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

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CAFII ALERTS WEEKLY DIGEST: August 25 – September 15, 2023

September 15, 2023

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

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GOVERNMENT/LEGAL/REGULATORY DEVELOPMENTS

Global Affairs Canada Issues LGBTQ+ Travel Advisory For United States

By The Canadian Press, August 29, 2023

Canada is warning members of the LGBTQ+ community that they may face discrimination if they travel to some places in the United States.

Global Affairs Canada says in a new update posted today that Canadians should check relevant state laws because some have new policies and legislation that might affect LGBTQ+ people.

The advisory does not specify which states or which laws are of concern.

Eighteen states have passed laws that limit or outright ban gender-affirming medical care for minors, and more than a dozen already have or are considering passing laws that limit or prohibit teaching about sexual orientation in schools.

Deputy Prime Minister Chrystia Freeland says the travel advisories issued by Global Affairs Canada are based on advice from professionals in the department whose job it is to monitor for particular dangers.

She would not comment specifically on the U.S. warning or its potential effect on the Canada-U.S. relationship, but said that the interests and safety of all Canadians is the government's priority.

Read Story (Subscription Required*):* *https://www.theglobeandmail.com/canada/article-global-affairs-canada-issues-lgbtq-travel-advisory-for-united-states-2/*

FSRA Approves Proposed 'Novel Way' Of Commercial Insurance Distribution

By Jason Contant, Canadian Underwriter, August 30, 2023

Regulator approves proposed 'novel way' of commercial insurance distribution (canadianunderwriter.ca)

The Financial Services Regulatory Authority of Ontario's (FSRA) Innovation Office has approved its first application under its test-and-learn environment — a regulatory 'sandbox' that allows the industry to test out new ideas, concepts, and innovations.

An insurance company is proposing to test a novel way of distributing commercial insurance products across Ontario through a "direct access model," FSRA said in a press release on Wednesday, August 30.

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The direct access model is an arrangement between insurers and other entities through which one insurer's agents, acting under the supervision of a common managing general agent, would provide their clients access to a suite of niche commercial insurance products from different insurers, FSRA explained.

The *Insurance Act* currently limits licensed general insurance agents to act for a single insurer unless insurers are carrying on business in a common undertaking.

The proposed innovation allows insurer agents to offer commercial insurance products on the basis that the various entities supporting the direct access model are an "affiliated group of insurers" carrying on a common undertaking.

"Through FSRA's test-and-learn environment the insurance company hopes to demonstrate that the direct access model will improve market access and convenience for consumers," the regulator said.

FSRA's director of innovation policy, Stephanie Appave, told *Canadian Underwriter (CU)* that "there are multiple commercial insurance products this could apply to, not one area specifically," when asked about the commercial niche area. The insurer will decide which options might best meet the needs of their client, Appave explained.

"As our first approval, if this is successful, it helps open the door for other developments and may lead to further modernization in the industry," Russ Courtney, FSRA's senior media relations and digital officer, told *CU*.

The name of the insurer is not being released for commercial sensitivity reasons, Courtney added.

"It is FSRA's view that in this case, this novel distribution model has the potential to provide significant benefits to consumers and possibly facilitate the modernization of insurance distribution in Ontario," FSRA executive vice-president Glen Padassery said in the release. "However, we will work closely with the applicant to ensure that undesirable consumer outcomes are avoided, and appropriate safeguards are developed to protect individuals and families across the province."

During the product testing phase, the insurer will have to ensure the competence of their agents, that clients are being treated fairly, that there is proper governance and agent oversight, and that there is a consumer complaint handling process in place.

The insurer will also have to provide tools and resources, including training, to assist agents with information about the new products and ensure that consumers' rights and interests are being protected.

FSRA launched its innovation centre in 2020 to help identify, support, and enable innovation across the financial services sector. The test-and-learn environment (that made initiatives like this possible) launched in 2022, and this is the first approved application.

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The Innovation Office has released a framework to standardize the way it reviews new ideas, products, and services. At the same time, it established a test-and-learn environment to validate and assess potential ground-breaking advancements before they are introduced into the Ontario market.

Looking ahead, Appave said that if the undertaking is successful, "it will help consumers have access to more options while cutting down on the legwork required to shop around for what best suits their needs.

"We'll be monitoring this initiative very closely to ensure that our main goal is realized — consumers are fully protected," she said, adding that FSRA hopes that others can take lessons to help facilitate their own innovations.

Since the launch of the Innovation Office and the establishment of its test-and-learn environment, FSRA has been collaborating with financial services sector participants to understand the barriers they face and how the regulator can support their ideas, while establishing guardrails that protect consumers without stifling innovation, Appave said.

"FSRA will leverage insights from this initiative to help refine our approach and continue to grow Ontario's financial services sector."

Ontario Seeks To Expand Range Of Options For OSC Sanctions Monies Spending

Proposal Would Allow Enforcement Money To Be Used For IT Projects And New Innovation Office

By James Langton, Investment Executive, August 22, 2023

https://www.investmentexecutive.com/news/from-the-regulators/ontario-seeks-to-expand-osc-sanctions-spending/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-saturday&hash=6d73923380f292a40dc042b455f0fde3

Enforcement sanction monies collected by the Ontario Securities Commission (OSC) can currently be returned to harmed investors, spent on investor education, or used to pay whistleblowers, among a limited set of authorized uses. The Ontario government is proposing to expand those options.

Earlier this month, the Ministry of Finance proposed a new regulation that would allow enforcement sanction monies to be spent on funding the activities of the OSC's Office of Economic Growth and Innovation, and to boost the commission's technology, data acquisition, and analytics capabilities.

The Office of Economic Growth was created in 2020 as the government expanded the regulator's mandate beyond investor protection and into encouraging capital formation and competition.

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Under the proposal, both new and existing monies collected from enforcement sanctions could be used in the new spending categories.

According to the OSC's latest financial statements (for the year ended March 31, 2023), the balance of funds collected in enforcement settlements and sanction orders was $123.7 million. The regulator's collection rate on settlements and sanction orders during the year was 30.3%, down from 35.6% in fiscal 2022.

During the previous fiscal year, the regulator's board authorized $7 million in expenditures from its accumulated enforcement sanction monies, including $481,092 in payments to whistleblowers and $1.66 million for investor education and advocacy organizations.

It also spent $4.6 million for the OSC to recover "investor education and knowledge enhancement" costs. Those included $2.1 million in salaries and benefits, $1.9 million on professional services, $931,349 on media campaigns, $567,728 on IT costs, and $138,154 to finance the Investor Advisory Panel's costs.

Less than $150,000 was paid to harmed investors.

According to a notice spelling out the government's proposal to expand the range of options for sanctions monies, the change would allow the OSC to use those funds on initiatives "to better fulfill its mandate."

The notice also indicated that the proposal would prevent the accumulation of a large balance.

It suggested that the new approach would reduce the burden on industry players by "avoiding fee increases that otherwise would have been imposed to achieve the same outcomes."

Additionally, the proposal indicates that the change would address one of the criticisms in the latest auditor general's review of the OSC — namely, that it lacked the necessary technology and analytical tools to ensure efficient market oversight and compliance.

Enhancing technology and data capabilities would "help strengthen the OSC's oversight and early detection of securities violations to protect investors through timely and impactful enforcement action," the notice said.

Any new spending initiatives under the proposed regulation would be subject to the oversight of the regulator's board, the proposal noted.

"It is contemplated that the OSC board would establish internal controls governing technology/data capabilities expenditures to ensure that enforcement money is appropriately used for the proposed new purpose, and do not constitute expenditures that are ongoing," the proposal said, adding that the same kinds of controls would be developed for innovation office spending.

The proposal is out for comment until September 18.

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Banking Sector Says Ottawa Is 'Picking On' Financial Services Firms With New Taxes

By Stefanie Marotta, The Globe and Mail, September 12, 2023

Canada's banking industry lobby group is calling out Ottawa for targeting financial institutions and ignoring warnings that the government's taxes aimed at extracting billions of dollars from banks and insurers will dampen lending and further stunt slowing profit growth.

The talks between the voice of the industry and the government have led nowhere, according to the Canadian Bankers Association. In an exclusive interview with The Globe and Mail, the CBA spoke out publicly on the matter for the first time since the government first unveiled the taxes in 2021. It's a rare move by the industry group, taking aim at a government that has come under increasing fire for economic concerns and its deficit spending.

Over the past two years, Ottawa has imposed three new taxes specifically on banks and insurers to help drum up funds to support government initiatives and help pay down climbing debt. Each change was unveiled without prior consultation, blindsiding the companies that typically have an opportunity to provide input on economic policy.

The new taxes target banks and insurers at a time when rising expenses and mounting lending risk are stunting profit growth, prompting some banks to trim jobs. While the CBA has provided feedback on its issues with the taxes, the industry group says that the government has not addressed the potential of the amendments to reduce lending by the banks.

"We don't believe this economic policy of singling out the banks is the correct way to go," CBA chief executive officer Anthony Ostler said in an interview. "We have had significant discourse with the federal government, but it's fallen on deaf ears."

TMX Group, the Canadian Chamber of Commerce, and the Business Council of Canada have joined the CBA in denouncing some of the tax proposals in recent federal budgets. They are asking the government to revisit the policies and find alternative measures.

Each tax change over the past two years was a surprise to the industry, Mr. Ostler said.

"If the government came to us and said, 'We have this objective. We want to do X Y Z. Can you help us with that objective?,' we could have had a dialogue about the different alternatives to solving that problem," Mr. Ostler said. "That is what we've done historically, and that has not been happening as of the recent past."

The Ministry of Finance said that since proposing the new taxes last year, it has invited the public and stakeholders to provide feedback, and that it will launch public consultations on the additional tax measures proposed in March.

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"Canada's major financial institutions made significant profits during the pandemic and recovered faster than other parts of the Canadian economy – in part due to the federal pandemic supports for people and businesses that helped de-risk the balance sheets of some of Canada's largest financial institutions," spokesperson Katherine Cuplinskas said in an e-mailed statement.

"That is why the federal government in our 2022 budget asked these large financial institutions to contribute to Canada's recovery from the pandemic. This was also a commitment that our government ran on – and Canadians voted for – during the 2021 campaign."

The government is searching for new revenue streams to fund federal programs while grappling with its deficit and reining in soaring spending.

In the federal budget released in March, the Liberals unveiled an amendment to the tax treatment of dividends paid on Canadian shares held by financial institutions. The update would require banks and insurers to count those dividends as business income.

The government expects the plan to generate $3.15 billion over five years starting in 2024, and $790-million annually after that.

The amount levied by the taxes pales in comparison the amount the banks earn each year. Canada's six largest banks booked more than $66 billion in net income in 2022.

This year's proposed changes could cause a modest hit to earnings per share by less than 1 per cent, analyst Mike Rizvanovic of Keefe, Bruyette & Woods said in a note to clients in March. But he also said that the broader sentiment from government signals a "worrying trend."

Mr. Ostler said the moves mark a "negative vicious cycle on Main Street," because repeatedly levying new taxes specifically on banks could further stunt the economy by raising the cost of mortgages, loans, and other financial products and services. Each dollar taken in taxes is money pulled from bank lending capacity that would otherwise "enable people to start businesses, invest in factories, buy a home or a car."

Liberal Leader Justin Trudeau first unveiled two substantial tax changes for banks and insurers during the 2021 election campaign. The government later launched both proposals in last year's budget.

The Canada Recovery Dividend requires large banks and life insurers to pay a temporary 15 per cent charge on the average of 2021 and 2020 taxable income above $1-billion, payable over five years beginning in 2022. The Parliamentary Budget Officer expects the initiative to raise $604-million annually starting in 2022, for a total of $3.02-billion over five years.

The federal government also launched a permanent change to the sector's corporate income tax rate that will raise an estimated $2.25-billion over five years. It increases the tax rate by 1.5 percentage points to 16.5 per cent on taxable profits over $100-million for banks and insurers.

Senior bankers and industry groups were largely silent when the federal government first proposed the industry-focused taxes as it spent money to avoid a recession during COVID-19 and bank profits soared.

Executives said that the government was unfairly targeting the financial industry, while technology and telecommunications companies that also had their profits propped up by pandemic spending were exempt from the new taxes.

But the banks are now facing a significantly different business climate compared to last year. “Picking on a sector that is the core to supporting the growth and long-term health of the economy is doubly detrimental,” Mr. Ostler said.

In their recent third quarter, most big banks missed earnings expectations even after analysts slashed their estimates ahead of the results releases. As high interest rates dampen loan demand, rising credit risks prompt banks to set aside more money for bad loans, and expenses across the sector spiked.

Meanwhile, Canada’s banking regulator has increased capital requirements, forcing the banks to hold billions of dollars in excess reserves. The Office of the Superintendent of Financial Institutions head Peter Routledge has referred to the extra cushion as “insurance” to hedge against rising risks in the sector.

The CBA says that Canada’s banking system has repeatedly proven its stability even in the most difficult times, such as the financial crisis in 2008.

“An ironic thing is that despite the fact that we are a paragon of safety, OSFI’s approach to capital requirements is adding insult to injury and is limiting the flow of capital into the economy at the same time that there are a lot of other things going on,” Mr. Ostler said.

Ottawa also introduced a new 2 per cent tax on share buybacks, which applies to all companies, saying it would encourage companies to reinvest their profits in workers.

But the TMX Group says that it will further boost costs for its more than 3,000 publicly traded companies – most of which are small and medium-sized businesses – and will hinder a key tool that companies use to return money to shareholders.

In August, the United States also imposed a tax on buybacks, but limited it to 1 per cent.

“If companies have extra capital, we want them to return it to the shareholders because then the shareholders can re-invest it in other growth businesses and other businesses that are going to help grow the economy,” TMX CEO John McKenzie said. “When you add a friction point like a new tax, it incents somebody just to hang on to cash and not use it efficiently.”

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Italy's Bank Tax Fiasco: Canada Must Learn Lessons On The Evils Of Populist Tax Policy

By Jeremy Kronick and William Robson, Special To The Globe and Mail, September 11, 2023

Jeremy Kronick is associate vice-president and director of the Centre on Financial and Monetary Policy at the C.D. Howe Institute. William Robson is the chief executive officer of the C.D. Howe Institute.

In public policy, as in life generally, we often recognize mistakes by others more easily than we recognize mistakes which we make ourselves. Italy just goofed big-time with a windfall tax on its banks, and Canadians should take notice.

Last month, the coalition government of Italian Prime Minister Giorgia Meloni announced a surtax of 40 per cent on the profits of the country's banks. The announcement triggered a crash in bank stocks – a loss of €10 billion in a single day – and a storm of criticism from investors, economists, and elected representatives, including members of the coalition.

Ms. Meloni's government has since backtracked, capping the amount at 1 per cent of bank assets, and exempting smaller banks. But the situation is still unsettled. Italy's impulsive populist move has shaken the government and further undermined confidence in its management of an already wobbly economy.

Could that happen in Canada? It could – indeed, something like it already did. In 2021, the federal government announced an increase of the corporate tax rate on banks and insurance companies from 15 per cent to 18 per cent, and a five-year, 15-per-cent "Canada Recovery Dividend" (CRD) tax on their 2021 taxable incomes above $1 billion. That proposal also ran into trouble, and the government walked it part-way back, lowering the surtax rate to 16.5 per cent and changing the income base for the CRD to reduce its impact.

Then, in the 2023 budget, the government followed up with another plan to squeeze banks and insurers: it will no longer recognize that dividends from Canadian shares held by financial institutions are paid from post-tax income, and will tax them again.

Canada's attempts to raise additional tax dollars from financial institutions have already hurt savers, workers, and customers. The federal government should undo that damage – and reduce the likelihood of future damage – by walking back these punitive measures completely.

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It is easy to understand the popular appeal of these kinds of tax changes, whether in Italy, Canada, or elsewhere. Many people think of taxes on businesses as free money for governments – taxes that no real person has to pay. Populists think of tax policy as a tool to help their friends and hurt their enemies.

With rock-bottom interest rates and big-spending governments during the pandemic, the resulting temporary boost to bank profits stood out in a bad way when so many people and businesses were struggling.

But those impulses fall short of making a case for special taxes on financial institutions, or any other business. Some taxes on business make sense – government services cost money, many government services help businesses to operate, and taxes on business cut down on opportunities for people to avoid personal taxes by incorporating.

But financial institutions, like all corporations, are legal entities, not real persons, and it is real, flesh-and-blood people who pay their taxes: the people who own shares, directly or through their pension and other accounts; the employees; and the customers. And taxes affect behaviour: tax something more, whether it is work, investment, or innovation, and you'll typically get less of it.

As the Italian bank-stock crash reminds us, the immediate impact of extra taxes on banks will typically be on current owners of their shares. Over time, savers will move their funds to different sectors – perhaps outside the country. That will affect employees, whose productivity and wages will suffer from lower investment.

Ultimately, the biggest burden falls on consumers. They will suffer directly, through higher fees, premiums, and interest charges, and reduced offerings of financial services. They will also suffer indirectly, since all businesses use financial services, meaning those same higher costs and reduced offerings will raise prices and reduce the goods and services available throughout the economy.

Italy's high-profile thrust and retreat, and Canada's more muted version, also raise a more general concern. Impulsive initiatives by governments, followed by chopping and changing on the fly, raise red flags for everyone. Why work, or save and invest, in such an erratic environment when there are safer alternatives? Owners, employees, and customers of other businesses will legitimately wonder: "Are we next?" If populism rather than fairness and economic logic drive tax policy, who can feel truly safe?

The lesson from Italy's antics applies everywhere, including in Canada. Governments should resist populist calls for discriminatory taxes on financial institutions, or any other sector. They need to lead responsibly. They should emphasize that people – whether as savers, workers, or customers – pay all the taxes that governments collect. They should argue for the merits of equal treatment across sectors.

They should think policies through ahead of time, not damage confidence with impulsive announcements followed by improvised walk-backs.

Italy has made a more dramatic mistake than ours, but the motivation was similar. We can and should be smarter than that.

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Read Story (Subscription Required): https://www.theglobeandmail.com/business/commentary/article-italys-bank-tax-fiasco-canada-must-learn-lessons-on-the-evils-of/?utm_medium=email&utm_source=Market%20Update&utm_content=2023-9-11_17&utm_term=Italy%E2%80%99s%20bank%20tax%20fiasco%3A%20Canada%20must%20learn%20lessons%20on%20the%20evils%20of%20populist%20tax%20policy&utm_campaign=newsletter&cu_id=Ts6FwhWx6n2rSHC0x7MiReEeeFJOJkTb

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OTHER CAFII MEMBER-RELEVANT NEWS

RBC Takeover Of HSBC Canada Approved By Competition Bureau

Nonetheless, The Bureau Found Evidence Of Several Instances When HSBC Canada's Lineup Had Influenced RBC's Offerings

By The Canadian Press, September 1, 2023

RBC takeover of HSBC Canada approved by Competition Bureau | Investment Executive

Royal Bank of Canada has obtained approval from the Competition Bureau for its proposed acquisition of HSBC Bank Canada.

After an extensive review, the Competition Bureau said the deal is unlikely to significantly lessen competition in the banking sector.

Instead, the report indicated RBC is absorbing a "a vigorous competitor and a material rival … in the offer of particular financial services," but that "HSBC Canada's competitive impact was limited when compared to other financial institutions."

The Bureau noted that HSBC Canada relied heavily on its global parent for funding and strategic direction, which "limited or constrained its competitiveness in Canada, and resulted in under-investment or delays in product development, more limited product offerings, and a lag in digital offerings as compared to the major domestic banks."

Nonetheless, the Bureau found evidence of several instances when HSBC Canada's lineup had influenced RBC's offerings. RBC routinely monitored HSBC Canada's interest rates, and there were "numerous examples" of customers citing HSBC Canada mortgage rates during negotiations with RBC, the report stated.

Further, "RBC strategic documents cited certain HSBC Canada product features, such as GIC redemption terms, transaction limits, features of foreign currency accounts, and international services, among others, as historically effective in drawing RBC clients to HSBC Canada," the report stated.

However, this competition was limited. "The Bureau also found substantial evidence of major competitors such as RBC directly declining to match HSBC Canada rates, or developing strategies which reacted less directly to HSBC Canada offers, consistent with [that] bank's more limited market presence."

The report concluded that the loss of rivalry would primarily affect HSBC Canada customers of products such as mortgages and internationally-focused accounts. Overall, though, HSBC Canada had minor competitive impact on other financial institutions.

The other areas in which the two banks have product overlap — credit cards, capital markets services, and business financial services — would not see a substantial lessening or prevention of competition, the report said.

Specifically, the Bureau predicted that the post-merger market share of the merged firms would be below 35% in both the assessed personal financial services markets and the business financial services markets.

Documents reviewed by the Bureau suggested that RBC would close, consolidate, or restructure branches if the deal is approved, but that such closures could happen regardless.

The report emphasized, however, that the documents "generally reinforced the competitive importance of local branch networks overall." Further, "the [banks] viewed branch closures as a notable risk to competitiveness and market growth, and as a factor which could lead to material customer attrition." RBC has the largest branch network in the country.

In its report, the Bureau observed that the financial services market in Canada overall remains very concentrated. Barriers to entry and expansion remain high, and include impediments to customer switching, the high cost of doing business, and the entrenched brand reputations of the existing banks.

However, those barriers "may be lower for capital markets, wealth management and advisory services, or other services distinct from deposit and loan operations," the report stated.

Some had also pushed for the deal to be blocked because HSBC has been a leader in sustainable policies, such as a commitment last year to stop funding new oil and gas fields, while RBC has been criticized for its shortcomings on climate action.

The Bureau found that RBC would still face incentives to respond in that area, given increasing demand and significant competitive pressures.

The review considered a broad range of sources, including more than 1,500 submissions from Canadians.

The approval will be used in the Finance Minister's decision-making process on whether to give the final greenlight for the deal to proceed.

In a statement, RBC welcomed the decision: "The Bureau's conclusion that it has not identified Competition Act concerns in respect of our proposed acquisition of HSBC Canada followed an exhaustive review and a co-operative approach by RBC," the bank said. "We are taking a similarly collaborative approach with the ongoing reviews by [the Office of the Superintendent of Financial Institutions] and the Minister of Finance."

RBC first announced its proposed takeover of HSBC Canada in November 2022, with a price tag of $13.5 billion. HSBC Canada has said that it expects the deal to close in the first quarter of 2024.

The Bureau recommended against the proposed mergers of RBC with Bank of Montreal, and CIBC with Toronto-Dominion Bank, in 1998.

Advocis Addresses Liquidity After Poor 2022 Results

The Association Extended Its Line Of Credit, Got A Loan And Tapped Into Its $5.5-Million Reserve Fund

By Michelle Schriver, Investment Executive, August 24, 2023

https://www.investmentexecutive.com/news/industry-news/advocis-addresses-liquidity-after-poor-2022-results/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-saturday&hash=6d73923380f292a40dc042b455f0fde3

The most recent financial statements for Advocis, the national financial advisors Association, indicate that it took steps to address liquidity after reporting its largest net loss in recent years.

This summer, Advocis released its annual report with financial statement summaries showing that expenses exceeded revenues by $2.5 million for the 2022 fiscal year. (The amount includes $571,000 in net unrealized losses on investments and a $256,000 gain from Advocis Broker Services). The negative result is the largest since fiscal 2017 as the Association updated its education programs, invested in infrastructure, and dealt with pandemic fallout.

"The financial results of 2022 have put a strain on the financial resources and liquidity of [the Association]," notes to the financial statements indicate.

The financial statements state that, since year-end, Advocis has raised cash by increasing its line of credit to $500,000, arranging a loan of $610,000 against the cash surrender value of life insurance policies held, and establishing a $1.7-million line of credit from the Century Initiative Fund, from which it also received support.

The Century Initiative Fund was created in 2006 to ensure the Association's capitalization and is funded with premium membership fees. Its balance was $5.5 million at the end of last year, and the fund has contributed $1.5 million to various Advocis initiatives over the past five years, the annual report indicates.

Advocis's financial statements notes state that the Association is also in the process of completing a "restructuring plan" to "reduce operating expenses and provide a sound financial base for the organization."

In a statement emailed to *Investment Executive*, Advocis said that "2022 was a challenging year for Advocis and so many other organizations across Canada. We are still feeling the impact of the pandemic and are adapting our operations to better reflect that reality."

Operating costs were up 12% year-over-year, the annual report states. Additional costs were incurred with the shift to hybrid events post-pandemic, and as the organization's subsidiary, the Institute for Advanced Financial Education, became a credentialing body under Ontario's new title protection regime.

On the other side of the ledger, revenue from membership fees, relatively flat in recent years, took a hit in 2020 with the pandemic and hasn't recovered. "Natural attrition and industry demographic shifts along with rising inflation left growing membership challenging," the annual report states. Demand for education was also down and was attributed to the pandemic.

"We remain confident in the value that we deliver to our members, clients, and corporate partners across Canada — and of their ongoing support of the Association," Advocis stated in its report.

The Financial Services Regulatory Authority of Ontario, which oversees credentialing bodies in the province, has said that its supervision approach for 2023–24 will focus on four areas, one of which is how credentialing bodies are prepared to handle increased demands on their resources.

Greg Pollock Departs As Advocis CEO

Longtime President And CEO Departs After 15-Year Term

By Wealth Professional, September 14, 2023

https://www.wealthprofessional.ca/news/industry-news/greg-pollock-departs-from-advocis/379644

Advocis, the Financial Advisors Association of Canada, is undergoing a change in leadership.

In a statement released on September 13, the Association announced that Greg Pollock, who has served as the Association's president and CEO for over a decade, has left the organization effective immediately.

"We are grateful for his leadership and service over the past 15 years," said Eric Lidemark, CFP, CLU, CH.F.C., CHS, chair of the Advocis board, said in a statement.

Lidemark extended his thanks to Pollock for his contributions to Advocis during his tenure, and gave his well wishes for the longtime leader's future pursuits.

"On behalf of the Board and all members of Advocis, I thank Greg and wish him every future success."

Who's Advocis's next leader? The search is on

Who will follow in Pollock's footsteps and take the helm at Advocis, the storied industry Association whose history extends back to 1906? For now, that's an open question.

According to Advocis' statement, the Board will be undertaking a formal search for Pollock's replacement in the near term.

In the meantime, Harris Jones, CPA, CA, CFP, CLU, CH.F.C., TEP, chair of Advocis' Finance and Audit Committee, will serve as interim CEO.

Jones sits on the board of directors of the Toronto Branch of the Society of Trust and Estate Practitioners (STEP). He distinguished himself in 2020 by being recognized as the STEP Toronto 2019 Volunteer of the Year.

Harris has also garnered respect in Ontario and across Canada as a "pillar and mentor" within the tax, trust, estate, financial, business succession and insurance communities.

He's also served as a member of the boards of directors at North Toronto Community Housing, and West Toronto Community Legal Services.

CLHIA Puts Forward Federal Budget Recommendations

By Mehreen Shahid, The Insurance Portal, August 14, 2023

The Canadian Life and Health Insurance Association (CLHIA) recently released the pre-budget recommendations which the Association has made to the federal government.

The CLHIA is asking the government to ensure that the *Canada Pharmacare Act* targets those without benefits coverage and that employers be incentivized to continue providing healthcare solutions through workplace plans.

The CLHIA is also recommending that the government introduce a tax credit for employers so that they don't drop or reduce dental coverage once the public care plan rolls out under the *Dental Benefit Act*.

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Further, the Association is recommending that Tax-Free Savings Account (TFSA) liquidity requirements be waived, allowing Canadians to use this account to supplement retirement savings.

"Many Canadians are using TFSAs to supplement retirement savings," says the report. "These individuals should have the flexibility to secure their retirement by purchasing an annuity that provides guaranteed lifetime income within their TFSA. Currently, the liquidity requirement of the TFSA rules prevents holding life annuities within said account."

The Association is suggesting that consumers should be permitted to waive this liquidity requirement, at least at older ages.

The report also says that revenue measures previously announced by the government "unfairly target life insurers," and is asking for an end to sector-specific taxation on life insurers.

The report was referring to the 2022 budget measure to charge an additional 1.5 per cent tax on taxable income greater than $100 million earned by Canadian banks and insurers.

"(This) has created an inequitable sector-specific two-tier corporate tax system in Canada," says the report. "This two-tiered tax is not a good policy. Profits made by Canadian corporations (other than small business corporations) should be taxed at the same rate irrespective of the sector of the corporation."

"We urge the government to make changes so that taxes are only payable when a life insurer earns income and not on income it is expected to earn in future," the report says.

Finally, the CLHIA is urging the government to move ahead with implementing the 2018 budget measures that will enable greater private sector investment in infrastructure.

"We recognize the role sustainable infrastructure plays in mitigating climate change and adapting to it," the Association says. "This is an area of significant and growing concern to the public and our industry."

Read Story (Subscription Required): *https://insurance-portal.ca/life/insurance-association-puts-forward-federal-budget-recommendations/?utm_source=sendinblue&utm_campaign=daily_complete_202308-14&utm_medium=email*

AI Software Is Taking Over Call Centres. Will That Make Customer Service Better — Or Worse?

Call Centres Are Scrambling To Adopt ChatGPT-Like Software, Despite Problems With 'Hallucinations' And Inappropriate Comments. Reaching A Human Will Become Almost Impossible, But Service Might Actually Improve.

By Christine Dobby, Toronto Star, June 17, 2023

It should have been simple.

Ian Collins' travel plans changed and he just wanted to update his check-in time, so he called the customer service number for the hotel to make what he assumed would be an easy fix.

"How can I help you today?" an automated voice asked him.

The voice — smooth yet stilted, clearly recorded — asked for his reservation number. He responded that he didn't have the number handy.

"How can I help you today?" it asked him again, taking him right back to the beginning.

No matter what he said, Collins couldn't get out of the automated voice loop.

It was the type of experience that leaves many of us thinking fondly of the days when you could quickly get a live human on the line, but digital customer service is not going away. In fact, it's about to take over.

Thanks to the arrival of "generative" artificial intelligence (AI), a type of machine-learning technology that can create new content, such as text, images or music — or provide natural-language answers to customer service complaints — more than a third of Canadian companies are looking at how AI can improve their operations, according to a recent survey by KPMG Canada.

Over the next few years, telecoms, insurance providers, banks, utilities, and government departments of all kinds are expected to lean heavily on AI technology for customer service and support.

Many consultants, corporations, and researchers say the next generation of automated support will be much better than the chatbots of today. The new systems will be able to learn and adapt on the fly, instantly tapping into reams of information to deliver individually tailored responses.

But there are also concerns that if businesses rush in too quickly or implement systems poorly, the call centre experience could become worse. Customers could find themselves stuck in more frustrating automated loops, unable to reach a human, or even running into AI systems that are unintentionally offensive or succumb to "hallucinations," where they firmly state incorrect information as fact.

Either way, millions of call centre workers will lose their jobs over the next decade or so as they're replaced by machines — and the shorter-term scenario isn't much better. Experts warn that workers will face constant monitoring by the machines they work with, which will not only make suggestions for how to respond to queries but also report on workers' performance, potentially making an already difficult job even more stressful.

Still, with the promise of significant savings and productivity gains — a McKinsey report just this week said improvements to customer service functions alone could create $404 billion (U.S.) in value globally — the pull of generative AI will be impossible for businesses to ignore.

For Collins, the CEO of Toronto software development company Wysdom.AI, encountering bad customer service in the wild, like he did with that hotel chain, may be frustrating, but it's also a marketing opportunity.

His business is built on helping clients make sure their digital customer-support tools work properly and for years he's used older versions of AI technology to do that.

If you fine-tune today's chatbots using analytics, you can keep people pretty happy, he says, but that's nothing compared to what's coming.

"That's all gen one," Collins says. "The second generation just emerged and nobody really saw it coming."

ChatGPT Enters The Chat

It's barely been half a year since the research lab-turned for-profit company OpenAI launched ChatGPT. The public-facing AI chatbot attracted unprecedented consumer adoption — hitting 100 million monthly active users within two months — and put school teachers everywhere on guard against fake essays. ChatGPT and other tools released around the same time, such as Google's Bard and Microsoft's AI-powered Bing search engine, have become a pop culture sensation, spawning thousands of articles on how individuals can use the technology. A New York Times tech reporter conducted a bizarrely compelling "interview" with the Bing chatbot, and ChatGPT even showed up on an episode of "South Park."

But generative AI has also grabbed the attention of the suits.

"There's a significant amount of interest, across the board, in all types of industries," says Uma Challa, senior director in the research and advisory group at management consulting company Gartner. "Most of our clients are in the discovery phase (right now)."

Collins says his own customers have also been calling with questions about how they could use this new generation of AI to change call centre and support work.

“Six months later, every one of our clients — senior level, the VPs, and chief product officers — are asking us, ‘How soon can we get this stuff? What does it mean to us? How should we get ready and are our competitors doing it?’ ” he says.

“Everyone is so interested and a bit worried that it’s coming and they might be left behind.”
“AI has been around for a long time, but it’s been morphing,” says Andres Rojas, director of applied AI projects at the Vector Institute for Artificial Intelligence in Toronto.

Let Me Talk To A Human

A 2021 Online Poll Found That Canadians Are Reluctant To Trust AI And Digital Assistants When Seeking Customer Support.

74%
Say AI-based customer service ("chatbots") have provided a worse customer experience compared with a live representative.
63%
Say they trust a live person more than AI.
6%
Say they trust a chatbot more.
63%
Percentage of Canadians who believe companies that switched to chatbots during the pandemic should return to live representatives after the pandemic subsides.
60%
Say they will view a company's reputation more negatively if that company does not return to live agents in chatbot roles. Fewer than 10% see a positive impact on reputation.

SOURCE: STRATEGYCORP
TORONTO STAR GRAPHIC

Earlier generations of the technology helped power applications such as chatbots, computer programs that mimic human assistants, or voice bots, which can recognize and respond to customers’ voices over the phone instead of texting or typing online.

For customer service, that’s been helpful for the ability to quickly scan and analyze mountains of data.

But it has typically been limited to helping direct callers to the correct (human) agents, giving out information such as account balances, or delivering canned responses to simple customer queries, often from a predetermined list of answers.

“It used to be like a guided FAQ,” says Katie Bolla, a management consultant partner at KPMG Canada who specializes in customer-related services.

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Generative AI is set to significantly improve the quality and personalized nature of those answers, expanding the number of customer queries that could be handled by chatbots, according to the McKinsey report.

About half of customer calls to banks, telecoms, and utilities in North America are already handled by machines, the report said, adding that generative AI could "could further reduce the volume of human-serviced contacts by up to 50 per cent."

'Whisper Bot' On Your Shoulder

At this point, generative AI is mostly working behind the scenes when it comes to customer service and call centres.

Some companies are using the technology — typically not the publicly available tools, but models customized to their own needs and trained on their own corporate information and customer data — to help support their human customer service agents.

Researchers from Stanford University and the Massachusetts Institute of Technology recently published a report on what they say is the first real-world study of that kind of tool at work.

They followed the use of a generative AI-based conversational assistant by more than 5,000 customer support agents at an unnamed Fortune 500 enterprise software company.

The AI listened in on the agents' conversations with customers — small- and medium-sized business owners who needed to troubleshoot problems with their software — and provided suggestions on how to respond.

Rojas calls this type of technology a "whisper bot."

In an example of how that could work in practice, the Stanford and MIT researchers suggested a scenario where a customer calls in because they can't log into their system. The AI quickly identifies why that might be and offers a common solution, suggesting that the agent ask, "Can you check that your caps lock key is not on?"

The AI is also trained to take the customer's feelings into account and suggest language that can help with that, something like, "That wasn't stupid of you at all! I always forget to check that too!"
The researchers found that by using the AI assistant, productivity increased by 14 per cent (that measured the average length of calls, whether issues were resolved, and customer satisfaction).

The AI also helped newer, low-skilled agents do their jobs better, by sharing knowledge and suggestions which it might otherwise have taken them weeks or months to pick up.

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'Not Quite Ready For Prime Time'

A key point made in the case study at the software company is that the agents did not have to take the AI's suggestions and still had the power to use their own, human judgment.

But as the technology progresses, computers could soon be handling everything.

Some technology vendors are already creating virtual assistants capable of answering calls on behalf of an agent, resolving issues in some cases and speaking like a human in response, Challa says.

"We haven't really seen that product in action yet," Challa says. "But that could be in the near future when it becomes more and more common."

Collins thinks it will be about six months or so before AI-based assistants are unleashed to deal directly with customers.

Right now, he says, they're "not quite ready for prime time in the in the big enterprise market," in part because companies want to be sure of "every word this thing's going to say to my customers."

AI is still unpredictable and prone to "hallucinations" — delivering false information with convincing confidence — or unintentionally making offensive comments.

There Are Other Barriers Too.

Getting generative AI right can be expensive and time-consuming. The MIT and Stanford researchers say that training the program on a company's own data "requires thousands of GPUs and weeks to months of dedicated training time." (GPUs are graphics processing units, the computer chips used in generative AI processing.)

"You need good routing capabilities. If the model doesn't understand the specific type of question, how seamlessly does it transfer to a human agent?" says Gartner's Challa. "Some of those issues have to be worked out."

KPMG's Bolla agrees that it's crucial to get the right "plumbing" in place (such as data centres to manage customer data and meticulous mechanisms for routing data).

Without that, AI won't help prevent that frustrating experience of getting bounced from question to question and department to department without getting your problem solved.

And customer expectations are constantly increasing, Bolla says, noting that businesses can pay a heavy price for disappointing people. "It typically costs more to acquire a customer than it does to retain a customer."

The Vector Institute's Rojas says organizations need to balance that with the short-term savings they could realize by shifting to an AI-based customer support system that doesn't satisfy customers.

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There are also questions around how comfortable people are with AI, he says. “It’s not a technical issue, it’s more of a social norm.”

In 2021, an online survey of 400 Canadians conducted by strategic advisory firm StrategyCorp found that almost three quarters of respondents said they received worse customer service from an AI-based chatbot compared to a real person. Sixty-three per cent said they trust live agents more than AI.

Still, says Rojas, as the technology improves, consumers are likely to see the advantages of getting an answer from a computer in 30 seconds with zero wait time.

“I think society will also evolve and people will get used to it.”

Once the technical snags are ironed out, there are still some thorny ethical issues to consider.

AI tools designed to assist agents won’t just help them solve customer problems, they’ll keep a close watch on everything they do.

Customer service employees have long been subject to call monitoring and random performance checks, but some warn that the new AI systems have the potential to take monitoring to a whole new level.

“Worker surveillance is intensified. Every interaction is very closely scrutinized by computers, which is something that no human manager could do,” says Valerio De Stefano, the Canada research chair in innovation law and society at Osgoode Hall Law School.

De Stefano worries there will be a spike in workplace discipline cases related to poor performance captured by AI.

“Workers are going to bear the brunt of this for some time unless something in the legal landscape changes,” he says.

He added that while unions are beginning to address surveillance issues in new collective agreements, there is limited unionization in the private sector, which employs many call centre workers.

Call centre jobs are hugely stressful — a 2020 report by Cornell University’s Virginia Doellgast and McMaster University’s Sean O’Brady found that a large number of call centre workers experience emotional strain, sleep difficulties, use of anxiety medication, and repetitive stress injuries.

Arif Jetha, a scientist at the Institute for Work & Health and associate professor at the University of Toronto’s Dalla Lana School of Public Health, says AI technology could help take some of the stress out of the job by taking over simple, repetitive tasks and properly routing calls to the right employee.

"But it also has the potential to displace workers," he says. Call centre workers already tend to come from vulnerable backgrounds, he says, adding that the people most likely to lose their jobs as AI takes over are workers of colour, recent immigrants, women, or those from an intersection of those backgrounds.

Virtual reality is also likely to play a part in what the customer support agents of the future look like, says KPMG's Bolla (though this is much further down the road).

"You could (have a conversation with) a visual manifestation of an avatar, that you feel is most accessible and easy to talk to, with the language or the accents that you find most comfortable speaking in."

There are about 17 million customer support agents worldwide, according to an estimate from U.S. management consultancy Gartner, which predicts that by 2026, 10 per cent of all agent interactions will be automated using AI, up from an estimated 1.6 per cent today.

About 16 million of those jobs are going to disappear over the next decade or so, Collins figures. Joel Blit, an associate professor of economics at the University of Waterloo with a focus on innovation policy, similarly predicts humans will eventually be left handling only about 10 per cent of customer support issues.

"Once these automated systems are good enough, the guardrails are in place and they're not hallucinating or saying unsavoury things, they'll probably be able to resolve my issues a lot faster than humans, so I will be very happy to just deal with AI," he says.

That isn't necessarily a bad thing, in Blit's view.

"AI is replacing a fairly monotonous job … As long as we can redeploy those individuals in other areas of the economy, it could be a win," he says, adding, "We need a social safety net and retraining programs." Ultimately, businesses will adopt the technology when customers are comfortable with it and it makes financial sense to do so, says the Vector Institute's Rojas, adding that computers will always have an edge on cost.

"Whenever you look at automation, the equation is always stacked against humans."

Read Story (Subscription Required): https://www.thestar.com/business/2023/06/17/a-new-wave-of-artificial-intelligence-software-is-taking-over-call-centres-will-that-make-customer-service-better-or-worse.html

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