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CAFII ALERTS WEEKLY DIGEST: December 2-6, 2024

December 6, 2024

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

The Weekly Digest will take a three-week winter hiatus, spanning the months of December 2024 & January 2025. Following the December 20/24 edition, the next Weekly Digest will be produced for the week of January 6 to January 10/25.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

Ontario Proposes New Own Risk And Solvency Assessment Guidance

By Kate McCaffery, Insurance Portal, November 29, 2024

https://insurance-portal.ca/article/ontario-proposes-new-own-risk-and-solvency-assessment-guidance/

The Financial Services Regulatory Authority of Ontario (FSRA) has launched a new consultation after it announced and published draft Own Risk and Solvency Assessment (ORSA) guidance for Ontario-incorporated insurance companies and reciprocal insurance exchanges.

"An effective ORSA protects the rights and interests of consumers as insurers that effectively manage their risks and maintain adequate capital above regulatory capital levels under a plausible range of adverse scenarios enables them to maintain stability, long-term viability and meet their policyholders', members' and subscribers' obligations," the regulators states in an announcement about the guidance's publication.

Prudent capital management practices
"Adequate capital, including overall prudent capital management practices, is critical for the overall solvency, safety, soundness and resilience of an insurer," the guidance adds. "The quality, complexity and frequency of an insurer's ORSA is commensurate with its size, complexity and risk profile. FSRA is publishing this guidance to set out principles and intended outcomes in relation to prudent capital management and a comprehensive ORSA process."

They add that a comprehensive ORSA includes forward-looking stress testing, continuity analysis and other contingency planning. "FSRA will monitor and assess, as part of its supervisory review, how effectively insurers adopt these principles for the purposes of determining the overall risk rating of an insurer."

Governance and oversight
The guidance goes on to discuss governance and oversight and the comprehensive identification and assessment of risks. "The materiality of all known, reasonably foreseeable, emerging and other relevant risks, in both normal and stressed situations, are well identified, clearly defined and comprehensively assessed," the guidance states as one of its preferred outcomes. Relating risk to capital, monitoring and reporting, internal controls and objective review are all also discussed. "The intensity and frequency of FSRA's supervisory review with respect to an insurer's ORSA is proportional to its size, complexity and risk profile," they conclude. The regulator is seeking feedback on the guidance by January 28, 2025.

Bank Executives Must Manage Culture Risk, Canada Regulator Says

Regulator Recognizes Culture Change Could Take Months Or Years

By Melissa Shin, Bloomberg, November 21, 2024

Canada's banking and insurance regulator said it expects executives and boards to be accountable for their company culture, and it's beefing up its rules on how to do that.

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The Office of the Superintendent of Financial Institutions released a regulatory notice on "culture risk management" — a document that outlines what boards and senior managers must do to stamp out behaviour that can "weaken a financial institution's safety, soundness, integrity and security."

Risk management and corporate culture have been in the spotlight for Canadian banks after Toronto-Dominion Bank was fined $3.1 billion and pleaded guilty to criminal charges related to its failure to stop money laundering by drug cartels and other criminals in the US.

Read full article (Subscription required): https://www.bloomberg.com/news/articles/2024-11-21/bank-execs-must-manage-culture-risk-canada-regulator-says?embedded-checkout=true&leadSource=uverify%20wall

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OTHER CAFII MEMBER-RELEVANT NEWS

Term Life Insurance Sales: What Is Driving The Surge?

By Karen R. Terry and Nancy Moussa, LIMRA, December 2024

https://www.limra.com/en/trending-topics/publications/marketfacts/2024/term-life-insurance-sales-what-is-driving-the-surge/?utm_source=email&utm_medium=pardot&utm_campaign=marketfacts

Term life insurance has long been viewed as the most affordable life insurance product on the market. This past summer, LIMRA surveyed term carriers for a more in-depth look at what is driving trends in this market.

Term life insurance sales have steadily increased over the past 10 years and were 25 percent higher in 2023 than they were at the beginning of the decade (Figure 1). Annualized premium reached $3 billion in 2021 as online availability, simplicity and affordability made term a common solution to the increased consumer demand brought on by the pandemic. While sales dropped in 2022, as consumer demand started to fade and economic concerns grew, growth quickly returned in 2023 thanks to carrier actions, including pricing improvements and product enhancements, as well as digital platform and underwriting expansion.

Figure 1. Term Life Annualized Premium Sales

Source: LIMRA's U.S. Individual Life Insurance Sales survey and LIMRA estimates, 2013 – 2023.

Based on producer input, income replacement and life change events tend to be the top reasons to buy term insurance today. Term's lower premiums make the product more affordable than other products. Combined with life events that more frequently happen at earlier ages, this leads to a younger market compared to products like indexed universal life (IUL) or whole life. The sweet spot for term sales is between ages 35–44. This cohort makes up a quarter of the annualized premium, 30 percent of policy sales and 38 percent of total face amount. The average policy size is nearly $154,000 higher than the next largest age band.

Selling More Term

Given term insurance caters to a more price sensitive audience, carriers may need to reprice their products more frequently to position themselves advantageously in a saturated market. Fifty-eight percent of companies confirmed they hadn't repriced their term products in 2023. Of those that did reprice, 79 percent of companies who decreased their premiums experienced a material increase in sales and/or an increase in competitive ranking.

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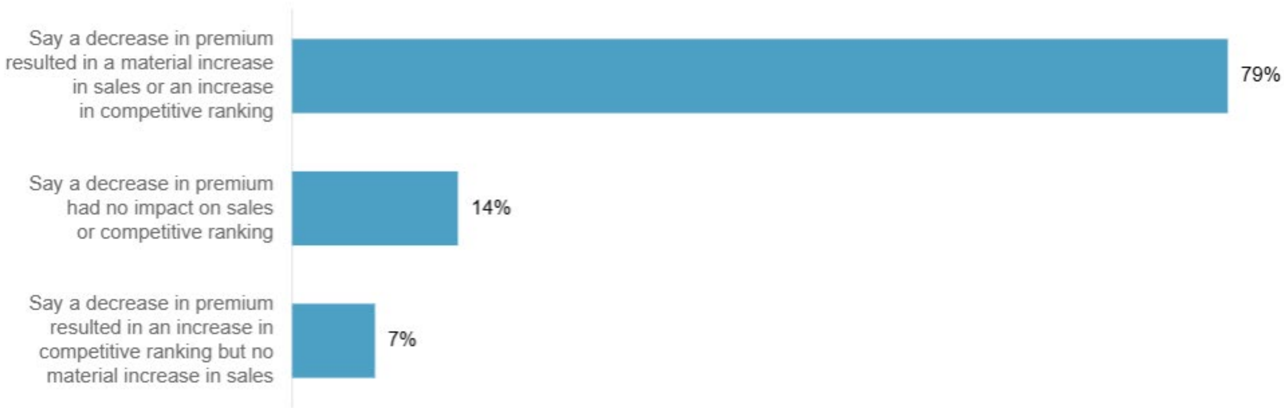
Figure 2. Effect of Lower Term Life Premiums



Source: *A Deeper Dive: 2023 Term Life Insurance Sales*, LIMRA.

Competitive premiums are also part of the strategy for companies to get more advisors to actually sell insurance — more specifically, term insurance. Sixty-two percent of carriers mentioned lowering rates as a way to get more advisors to sell term insurance. Service and pay are also important as 38 percent of companies provide an online platform, and 17 percent increased commissions in an effort to get more advisors to sell term.

An Easier Process

Term carriers also continue to work on making the sales process faster and simpler. Accelerated underwriting has gained popularity in recent years in the term insurance space. While the majority of companies have implemented some form of accelerated underwriting risk assessment tools, 57 percent of these carriers set targets for how much of their business they would like to go through this process. Forty-eight percent cited having a target between 25 percent and 50 percent of their submitted business using this underwriting model.

It is worth noting that the length of time from application submission to decision differs by almost 16 days if a policy is issued accelerated versus nonaccelerated.

Lastly, since accelerated term business foregoes medical exams or certain requirements that were once thought necessary to place term business, we asked carriers if they reinsure their accelerated term business any differently than fully underwritten policies. Of the 26 carriers who issue accelerated term business, 77 percent of companies said there is no difference in reinsuring accelerated versus non-accelerated policies, while 23 percent said they reinsure their accelerated term business differently.

Looking Ahead

Regulatory, market and consumer trends will inevitably continue to impact term insurance in the next few years. In fact, 64 percent of survey participants cited higher interest rates and inflation, in addition to emphasizing the importance of accelerated underwriting, simplified underwriting and instant issue as the main factors to impact term sales.

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Carriers are essentially split between whether they expect industry term sales to increase moderately or remain flat in 2025. However, when it comes to their own term sales, 67 percent believe they will have at least a moderate increase in sales, while 24 percent believe their company sales will remain flat. As we approach the end of 2024, LIMRA is expecting low, but positive yearly growth through 2027.

Highlights From The 2024 Insurance Business Canada Awards

Celebrating The Best In The Business

By Nicole Panteloucos, Insurance Business, December 04, 2024

https://www.insurancebusinessmag.com/ca/news/breaking-news/highlights-from-the-2024-insurance-business-canada-awards-516680.aspx

Toronto's Liberty Grand buzzed with excitement on Nov. 13 as the 2024 Insurance Business Awards brought together leading professionals to honor the Canadian insurance industry's most outstanding achievements.

From brokers and brokerages to insurers, underwriters, and insurtech firms, the event celebrated individuals and organizations driving innovation and setting benchmarks for excellence across the sector.

"It's a wonderful event, and I love that it celebrates the best in our industry while bringing key players together," said Cameron Copeland, president and CEO at SPGC.

Highlights of the evening included recognition for business development, digital innovation, and distinguished awards such as MGA of the Year and Brokerage of the Year. Spanning a diverse range of categories, each award celebrated the critical contributions and lasting influence of leaders shaping the future of the insurance industry.

Embracing digital growth

This year saw remarkable advancements in AI applications within insurance, revolutionizing capabilities in client sourcing, workflow management, and risk assessment. Given the profound impact AI has had on the sector, sponsoring the Award for Digital Innovation in a Brokerage was an easy choice for Allianz.

Reflecting on the sponsorship, Kyle Sparkman, managing director and head at Allianz Global Assistance Canada shared, "We've specifically focused on brokers and digital innovation this year, so this sponsorship was a perfect fit."

Taking home the coveted award was Billyard Insurance Group, which, in the face of rapid growth, strategically implemented AI to streamline and optimize workflow management.

"A couple of years ago, we were the fastest-growing brokerage in the country, which brought massive scale. We leveraged innovation to create workflows that helped manage that scale. We developed an AI underwriting tool to drive our business forward," said Stephen Billyard, president of Billyard Insurance Group.

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Reflecting on the future of AI in the insurance market, Billyard emphasized that it will continue to transform the industry. "It's now the backbone of our business and drives everything we do. It's not about reducing headcount; it's about increasing efficiency and improving underwriting accuracy. It's not about replacing jobs—it's about making us better," he said.

Staying dedicated to the client experience

This year's awardees also stood out for their unwavering dedication to service. Another one of the evening's notable wins went to Cansure, who took home the prestigious MGA of the Year award. Having previously earned this honour in 2019, the firm's consistent commitment to delivering exceptional client service continues to set them apart.

Revealing the secret to the firm's success, Cameron Copeland, CEO and president of SPGC (a subsidiary of Cansure), shared, "Consistent execution."

"We're focused on continuously improving for our carrier partners and staff," he said. Offering advice for younger professionals and firms aiming for success, Copeland emphasized, "You've got a world of opportunity, with hard work you can open every door and really achieve your career potential."

Also emphasizing the importance of supporting clients, Link Canada sponsored the Business Development Manager of the Year award.

"We thought it was important to be part of this award because these are the individuals who truly connect brokers to the insurance industry and help create that friendly, welcoming environment we all want to see," said Christopher Aloussis, co-chair at Link Canada.

Reflecting on the key traits of a successful business development manager, Aloussis said, "Authenticity – it's not about stretching the truth or overpromising. It's about helping people with solutions and figuring out how to get through challenges."

Similarly, Medavie took home the prestigious Life and Health Insurer of the Year award, a true testament to their unwavering commitment to enhancing the lives of Canadians.

"This is huge for us as a company because every day we're focused on improving the well-being of Canadians, and sometimes we lose sight of just how far we've come," said Anita Swamy, vice president of operations at Medavie Blue Cross. "It's great for both the team and the company to be recognized in this way, and it fuels us for what's next."

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Canadian Insurers Face Gaps In Fraud Detection – Gen Re

Limited Automation And Staff Awareness Hinder Prevention

By Kenneth Araullo, Insurance Business, November 28, 2024

https://www.insurancebusinessmag.com/us/news/reinsurance/canadian-insurers-face-gaps-in-fraud-detection--gen-re-515856.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20241128&_hsenc=p2ANqtz-9y1Rn-Cy9KZqiL9lQslvSNPxmOC1YPXtjXANg0BwJhs10XtnTq2olvkus7ysiqzvR2nZ6mZ1o1IzaEX116W7t-pMK_EA&_hsmi=336106590&utm_content=&utm_source=

Fraud continues to pose significant challenges for the life and health insurance sector in Canada, according to a recent survey conducted by Gen Re.

The findings highlight the impact of economic pressures and increasing digitization on the prevalence of both opportunistic and complex fraud schemes. The survey, which targeted 11 Canadian insurers offering life, health, and disability products, revealed key insights into fraud exposure, detection, investigation, and resolution strategies.

Gen Re said that its analysis underscores the evolving nature of fraud in the insurance industry, with particular emphasis on the importance of enhanced detection systems and robust risk management practices. The findings point to areas where the industry has implemented effective measures and where further investment is needed to address vulnerabilities.

The survey identified common types of fraud faced by insurers, including foreign death claims, material misrepresentation during the application process, fraudulent activities outside the policy contestable period, and concealment of gainful employment or higher functioning in disability claims.

Gen Re noted that these issues remain consistent challenges across the Canadian market, necessitating ongoing vigilance by insurers.

The study also highlighted the prevalence of fraud in accelerated underwriting processes, a feature used by all respondents. While 90% of insurers reported having controls in place to identify questionable applications, only 60% conduct post-issue audits, leaving a potential gap in fraud prevention efforts.

Fraud detection challenges
Gen Re found that all participating insurers have implemented basic fraud detection measures, such as anti-money laundering policies and special reviews for foreign death claims. However, only half of respondents have systems in place to detect identity fraud or accounts linked to fabricated identities.

This is particularly concerning given the rise in identity theft and synthetic identity schemes. The report emphasized the importance of comprehensive "Know Your Customer" processes to safeguard both insurers and policyholders.

Claims adjudication procedures rely heavily on manual methods to identify suspicious claims, with only 25% of insurers incorporating artificial intelligence or automation into their detection efforts. Gen Re attributed the reliance on manual processes to a lack of automated resources and insufficient staff training, which were identified as key factors increasing exposure to fraud.

According to Gen Re, two-thirds of the surveyed insurers have in-house fraud teams, and almost all use third-party services when necessary. While only one respondent plans to increase fraud staff headcount in the next year, 50% anticipate raising their overall fraud prevention budgets, with none planning budget cuts.

The report noted that surveillance and field investigations are commonly outsourced, but one-third of insurers do not use surveillance even for questionable claims. Gen Re recommended regular evaluation of third-party resources, emphasizing the need for clear service-level agreements, compliance monitoring, and quality checks to ensure effective fraud mitigation.

Data and reporting limitations
While most insurers compile annual fraud statistics, only 63% report these figures to regulatory bodies or industry groups, according to Gen Re. The lack of a central database for life and health insurance fraud in Canada complicates efforts to identify industry-wide trends and develop targeted strategies.

Gen Re highlighted the importance of detailed tracking and reporting as critical components of an effective fraud mitigation framework.

The survey also revealed that all insurers have whistleblowing hotlines and conduct regular internal fraud risk assessments. Gen Re noted these measures as essential for maintaining vigilance but encouraged further collaboration within the industry to establish unified reporting standards and improve access to reliable data.

Based on the survey findings, Gen Re encouraged Canadian insurers to enhance their fraud detection capabilities by investing in data analytics, social media monitoring, and document analysis platforms.

Maintaining an updated internal database of suspicious trends and exploring new vendor resources were also recommended as practical steps to strengthen fraud prevention strategies.

Gen Re concluded that while Canadian insurers have made progress in addressing fraud risks, opportunities remain to improve industry-wide collaboration and leverage technology to better manage evolving threats.

What AI Means for Compliance

In This Future Of Risk Interview, RGA's Casey Beckman Explains How AI Can Drastically Improve Monitoring -- But Brings With It A New Set Of Risks.

By Insurance Thought Leadership, November 15, 2024

https://www.insurancethoughtleadership.com/future-risk/what-ai-means-compliance

Casey Beckman is Vice President, Global Compliance and Fraud, for RGA. She is a highly skilled financial services compliance professional with over 20 years of experience in building and transforming compliance and risk programs for global companies. Casey joined RGA in 2016 and leads the vision, strategy, and execution of the compliance operating model for RGA's global operations. Before joining RGA, Casey held various compliance roles for Aegon/Transamerica, a leading provider of life insurance, retirement, and investment solutions. Casey earned a bachelor's degree in business administration and management from Mount Mercy University, and an MBA from the University of Phoenix.

Paul Carroll
Casey, thank you for joining me today. Would you share a bit about your role at RGA and your overall industry experience?

Casey Beckman
I've been with RGA for eight years, and I'm currently RGA's global chief compliance officer. I have been in the compliance field within the insurance industry for over 20 years. Prior to RGA, I worked at Aegon/Transamerica for 17 years and held various compliance roles both on the insurance side as well as the asset management side. I have experience in leading all aspects of a global compliance program, including artificial intelligence governance, financial crimes monitoring, economic sanctions compliance, code of conduct policy compliance, regulatory change management, compliance assurance testing, and directing investigations.

Paul Carroll
Based on your experience, what do you see as a major risk trend for the insurance industry?

Casey Beckman
The use of artificial intelligence comes to mind. This emerging risk has been impossible to ignore as we continue to use AI in both our personal and work lives. Along with this use comes an increase in compliance and ethical concerns such as data protection, AI transparency, and explainability, and mitigating biases that AI could create. It's important to remember that AI was built by humans and is susceptible to flaws and errors.

RGA currently has an AI governance strategy project underway to ensure we have appropriate controls and governance over the use of AI to mitigate risks posed by AI. The project team includes various business leaders, data scientists, experts in AI technology, risk management, compliance, and legal. I can't stress enough how important it is that organizations acknowledge that AI risk is owned by everyone, and everyone has an obligation to use AI responsibly.

Paul Carroll
What role can AI, data analytics, and emerging technologies play in mitigating compliance risks related to fraud, cybersecurity, and other areas?

Casey Beckman
I think AI will significantly impact how compliance teams monitor risks.

AI has the ability to analyze a large amount of data and can quickly identify patterns and anomalies that can help with suspicious activity detection, whether it be financial transaction patterns or monitoring for cyber threats.

AI can also help with:

- Sanctions screening that could help reduce and clear false positives.
- Knowing your customer, to help determine if there are high-risk clients that would require additional due diligence or monitoring.
- Overall compliance program health, such as metrics and reporting on key performance indicators (KPIs).

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- Streamlining compliance processes, such as policy creation and maintenance, policy monitoring and adherence, and control development and assurance.
- Assisting with investigations, including performing data analytics.
- Gathering information, including from unstructured sources such as notes on paper or in PDFs and from audio and video, whose review has historically been extremely time-consuming.
- Crafting reports, at least by providing a rough draft that provides a substantial starting point for the compliance officer.

Paul Carroll
How is the evolving AI regulatory landscape across global markets affecting risk management practices and compliance requirements?

Casey Beckman
We are beginning to see more momentum from regulators in this space, however, there are still many regulators that have yet to propose or enact regulations. Risk and compliance professionals need to ensure that any AI governance framework being developed is agile enough that as new regulations come out, the governance framework can adapt quickly to new requirements.

Paul Carroll
What skills and mindsets will risk and compliance professionals need to develop to stay ahead of rapidly evolving AI risk facing the insurance industry?

Casey Beckman
Knowledge is power! There are obvious things like attending conferences, obtaining AI governance certifications, and building your network, which can help you stay ahead, but it's also important to not lose sight of the fact AI governance is a team effort. It's important to stay connected to your business leaders, research and development teams, data scientists, IT teams, etc. to align with your organization's AI strategy to ensure the governance continues to mitigate the risks as AI evolves. Just like being agile with the regulations, the governance also must be agile and align with your organization's AI strategy goals.

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1 In 5 Small Businesses See A Temporary Shut Down As Their Biggest Liability, Yet Many Don't Have Insurance To Protect Themselves: TD Insurance Survey

New Survey Finds That 40% Of Small Business Owners Surveyed Don't Have Insurance, Putting Themselves At Risk

By The Globe and Mail, October 28, 2024

https://www.theglobeandmail.com/investing/markets/stocks/TD/pressreleases/29248960/1-in-5-small-businesses-see-a-temporary-shut-down-as-their-biggest-liability-yet-many-dont-have-insurance-to-protect-themselves-td-insurance-survey/

TORONTO , Oct. 28, 2024 /CNW/ - Small businesses are the backbone of the Canadian economy, with 98 per cent of businesses being classified as small businesses. Despite this critical role, many are exposing themselves to unnecessary risks. A recent TD Insurance survey conducted by Maru Public Opinion uncovered that while nearly one in five small business owners say their biggest liability is having their business interrupted, almost 40 per cent of them do not have business insurance - a key tool in keeping their business operating and protected against financial loss should the unexpected happen.

The survey also revealed a potential knowledge gap among business owners when it comes to the importance of business insurance: While many disclosed real concerns around liabilities to their business, of those small businesses who do not have insurance, almost 40 percent said they don't think they need it and 30 percent said it's not worth having since they don't have any employees - undervaluing the importance of insurance as a protection against those liabilities.

Top liability concerns among small businesses surveyed include:

- Business interruption (19%) – could include a fire at a restaurant leading to a suspension of business;
- Damage to property and contents (10%) - particularly among Prairie businesses (18%) – could include a flood in a basement home office or car collision from a florist on a delivery; and,
- Employee safety (7%) – could include a contractor employee injury on the jobsite.

"With over 2 million small businesses in Canada ranging in size, profits and industry, there is no one size fits all approach to business insurance," said Tang Trang, Vice President, Product and Pricing, Small Business Insurance, TD Insurance. "The unthinkable can happen and no business wants to close their doors to their customers. It's essential business owners find the right insurance policy that meets their unique needs and gets them back to serving their customers as quickly as possible."

Further, with costs of doing business continuing to rise, it's not surprising that 36 percent of small businesses surveyed mentioned cost as a reason for not having insurance. "It can be tempting to forego insurance to cope with economic pressures, but for a small grocery store whose customer slips and falls on its property or a bakery who has to shut down due to significant fire damage, the financial loss could greatly outweigh the cost of protecting your business from the unexpected," added Trang.

As the economic landscape continues to evolve, so do the needs of business owners. From moving to a new retail location, buying new equipment, or launching a new service offering, it is important business owners review their insurance policy regularly and speak with a licenced insurance advisor if they have questions. While it's encouraging that 60 per cent of small businesses surveyed have consulted with a licensed insurance advisor about their business, there remains 21 per cent who have no intention of doing so, and only 32 per cent who review their existing policy regularly. In addition to seeking advice from a licensed insurance advisor, businesses also want a digital experience: two-thirds (67%) of high revenue and over half of mid-revenue producing businesses (57%) would be more inclined to pick an insurance provider that offers digital capabilities.

Meeting this digital demand, TD Insurance offers a Digital Quoter tool that provides easy, online access to customized quotes for business owners, allowing them to better understand their insurance needs in just a few clicks.

In addition to proactively understanding the insurance needs of your business, there are a number of ways businesses can prevent having to temporarily close their doors. "Establishing safety and emergency protocols and training employees on them regularly, conducting safety inspections and addressing any issues identified, and installing anti-

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theft devices for their vehicle, are just a few steps small businesses can take to protect what they've worked so hard to build. When all else fails, whether you're a solo accountant, own your own law firm, are a contractor or a professional photographer, having the right insurance in place could help safeguard your business and let you focus on what you do best," added Trang.