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CAFII ALERTS WEEKLY DIGEST: December 1-December 7, 2023

December 7, 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.

The Weekly Digest will take a three-week winter hiatus, spanning the months of December 2023 & January 2024. Following the December 22/23 edition, the next Weekly Digest will be produced for the week of January 8 to January 12/24.

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GOVERNMENT/LEGAL/REGULATORY DEVELOPMENTS

Canadians' Life Expectancy Fell In 2022 For Third Year In A Row: Statscan

More Than 19,700 Canadians Died Of COVID-19 Last Year, Highest Since Start Of Pandemic

By The Canadian Press, November 28, 2023

https://www.cbc.ca/news/health/life-expectancy-1.7042008#:~:text=Statistics%20Canada%20says%20life%20expectancy,years%20from%2080.9%20in%202021.

Statistics Canada says life expectancy for the average Canadian at birth has fallen for three straight years, from 82.3 years in 2019 to 81.3 in 2022.

The report on deaths shows that New Brunswick saw the biggest decline in life expectancy in 2022, dropping to 79.8 years from 80.9 in 2021.

Saskatchewan's life expectancy has fallen the most over the past three years combined, dropping a full two years to 78.5 in 2022 from 80.5 in 2019.

Life expectancy increases when there are fewer deaths in general, or when deaths tend to occur at older ages, or a combination of both. It declines when there are more deaths, when deaths occur at younger ages, or a combination of the two.

Cancer and heart disease were the leading causes of death, accounting for 41.8 per cent of all deaths in 2022, while COVID-19 caused about six per cent of deaths.

More than 19,700 Canadians died of COVID-19 last year, the highest number since the pandemic began in 2020.

"This increase may in part be due to the exposure to new highly transmissible COVID-19 variants and the gradual return to normalcy (e.g., reduced restrictions and masking requirements)," the report read.

Data show that the number of Canadians dying from COVID-19 each week is rising once again, a stark reminder that for those most at risk, the pandemic continues to be a real and legitimate threat.

The report shows that the rate of COVID-19 deaths in Atlantic Canada was more than seven times higher last year (59.5 deaths per 100,000 population) compared with the year before (8.3 deaths).

In 2022, Statistics Canada said that the increase in deaths among younger age groups can, in part, be attributable to deaths under investigation by a coroner or medical examiner, typically unintentional injuries such as substance-related toxicity deaths, suicides, and homicides.

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How Insurance Boards Can Adapt To Regulatory Shifts

Insights On IFRS 17 Compliance, ESG Practices, Global Tax Implications

By Mika Pangilinan, Insurance Business, Dec 06, 2023

https://www.insurancebusinessmag.com/ca/news/breaking-news/how-insurance-boards-can-adapt-to-regulatory-shifts-469086.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20231206&_hsmi=285431226&_hsenc=p2ANqtz-8LVqdKaBt7xiwWfat_8tzELQZ-y4B98YEK-fOQgj8qUVdvMWCS9kTVDppqDlflg_faecQL_kZcdAYn3iK12T0vPCUM4A&utm_content=&utm_source=

Insurance boards must lead their organizations by considering industry shifts propelled by regulatory changes, technological innovations, and global tax developments, according to KPMG.

A commentary published by the professional services firm called on boards to "[seek] information to understand both the opportunities and the risks" that relate to these trends.

Beginning with changes in the regulatory environment, KPMG highlighted the increased focus on compliance with IFRS 17.

IFRS 17 adaptation has prompted insurers to streamline business processes and the burden on employees, clients, and partners, according to KPMG. This subsequently shifted focus to evaluating successes and identifying areas for improvement.

KPMG's commentary also underscored the prevalence of discussions about customer experience, generative AI, equity, diversity and inclusion efforts, and ESG practices.

Insurance boards will have to oversee climate risk and ESG reporting, according to KPMG. The firm stressed that management teams should closely monitor regulatory developments and provide timely updates to the board.

"The board's guidance and support of management are critical as insurers work to integrate climate initiatives into business strategy, governance, risk management, investment and underwriting decision-making, product design, claims handling and operations," KPMG said.

As for the global tax environment, attention has primarily been focused on BEPS 2.0, the OECD and G20-driven initiative concerning Base Erosion and Profit Shifting. Canadian organizations have been scrutinizing the potential impact of BEPS 2.0 on dividends, given its proposed minimum tax rate for multinational corporations.

"Going forward, boards need to prioritize agility, stay abreast of risk, embrace innovation, and invest in business resiliency," said KPMG.

"On one hand, that means balancing the lessons learned from the past few years on customer, supply chain, talent, and ESG challenges, while also governing during times of uncertainty. On the other hand, boards need to continue to transform in new directions by exploring the use of new technology to help monitor risks and execute their roles."

Canada's Anti-Money-Laundering Agency Levies Largest-Ever Fine Against RBC

By James Berkow, The Globe and Mail, December 05, 2023

https://www.theglobeandmail.com/business/article-rbc-financial-intelligence-agency-penalty/

The federal agency responsible for combatting money laundering and terrorist financing imposed its largest-ever fine on Tuesday, December 5: on Royal Bank of Canada.

The $7.475-million penalty was levied by the Financial Transactions and Reports Analysis Centre of Canada, or FinTRAC, after it found that RBC had committed three violations of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.

FinTRAC issued just six financial penalties, worth a combined $1.1-million, during the past fiscal year. The RBC fine is "by far the largest penalty we've ever levied," FinTRAC spokesperson Darren Gibb said.

It is also the first monetary penalty which FinTRAC has ever imposed on any of Canada's six largest banks. The agency has issued 128 notices of violation since receiving legislative authority to do so in 2008, with fines totalling nearly $23.4-million. That figure includes the penalty levied on RBC.

The penalty was imposed for administrative violations committed by RBC, FinTRAC said, and not for criminal offences related to money laundering or terrorist activity financing.

RBC will not appeal, bank spokesperson Gillian McArdle said in an e-mailed statement, though the lender "believes the fine is not at all commensurate with an administrative matter where there is no connection to money laundering or terrorist financing offences."

"Equally important, there is no finding that anyone exercised judgment in bad faith or knowingly contributed to violations," Ms. McArdle said.

According to a public notice on the FinTRAC website that describes the violations, they were discovered during the course of a compliance examination in 2022. RBC "failed to submit 16 suspicious transaction reports, out of 130 case files reviewed, where there were reasonable grounds to suspect that transactions were related to the commission or attempted commission of a money laundering or terrorist activity financing offence," FinTRAC said.

RBC also failed to follow proper procedures in the way it submitted some of its reports, FinTRAC added.

The third and final violation was a failure to keep written policies and procedures up to date, FinTRAC said, noting that these documents "provided inconsistent guidance" on when a suspicious transaction report should be submitted.

Last month, FinTRAC chief executive officer Sarah Paquet gave a speech to the Association of Certified Anti-Money Laundering Specialists in Toronto in which she vowed to crack down on businesses that cut corners on compliance.

"This is not acceptable and we are actively stepping up our enforcement action in these cases and all cases that go to the heart of protecting Canada and Canadians," Ms. Paquet said. "We will confront those businesses that are not meeting their moral and social responsibilities. And, when we do so, we will be more open and transparent about the nature of their violations."

Peter Aziz, senior counsel at the law firm Torys LLP, who specializes in financial institutions regulatory law, said a coming evaluation of Canada by the Financial Action Task Force is part of the reason FinTRAC is becoming more active. The task force is a global money laundering and terrorist financing watchdog group based in Paris, with 39 member countries, including Canada.

Member countries have the effectiveness of their anti-money-laundering policies assessed by the task force every five years. Canada's next evaluation is tentatively scheduled for December 2025.

In its 2021 review, the task force found that Canada had made progress since its 2016 assessment, but that the country remained only partly compliant with five of the task force's 40 recommendations, and non-compliant with one of them.

"We do see a recurring pattern where in the lead-up to an FATF review, FinTRAC and the government of Canada need to both enforce compliance with anti-money-laundering laws and be seen to be enforcing compliance," Mr. Aziz said.

"This issuing of significant administrative monetary penalties is a way for FinTRAC to be seen to be administering the Act. They may be of the view that FATF would expect this to be a measure of FinTRAC's effectiveness."

While Canada's banks set "the gold standard" globally for compliance with anti-money-laundering and anti-terrorist financing protocols, Mr. Aziz said, "to achieve a stellar compliance rating is important for the country and for all of Canada's banks."

During the 2021 federal election campaign, the Liberal Party pledged to establish the Canada Financial Crimes Agency, which would combine resources from FinTRAC, the RCMP, and the Canada Revenue Agency into a new law enforcement agency. The 2023 federal budget included a commitment to provide the government's vision for the CFCA in the fall economic statement, though no details on the new agency were included in the statement which Ottawa released last month.

In the meantime, Mr. Aziz is expecting FinTRAC to continue accelerating its enforcement activities as the task force review inches closer.

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"We may see more administrative monetary penalties coming," he said.

Canada's Anti-Money-Laundering Watchdog Fines CIBC $1.3-Million

By Stefanie Marotta, The Globe and Mail, December 07, 2023

The federal financial intelligence agency has fined Canadian Imperial Bank of Commerce (CIBC) more than $1.3-million for failing to flag transactions linked to money laundering and terrorist financing.

The Financial Transactions and Reports Analysis Centre of Canada (FinTRAC) said on Thursday, December 7 that CIBC committed two administrative violations. The fine is the second that the watchdog levied on a major bank this week as it ramps up enforcement of compliance issues ahead of a coming review of Canada's anti-money-laundering practices.

FinTRAC has been under pressure to crack down on financial crimes, as Ottawa has become increasingly critical of the country's anti-money-laundering and terrorist-financing practices. The heightened scrutiny comes ahead of an evaluation from global financial intelligence watchdog Financial Action Task Force (FATF).

Meanwhile, Toronto Dominion Bank awaits monetary and non-monetary penalties from the U.S. Department of Justice related to issues with its anti-money-laundering procedures that led to the termination of its planned takeover of Tennessee-based First Horizon National Corp.

FinTRAC said that CIBC failed to submit a suspicious transaction report where one or more transactions were seemingly connected to money laundering or terrorist activity, according to a 2021 examination of the bank by FinTRAC. The incident stems from a client of the bank that had previously been arrested and charged with criminal offences.

CIBC was aware of the criminal charges and reviewed the transactions, but decided that they were not suspicious because the account activity appeared to be typical client behaviour despite the presence of money laundering and terrorist financing information obtained by the bank, FinTRAC said.

FinTRAC also found that CIBC failed to submit required information on 1,003 inbound international electronic funds transfers in a sample of 20,000 transactions. It said the bank did not comply with submitting relevant reports to FinTRAC and that the name or address associated with the transfers was not properly recorded. It added that it identified a gap in CIBC's reporting processes and its testing to ensure compliance with reporting requirements.

"FinTRAC will continue to work with businesses to help them understand and comply with their obligations under the Act," the agency's chief executive officer Sarah Paquet said in a statement on Thursday, December 7. "We will also be firm in ensuring that businesses continue to do their part and we will take appropriate actions when they are needed."

The charge was levied on October 23, and CIBC has already paid the fine.

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In an e-mail statement, CIBC said that its anti-money-laundering and anti-terrorist-financing procedures are robust, and that the administrative issues involved a "relatively small number of transactions which we have since addressed and resolved."

"We work closely to co-operate with regulators and law enforcement, as we did in this case, and continually invest in our monitoring and detection capabilities amid an evolving landscape," CIBC spokesperson Tom Wallis said.

On Tuesday, December 5, FinTRAC fined RBC $7.4-million for three administrative violations – the largest fine the agency has ever imposed. It was also the first monetary penalty FinTRAC had ever levied on any of the country's six biggest banks.

In November, Ms. Paquet said in remarks to the Association of Certified Anti-Money Laundering Specialists in Toronto that she vowed to crack down on businesses that skimp on compliance.

FinTRAC had issued only six financial penalties, worth a combined $1.1-million, in the past year, not including the fines to RBC and CIBC. Since it received its legislative mandate in 2008, the agency has issued 128 notices of violation since receiving legislative authority to do so in 2008, with fines totalling nearly $23.4-million, including the fine to RBC.

The agency is ramping up its enforcement measures ahead of the FATF planned evaluation in Canada in 2025. The Paris-based task force is a global money-laundering and terrorist financing watchdog with 39 member countries, and the group reviews the effectiveness of each country's anti-money-laundering policies every five years.

The FATF last assessed Canada in 2021. The task force said the country had progressed since its previous 2016 review, but it was compliant with only five of the task force's 40 recommendations, and failed to comply with one.

The Liberal government has said it will enhance controls.

During the 2021 federal election campaign, it committed to creating the Canada Financial Crimes Agency by combining resources from FinTRAC, the RCMP, and the Canada Revenue Agency. In the 2023 federal budget, it said it would include the government's vision for the CFCA in the fall economic statement, but no details were revealed in its release last month.

Read Story (Subscription Required): *https://www.theglobeandmail.com/business/article-canadas-anti-money-laundering-watchdog-fines-cibc-13-million/*

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OTHER CAFII MEMBER-RELEVANT NEWS

Why Snowbirds Should Shop Around For The Best Travel Insurance Policies

By Deanne Gage, The Globe and Mail, December 1, 2023

With winter weather now here, snowbirds are returning south of the border to escape the cold. But life is more expensive, so to save costs, they may just stay for part of the season instead of the maximum 180 days, says Michael Camacho, president of The Travel Health Insurance Association of Canada in Toronto.

He notes that snowbirds spend quite a bit of time investigating travel insurance policies and comparing prices. Mr. Camacho spoke recently with Globe Advisor about those options and how advisors can best assist their snowbird clients.

What Sorts Of Travel Insurance Options Are Available To Snowbirds?

Snowbirds typically have two options for travel medical insurance. They have per-trip plans for a specific number of days away from their province, and multi-trip annual plans in which they choose the maximum number of days for each trip during a 12-month period. So, it could be 15 days, 30 days or 40 days. If any one trip is longer, they can buy extension coverage for the extra days.

Has The Pandemic Made Travel Insurance More Expensive?

Yes, it has, and like everything else, inflation, in particular medical inflation in the U.S., has caused insurance rates to increase. Exchange rates are also a large factor in setting premiums, as are older snowbirds who have multiple medical conditions. And if the snowbird is going south for six months, for example, then the exposure faced by both the snowbird and the insurer is greater.

The majority of companies offering travel medical coverage now cover COVID-19 so the client should make sure they speak to their travel provider to ensure they are covered.

What Do Advisors Need To Tell Snowbird Clients About Travel Insurance?

Given the high cost of claims, clients need to know why it's important to have travel insurance. They need to know the stability period of their policy and about other exclusions. Does it cover mountaineering or scuba diving, for example?

Clients should also investigate whether they have any retiree benefits and the length of that coverage. Advisors should review the travel questionnaire with clients. Clients don't want to miss or not disclose a condition. And when they get the actual travel insurance policy, review the answers again, along with the coverage. If something isn't right, call the travel insurance provider right away and let them know to correct the response.

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Read Story (Subscription Required): *[Why snowbirds should shop around for the best travel insurance policies - The Globe and Mail]()*

Banks Report Higher Provisions For Bad Loans, Focus On Expenses As Economy Slows

CIBC, RBC, Scotiabank And TD Have All Cut Staff This Year

By Ian Bickis, The Canadian Press, November 30, 2023

https://www.investmentexecutive.com/news/industry-news/banks-report-higher-provisions-for-bad-loans-focus-on-expenses-as-economy-slows/

Several Canadian banks on Thursday reported fourth-quarter results that showed rising funds set aside for bad loans, and a heavy focus on expense management, as they prepared for the expected slower economy ahead.

TD Bank boosted provisions for potential loan losses to $878 million, RBC is up to $720 million, and CIBC amounted to $541 million, while on Tuesday, Scotiabank said it had set aside $1.3 billion.

The rising provisions come as Statistics Canada reported Thursday that the economy shrank in the third quarter by 1.1% on an annualized basis as high interest rates pressure consumers and businesses.

With the slowdown expected to continue, banks have been working to trim expenses to better manage through the trough, including reducing their workforces.

TD announced on Thursday it was cutting about 3% of staff or about 3,100 positions, and would take a $363-million restructuring charge this quarter and a similar one next quarter as it works through the reductions.

“This is a part of a broader restructuring program to streamline, and deliver efficiencies for the bank and then help create capacity to invest in future growth,” said chief financial officer Kelvin Tran.

CIBC said it had steadily cut back throughout the year, with staffing down about 5%, or 2,300 jobs, from last year, and it took a $114 million charge in the fourth quarter as part of that.

RBC announced last quarter it was cutting upwards of 3% of staff, with the latest results showing personnel down 3,000 from the end of the second quarter.

At the same time, all three banks announced dividend increases on Thursday.

The rise in dividends came as the banks underlined their stable finances that they expect to weather the turbulence ahead.

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"We've architected CIBC to deal with the economic environment that might come in 2024," said CIBC chief executive Victor Dodig on an earnings call.

"If things go slow, we'll manage accordingly. If things turn better, and there's a very good chance that we have this 'soft landing,' we will capitalize on that as well."

CIBC reported earnings of $1.48 billion or $1.53 per diluted share for the quarter that ended Oct. 31, compared with a profit of nearly $1.19 billion or $1.26 per diluted share a year earlier.

RBC reported a fourth-quarter profit of $4.13 billion, or $2.90 per diluted share for the quarter ended Oct. 31, up from $3.88 billion or $2.74 per diluted share a year earlier.

TD reported earnings of $2.89 billion or $1.49 per diluted share for the quarter ended Oct. 31, down from a profit of $6.67 billion or $3.62 per diluted share a year earlier.

With inflation easing and the economy slowing, RBC chief executive Dave McKay said he expects interest rate hikes are likely done.

"Given the easing pricing pressures, we believe central banks have reached the end of the tightening cycle and will pivot to rate cuts in 2024, albeit rates are expected to remain higher than pre-pandemic levels," he said.

Like other banks, he said RBC had made preparations needed to see it through the year ahead.

"Whichever way the macro environment goes in '24, we're poised to do well in that environment."

Chubb Forms New Partnership To Enhance Cyber Solutions

Offering Available To Policyholders In Canada And The US

By Mika Pangilinan, Insurance Business, December 06, 2023

https://www.insurancebusinessmag.com/ca/news/cyber/chubb-forms-new-partnership-to-enhance-cyber-solutions-469087.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20231206&_hsmi=285431226&_hsenc=p2ANqtz-83jJjNXqimFDpHQ1LJ3mFei-bBp_eYEUqo-fgAXmFB0PtuNI57whxOa7DYx_BdMreLj5nkERbwnItWDWu-1BNO4rp1Tg&utm_content=&utm_source=

Chubb has partnered with cybersecurity company NetSPI to provide advanced attack surface management and penetration testing solutions.

Through this partnership, policyholders in Canada and the US gain access to NetSPI's array of proactive solutions, including Breach and Attack Simulation (BAS), Attack Surface Management (ASM), and its penetration testing services.

NetSPI's solutions are flexible and can cater to businesses of any size across various sectors, according to a news release from Chubb.

"This collaboration with NetSPI provides clients with peace of mind, enabling them to identify vulnerabilities, security issues, and exposure to risk before it escalates into a claim," said Craig Guiliano, vice president of cybersecurity threat intelligence. "This value-added solution is part of Chubb's efforts to proactively identify cyber exposures that are difficult to detect using common scanning tools and to strengthen our policyholders' security posture more broadly."

"We're thrilled to empower Chubb clients to proactively confront cyber threats," added NetSPI president and CEO Aaron Shilts. "Too often, we see companies forced to react after incurring losses from cyberattacks that can severely impact their finances and reputation. Chubb understands the value of ensuring clients enhance their security apparatus and minimize their susceptibility to risk."

Chubb's latest partnership extends additional benefits to select clients, offering free access to NetSPI's ASM platform. This platform continuously evaluates client attack surfaces for vulnerabilities to minimize the impact of potential cyber incidents.

These new offerings expand the cyber insurance coverage Chubb has provided for over 20 years. The Chubb Cyber Insurance aims to deliver enhanced value to policyholders, particularly in a landscape where organizations grapple with defending against data breaches and reputational risks following cyber incidents.

Life Expectancy Is Falling In Canada. It's Not All COVID's Fault

By Andre Picard, The Globe and Mail, December 5, 2023

Opinion: Life expectancy is falling in Canada. It's not all COVID's fault - The Globe and Mail
Life expectancy is down in Canada for the third year in a row, according to Statistics Canada.
A child born today in Canada can expect to live to 81.3 years of age. That's down from 82.3 years in 2019 – before the pandemic.

A one-year loss in life expectancy may not seem like a big deal, but it is. It's only the second time this sharp a drop has happened in Canada in the past century.

In fact, life expectancy has been climbing steadily for decades: 71 in 1960, 75 in 1980, 79 in 2000, and 82.3 in 2019.

Life expectancy is an oft-misunderstood measure. It's not so much a prediction of how long an individual can expect to live, but rather a crude measure of a country's health, the only real measure of overall population health we have.

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The take-home message in the new data: Canada is getting less healthy. The numbers tell us that more people are dying, and that while most deaths occur in older people, there are relatively more deaths in younger age cohorts.

The drop in life expectancy is a global phenomenon, unprecedented since the Second World War. The U.S., for example, saw a mind-boggling loss of 2.4 years in life expectancy between 2019 and 2021. And they already have some of the worst outcomes in the Western world, with life expectancy hitting a nadir of 76.4 years.

COVID-19 has played a significant role. The 1.1 million COVID deaths in the U.S. is unparalleled, yet they have conveniently forgotten the pandemic.

Canada isn't much better on that score. Statistics Canada reminds us that 19,716 Canadians died of COVID-19 in 2022, the highest annual death rate since the pandemic began.

The high number can be attributed, at least in part, to indifference. There are virtually no mitigation measures like masking any more, and vaccination rates have fallen sharply. While in the first two years of the pandemic, there were sharp spikes in mortality, followed by lulls, the deaths occurred more quietly and steadily in 2022.

Officially, there were 14,466 COVID deaths in 2021, and 16,313 in 2020, though the novel coronavirus only started killing in March of that first pandemic year. Canada is on track for roughly 7,000 COVID-19 deaths in 2023.

But COVID is not the only factor in the rise in mortality or the drop in life expectancy.

There were 334,623 deaths in Canada in 2022. The top 10 causes of death were, in order: cancer, cardiovascular disease, COVID-19, unintentional injuries, stroke, chronic obstructive pulmonary disease and other lower respiratory conditions, diabetes, influenza and pneumonia, Alzheimer's and dementia, and chronic liver diseases such as cirrhosis.

Cardiovascular disease and cancer are by far the two biggest killers, accounting for 41.8 per cent of mortality in 2022, down from 44.3 per cent a year earlier.

Mortality rates for cancer and heart disease have fallen steadily for decades, thanks to sharp drops in smoking rates and better treatments, but there are hints that those gains have plateaued.

The data are a reminder that we don't pay nearly enough attention to the toll of chronic illnesses, which account for six of the top 10 leading causes of death, and the large majority of health spending. The Washington Post has produced a superb series on this issue.

How we live clearly affects how long we live. But our investments in public health and prevention remain paltry.

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Another major contributing factor in the marked drop in life expectancy is the blandly named category of "unintentional injuries." Those 18,365 deaths in 2022 (again, up a lot from 15,527 in 2019) include everything from falls to motor vehicle crashes to drug overdoses.

Lumping those diverse causes together masks the effects of the toxic drug crisis, which is now claiming close to 8,000 lives a year.

During the first year of the pandemic, there were 7,362 overdose deaths recorded, double the previous year. That number has remained high. Because those deaths are mostly younger people, there are clear consequences on life expectancy.

Overdoses are, along with suicide, often described as "deaths of despair." But the new Statistics Canada data show that, contrary to popular belief, deaths by suicide have actually fallen significantly since the pandemic began, down to 3,593 in 2022 from 4,581 in 2019.

While the drop in life expectancy may not keep us up at night, it should serve as a reminder that, pandemic or not, we need to do better. The health of Canadians is slipping, and we need to focus on some problem areas to recapture our gains in longevity.

What Should You Do If Your Gen AI Is Hallucinating?

By Michael Shashoua, Digital Insurance, December 04, 2023

Before jumping into the implementation of generative AI, insurers may want to consider some of the issues that the industry has already identified.

Professionals and experts are concerned about issues with bias, privacy, security and "hallucination," the term being used to describe output from generative AI that is inaccurate or incoherent because the large language model (LLM) technology has not correctly processed data and information received.

Hallucinations can produce incorrect results that materially affect insurance business operations such as underwriting and claims decisions, and can also lead to security issues and leaks of sensitive information, impacting customer service, as Adrian McKnight, chief digital officer of WNS, a business process management company, explained.

"For insurers, having Gen AI as part of a closed data system is really important because you don't want to expose any of that data to open-source systems. You don't want to end up in any breaches because of data being exposed," he said. "This requires a degree of quality assurance and checking around the outcomes it's delivering. The ability to ultimately adjust Gen AI models and the way they operate depends upon the outcomes that it's delivering. That's absolutely critical for insurance and really important for regulatory issues as well as customer data and confidentiality."

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The term hallucination itself is something of a misnomer for these types of Gen AI errors, according to Joseph Ours, AI strategy and director, modern software development at Centric Consulting. Understanding how Gen AI actually works is necessary to understand how it makes these errors, he explained.

"Hallucination implies that it's thinking and reasoning, and it's not. It's actually an underlying physical model," he said. "The issue comes from asking the wrong questions, and the size of the answer that you get. Asking the wrong question is like putting silly answers into Mad Libs [the word substitution game]. You're going to get a silly result."

Human intervention, of course, can help combat Gen AI hallucination, as Andy Logani, chief digital officer at EXL, an insurtech management consulting company, states. Having a human intermediary between Gen AI and a customer to check its output is one method, he said. Establishing guiding principles for the use of Gen AI is another.

"Even if broader laws are being created, you need to get some things in place," Logani said. "Companies are really worried at the moment about privacy compliance. We recommend using unbiased data collection methodologies as much as possible so that you don't have bias in the data. If possible, use synthetic data, that you can generate, so that you're not using any public internet data, which can avoid any privacy breaches."

Insurers shouldn't totally depend on Gen AI just yet, according to Rima Safari, a partner in the insurance practice at PwC. "The big risk is if humans get so dependent on the AI model that without even looking they're just approving everything, because they've seen that the first eight times it was correct," she said. "You don't want to have any dependency on the Gen AI models yet because they will try to make up an answer when an answer doesn't exist."

That tendency can also amplify bias, "whether it's related to premiums or other processes," Safari said. "The complexity of the AI programs can lead to transparency issues, where the customer or the organization doesn't know or even the regulators don't know they got to this decision, especially with generative AI. There's not a traceability that if you did this and you selected these three data types, here's what the answer should be."

EXL's Logani recommends establishing a set of governing laws and guiding principles for AI. Aside from guarding for biased data, EXL recommends that clients anonymize data, Logani said. "Mask personally identifiable information, protected health information," he said, calling the practice "differential privacy," in which encryption or "noise" prevents unauthorized parties from seeing the actual data.

U.S. state and federal regulators, even without knowing how generative AI works, have or will set rules and take action concerning unfair trade practices and other problems that it can cause, according to Rick Borden, a partner specializing in cybersecurity and privacy issues at the Frankfurt Kurnit Klein & Selz law firm.

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"I don't think fighting it is going to be very effective," said Borden. "It's basically having policies and procedures and having the right people at the table. And knowing what you have and what you're doing with it, which is the black box problem, because you don't know what it does, or why it does what it does. You're going to have to document all of this stuff."

Read article (subscription required): *https://www.dig-in.com/news/consultants-caution-insurers-about-gen-ai-inaccuracy-risks?utm_source=newsletter&utm_medium=email&utm_campaign=V3_DIG_Daily_Briefing_2023%2B%27-%27%2B12042023&bt_ee=nlxg6t3qZZpxkrKqIrecgKK94OfnnNsGDqcLBjqY8Jlmvc%2FoKe%2Fs%2BiXITQ4btF0B&bt_ts=1701698501173*

Travel Agent Says Air Transat Is Dropping Base Fares To As Low As $2 To Avoid Commissions

'Wild West' In Ticket Pricing Because Surcharges Aren't Regulated: Industry Expert

By Nicole Brockbank and Angelina King, CBC News, December 7, 2023

https://www.cbc.ca/news/canada/toronto/air-transat-base-fares-travel-agent-commissions-1.7050919

Can you fly round-trip from Toronto to Lisbon for as little as $2?

No, but it might seem like you could if it weren't for taxes, fees and other surcharges on an Air Transat booking for next month that CBC Toronto reviewed.

That's because the base fare for the trip is $2, but the carrier's air transportation charge is $600, and other taxes and fees bring the all-inclusive price up to $719.85.

A Greater Toronto Area travel agency flagged the toonie base fare after booking similar round-trip flights to the same destination for clients through Air Transat with a base fare of $3.50 and an all-in price of $723.59.

Jeff Verman, CEO of Plus Travel Group, said he believes that airlines are dropping base fares and raising carrier surcharges to avoid paying commissions to travel agents.

"This is a deliberate move to pay us less," Verman said. "[Our] service fee alone does not make us profitable. Commission is what we need to be profitable on each transaction."

Unlike many travel agencies, Verman's survived the COVID-19 pandemic. But he said that his company is about half the size that it was before — and it can't afford to be operating at a loss on bookings, like making a commission of 18 cents on a $3.50 base fare.

Travel agents get commission only on base fares, and with Air Transat, that commission is five per cent. "It's insulting," he said. "It feels like cheating, that we're being cheated."

Verman said that he doesn't see base fares quite this low every day, but he told CBC Toronto that his company regularly encounters base fares under $100. In most of those cases, he said, the vast majority of a consumer's total ticket price is made up of unexplained surcharges from the airline.

Air Transat in line with industry, airline says

CBC Toronto asked Air Transat how its base fares can be so low, what costs are covered by base fares and surcharges for a flight, and whether base fares are dropping to reduce the amount the airline pays in commission to travel agents.

In an emailed statement, a spokesperson didn't answer those questions but said Air Transat is in line with Canadian and global industry practices, including for its fare structure, and that it displays the total price of its flights.

Price details

1 Adult	
Flight	1 x $2.00
Other ATC	1 x $600.00
^ Taxes, fees & charges	1 x $117.85
Portugal - Security tax	1 x $13.11
Portugal - Passenger service charge	1 x $36.34
Canada - Harmonized sales tax	1 x $4.55
Canada - Air Travellers security charge	1 x $25.91
Carbon tax	1 x $2.94
Canada - Airport improvement fee	1 x $35.00
Total	1 x $719.85

$719.85
Taxes and fees included

On Tuesday, December 5, CBC Toronto looked at what it would cost for one passenger to fly round-trip between Toronto and Lisbon, departing on January 23, 2024, and returning on February 18, 2024, with Air Transat. This is the price breakdown provided for the flights. (airtransat.com)

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"It is well known that flight prices fluctuate based on supply and demand, and our valued partners and travel industry professionals ... understand the competitive and dynamic nature of pricing we provide," spokesperson Bernard Côté said. "This results in the best value and highest quality experience for our mutual customers."

But a travel industry expert said that travel agencies "are getting squeezed" on base fare commissions because there are no regulations around what costs can be considered a surcharge, and airlines would prefer to issue tickets themselves.

"It's the Wild West when it comes to the surcharges," said John Gradek, a faculty lecturer and co-ordinator of the aviation management program at McGill University in Montreal.

"Surcharges are very much a tool that they're using to basically drive competitive behaviour, but also driving profitability on the route. [Airlines] would rather increase the surcharges rather than increase the base fare."

No Financial Impact On Consumers: Expert

Despite having an impact on commissions, Gradek said the shift in pricing from the base fare to surcharges doesn't change much for consumers because the Canadian Transportation Agency has required carriers to provide all-inclusive ticket prices since 2012.

"The bottom line is that you tell a customer what he or she's going to pay, and then the government says I don't really care how it's split up after that," he said.

But Verman said it should still matter how fares are split. "It's basically saying to consumers that you're flying for free, except for the taxes and surcharges et cetera," he said. "No one believes $3.50 is what the actual fare should be."

Verman has filed a complaint with the federal Competition Bureau over what he considers misleading pricing. The Bureau acknowledged his report.

When it comes to commissions, Verman and another travel agency owner believe that the issue could be partially resolved with a minimum commission fee per booking for travel agencies.

"If we're going to issue a ticket for the airline, we should be compensated for issuing that ticket," said Rocky Racco, owner of TTI Travel in Toronto.

Gradek said he thinks that commissions are headed in the opposite direction.

"[Airlines] don't want to pay commissions ... they don't want to pay incentives. They don't want to do it," he said. "They would much rather you booked directly with them."

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UPCOMING CAFII-RELEVANT WEBINARS & EVENTS; AND RELATED EDUCATION CONTENT

Make a positive difference in the lives of consumers in Ontario: FSRA recruiting new members for its Consumer Advisory Panel

By The Financial Services Regulatory Authority of Ontario, November 20, 2023

https://www.fsrao.ca/newsroom/make-positive-difference-lives-consumers-ontario

The Financial Services Regulatory Authority of Ontario (FSRA) is looking for new members to join its Consumer Advisory Panel (the Panel). As a Panel member your perspectives would be considered when the regulator is developing policies or considering initiatives or decisions that could impact consumers.

FSRA regulates financial services that are critically important to the lives of individuals and families, including pensions, mortgage brokers, life and health insurance, auto insurance, health service providers, and credit unions.

The Panel is made up of a diverse group of consumers and consumer representatives, and their input is shared internally with FSRA's senior leadership team and the Board of Directors. Panel members are appointed for a two-year term.

Applicants will be selected based on their relevant professional and lived experiences, skills, knowledge, and perspectives, with an emphasis on the sectors FSRA regulates. To learn more about member qualifications and responsibilities, please see the Panel's current Terms of Reference.

Submission Requirements

Those interested in applying should submit the following two documents to ConsumerOffice@fsrao.ca by Friday, January 5, 2024.

- A current resume
- A cover letter that sets out:
  - why you are interested in serving on the Panel
  - how your skills and experiences match the purpose, mandate, and responsibilities of the Panel
  - the types of insights that you would bring to the Panel (e.g., consumer advocacy experience, technical expertise in a particular sector, general policy expertise, etc.)

If you have any questions about submission requirements, please contact ConsumerOffice@fsrao.ca.

To learn more about the Panel and its current members, please visit the Consumer Advisory Panel webpage.

Webinar By Insurtech Insights: Insurance Trends To Watch For 2024

Date: Thursday, December 14, 2023
Time: 10:00 am EST

Host Ema Roloff will bring on Industry Leaders in rapid-fire succession to have them share the top trend they will be keeping an eye on in 2024. Things will move fast, so make sure to set aside the time to join us for the entire event so you don't miss a trend!

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