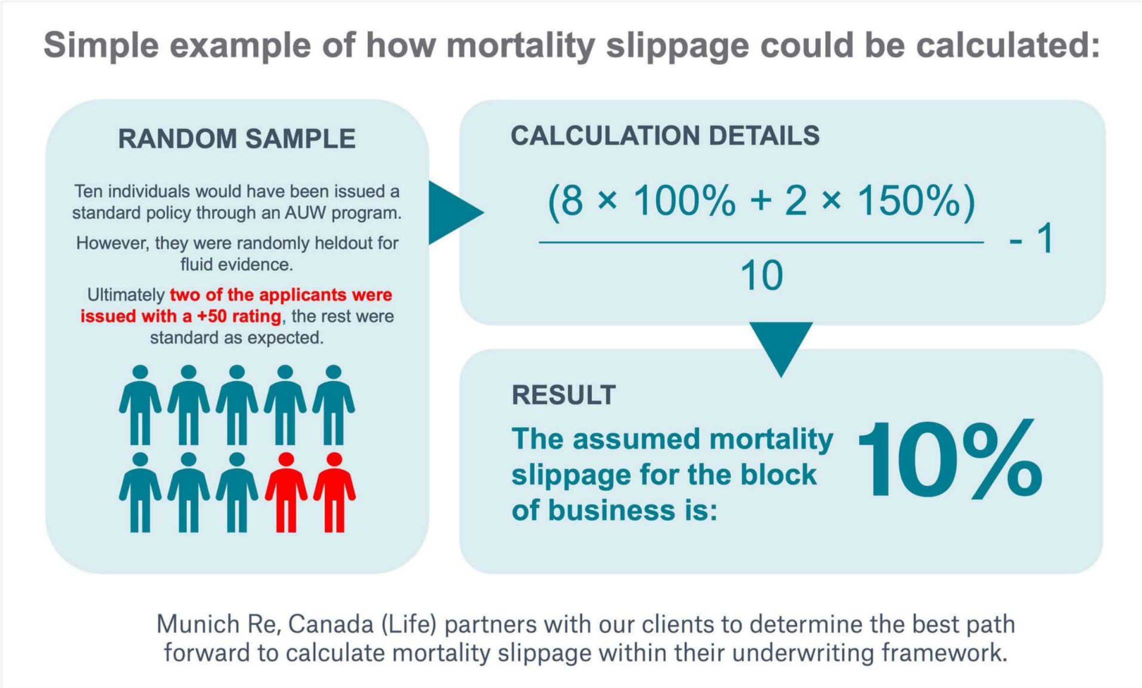
On the flip side, AUW does deliver clear benefits in terms of customer experience. We see in our survey that ten years ago, it took 30 days on average to issue a policy. It now takes less than 20 days on average, and presumably, this number should continue to drop as insurers look to increase their straight-through-processing (STP). One might assume that a streamlined purchase process would get more policies into the hands of Canadians; however, the number of policies being placed is not growing. Looking at Individual Life policy counts reported by LIMRA—they fell 20% in the last 10 years, although overall premiums have grown due to a focus on high-net-worth business.

This is our challenge: To develop a framework to underwrite and understand risk in a customer-friendly way that also supports putting more policies in the hands of Canadians.

Risk control best practices
When introducing an AUW program, insurers should anticipate a change in underwriting decisions compared to those made using traditional underwriting approaches. For instance, an applicant who fails to disclose uncontrolled diabetes might receive a standard decision through an AUW program that doesn't necessitate insurance labs. In contrast, under a traditional underwriting process requiring lab tests, the insurer would likely decide to decline coverage once lab results reveal the undisclosed impairment. Similarly, AUW programs can impact decisions to offer coverage at higher premiums, such as when tobacco use, undisclosed health issues, or new health conditions are detected.

In order for carriers to understand the impact their AUW program has on their decisioning, carriers should implement the use of Random Holdouts. Random Holdouts (RHOs) refers to a practice where applicants that would typically have been underwritten with minimal evidence beyond the application and/or tele-interview are randomly selected to undergo additional underwriting requirements. The additional evidence could be some combination of fluids, vitals, and/or non-routine Attending Physician Statement (APS). RHOs can be used by a carrier to measure mortality slippage, which is the expected deterioration in mortality of an AUW block of business versus the mortality performance of the same block had it been fully underwritten using a traditional approach.

In the US, a common approach to gauge the level of mortality slippage is to look at individual RHO results and compare what the AUW underwriting decision would have been against the final decision once accounting for the additional underwriting evidence. The RHO differences are then weighted by the present value of expected claims. Today, no uniform approach is used in Canada to calculate mortality slippage. An insurer's ability to calculate mortality slippage can be influenced by how and when in the underwriting process RHOs are identified, whether an RHO's theoretical AUW decision is determined despite being held out, and the volume of RHOs being conducted, particularly in the "age and amount" cells of most interest.



When introducing an AUW program, insurers should anticipate a change in underwriting decisions compared to those made using traditional underwriting approaches.

However, RHOs are not without challenges due to the potential impact on customers and advisors. We recommend insurers establish a credible volume of holdouts to monitor over a six-month time period. Once the extent of change in risk assessments is understood, insurers should get feedback on the client experience and make adjustments to their AUW program as needed, such as augmenting it with misrepresentation models. The carrier can then adjust the level of RHOs as appropriate over time. This approach provides an informed way to balance risk monitoring against business objectives.

In addition to using RHOs, another best practice is to implement Targeted Holdouts (THOs). THOs use non-random methods to select applicants for additional underwriting evidence. A combination of underwriting rules and predictive models such as advisor behaviour, smoker propensity, and BMI misrepresentation could be used for targeting. THOs give insurers an opportunity to liberalize underwriting requirements while still enforcing additional scrutiny where warranted.

Once implemented and refined over time, these holdout methods could drive product and program improvements and instill greater confidence in accelerated decisions.

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Wastage in AUW
Wastage is the broad category referring to submitted applications that are not proceeded with, closed out as incomplete, or the offered policy was not taken by the applicant. Sometimes a request for underwriting evidence may lead the applicant to reconsider their insurance purchase for entirely innocent reasons, such as the inconvenience of having to submit blood and urine. However, when the reasons are less innocent we would refer to the wastage as "selective". Selective wastage happens when a customer walks away from their insurance application specifically to avoid giving evidence to the insurer that will adversely impact their insurance eligibility and/or premium.

According to Munich Re's 2024 Individual Insurance Survey, the average level of wastage for all Individual Life applications was 11%. Furthermore, wastage rates were lower for applications processed on a no-fluid basis and higher if the applications were held out. This variance indicates that the likelihood of wastage is influenced by how much evidence is collected from the applicant. Munich Re's experience also indicates that wastage can differ by sales channel, which may be attributable to varying degrees of advisor influence by channel.

Insurers with above-average wastage rates should view their RHO results as not truly random, and may only represent the skewed proportion of applicants who were willing to submit additional evidence.

Selective wastage is a challenging problem to solve. It's difficult to quantify how much wastage is selective and what the implications are for the rest of the business that is not randomly held out. However, there could be another option—and that is post-issue underwriting (also known as post-issue audit in the US).
According to Munich Re's 2024 Individual Insurance Survey, the average level of wastage for all Individual Life applications was 11%.

Post-issue underwriting
Post-issue underwriting is monitoring that is completed after the policy is issued. This is a practice that is common in the US, typically by requesting an APS, but it is scarcely used in Canada. Instead, in Canada, we generally rely on the claims adjudication process to be able to revisit the disclosures, or lack thereof, in an application.

Post-issue underwriting gives an insurer the opportunity to proactively revisit the application once it has been issued to verify that the policy was decisioned correctly and is charged an appropriate premium. Post-issue underwriting can even result in the rescission of a policy if significant adverse information about the policyholder's health is discovered. According to a recent study conducted by Munich Re Life US, 14% of post-issue audits uncovered that applicants were issued a better risk class under an AUW program than what should otherwise have been issued. Depending on the insurer, post-issue underwriting might not even impact the policyholder directly at all and can instead be used as a tool to understand and adjust AUW program performance.

There are many reasons why post-issue underwriting has not been well-used in Canada to date, but the challenges are not insurmountable, and thus, we challenge the industry to reconsider it as a risk mitigation tool to strengthen the underwriting in an AUW program.

According to a recent study conducted by Munich Re Life US, 14% of post-issue audits uncovered that applicants were issued a better risk class under an AUW program than what should otherwise have been issued.

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Beyond monitoring
Could we take other actions to improve AUW programs in addition to holdouts, mortality slippage monitoring, and potentially, post-issue underwriting?

If we were to really push the industry, one notion is to make premium adjustability the standard and not the exception. Policies where premiums can be adjusted are common in the US and form a stable foundation for AUW programs. The ability to evaluate the performance of a block of business post-issue and adjust premiums is a powerful one. This flexibility could give insurers additional confidence in the ultimate value they will achieve from a policy. However, there are many angles to consider, from consumer and distribution friction to regulatory hurdles and financial risk versus reward.
Mike Correa & Carrie Lam of Munich Re, Canada (Life) examine adjustable-premium policies

What can we do?
We all have a role in ensuring that AUW programs meet insurer and market needs for the long term. Distribution can help by buffering policyholder expectations and gauging comfort levels around post-issue underwriting and all associated outcomes. They can also establish sales concepts about the value of adjustable products.

Reinsurers bring their underwriting and analytic skills to the table to help establish risk controls such as mortality slippage calculations. They also work with clients to understand the ultimate mortality costs of their block and adjust accordingly, all while keeping the sales process and user experience in mind.

Regulators and legislators overseeing the life insurance industry can drive actions that would improve the industry's performance and ensure Canadians have viable insurance products to ensure their financial health long-term. Tax, capital, and oversight policies of regulators and legislators can encourage or discourage any form of sales concept or underwriting approach. Policy actions that encourage adjustability could, in turn, motivate insurers and reinsurers to broaden access to insurance products. Of course, any selective actions that insurers decide to utilize, whether it’s targeted holdouts, post-issue underwriting, or the development of more premium adjustable products, must be done in a manner that adheres to their obligation to treat customers fairly.

The future is coming fast
Accelerated underwriting will continue to evolve and become even more prominent. For it to develop sustainably and deliver value to customers and insurers, we need to proceed with both eyes open. We each play a role—between enforcing good risk management practices and challenging ourselves to rethink product and underwriting designs—to ensure the sustainability of AUW in Canada.

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UPCOMING CAFII RELEVANT WEBINARS & EVENTS; AND RELATED EDUCATION CONTENT

2024 THIA Innovation Summit

https://www.thiaonline.com/cgi/page.cgi/_evtcal.html?evt=116

WHEN: September 26, 2024, 8:45 AM - 5:00 PM
WHERE: Manulife Conference space, Downtown Toronto.

Reserve your spot today for THIA's Innovation Summit, which returns this fall for a day of engagement and insights into the issues, solutions and trends affecting the travel health insurance industry.

This year's Summit will take place on Thursday, September 26th (the day after THIA's AGM) at Manulife's conference space in Downtown Toronto from 8:45 AM – 5:00 PM EST, cocktail reception to follow.* We are pleased to advise that this space is wheelchair accessible.

Space is limited and sure to fill up quickly, and Early Bird pricing is only available until August 9, 2024.

*Event information is subject to change.

This Year's Innovation Summit Highlights
Navigating Disruption: Travel Health Insurance in a Time of Change
At this one-day summit, we will be exploring the impact of emerging technologies, consumer expectations and a shifting global landscape on the travel health insurance industry, while meeting travel health insurance leaders and other industry experts.

The Summit will feature two keynote speakers, provocative panels, technology experts and information about emerging businesses that are helping transform our industry and adjacent industries.

A light breakfast, lunch and a networking cocktail reception at the end of the day are included in your purchase price.

Pricing
THIA Member pricing is valid for active THIA members and non-member colleagues at their company. Non-members must be registered by an active THIA member.

- THIA Members Early Bird ticket (through August 9, 2024): $250 per person
- THIA Members Standard ticket: $300 per person
- Non-Members ticket: $350 per person

Accommodation

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THIA has reserved a limited number of hotel rooms for attendees of our AGM on September 25th and the Innovation Summit on the 26th. The rooms are at the Canopy by Hilton Toronto Yorkville (387 Bloor Street East, Toronto ON M4W 1H7), a short walk from the Innovation Summit venue. The price is $359 per night plus applicable taxes. To take advantage of this rate, you must reserve by August 9, 2024. Visit here to reserve your room.

We strongly encourage those attendees who are travelling to Toronto for the event to ensure they have appropriate travel insurance coverage.