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CAFII ALERTS WEEKLY DIGEST: December 9-13, 2024

December 13, 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

OSFI Seen Keeping Big Six Buffers Unchanged: DBRS

Despite Intensified Uncertainty, Risk Landscape Is Largely Stable

By James Langton, Investment Executive, December 10, 2024

https://www.investmentexecutive.com/news/research-and-markets/osfi-seen-keeping-big-six-buffers-unchanged-dbrs/

While increasing economic uncertainty makes it harder to predict the Office of the Superintendent of Financial Institutions' (OSFI) forthcoming decision on capital buffers for the Big Six banks, Morningstar DBRS said it doesn't expect any changes to the buffer requirements next week.

On Dec. 17, OSFI is scheduled to announce its semi-annual decision setting capital buffers for the domestic systemically-important banks (D-SIBs). The mechanism allows the regulator to push the banks to boost their capital positions in the face of rising systemic risks, or to enable them to draw down their capital buffers when financial stresses threaten the flow of credit to the economy.

In a report Tuesday, DBRS said it expects OSFI to keep the buffer unchanged at 3.5%.

"Although the highly uncertain economic environment makes OSFI's decision somewhat more difficult to predict, we view systemic vulnerabilities and near-term risks to the [Big Six] as largely unchanged since OSFI's last review of the [buffer] in June," it said.

At the time, OSFI said it saw systemic risks as elevated, but stable, and that near-term risks remained low, but rising.

"We believe that this is still the case, supporting our view that OSFI is unlikely to change the buffer in its upcoming decision," DBRS said.

Systemic vulnerabilities, such as household debt levels, and weaknesses in commercial real estate markets, remain elevated, it noted. But, the immediate threats haven't changed enough to justify an adjustment in the buffer, the credit ratings agency added.

While the jobless rate has increased and insolvencies have risen significantly on a year-over-year basis, insolvencies dropped in the third quarter (on a quarter-over-quarter basis), and declining interest rates are expected to ease the load on heavily indebted consumers and businesses, DBRS said.

That said, it also noted that economic and policy uncertainty has increased in the wake of the U.S. election, which has further clouded the picture on inflation, interest rates and other key economic metrics.

Additionally, the shifting regulatory environment poses an added complication, with banking regulators, including OSFI, delaying implementation of the final requirements under the Basel III capital regime.

"While OSFI remains committed to Basel III reforms despite a one-year delay in the phase-in period, it will continue to monitor the implementation progress of these reforms across jurisdictions, considering both competitive balance in the banking sector and the soundness of Canada's capital regime," DBRS said.

As it stands though, the capital positions of the Big Six "ranged from 13.1% to 13.7%, with capital buffers comfortably above the current regulatory minimum threshold of 11.5% and sufficient to absorb potential credit losses," the report concluded.

Canadian Regulators Weigh In On Generative Artificial Intelligence Use

By Kate McCaffery, Insurance Portal, November 29, 2024

The Canadian Insurance Services Regulatory Organizations (CISRO), a forum of Canadian regulatory authorities, has weighed in on the use of generative artificial intelligence (AI) saying insurance intermediaries should review their current cybersecurity practices in light of growing generative AI usage.

The document from CISRO, Cybersecurity readiness when using generative artificial intelligence, provides general information and poses a number of questions intermediaries might ask themselves when discussing or probing cybersecurity readiness.

"This document is intended to raise insurance intermediaries' awareness of the importance of adapting their cybersecurity readiness strategy to their use of generative AI in the course of their business activities," CISRO states. "Given the increasing popularity of chatbots and virtual assistants powered by generative AI and the sense of productivity they bring to their users, intermediaries should establish guidance for their use and implement measures to prevent cyber incidents that could compromise or lead to the theft of confidential information."

Read full article (subscription required): https://insurance-portal.ca/society/canadian-regulators-weigh-in-on-generative-artificial-intelligence-use/

OTHER CAFII MEMBER-RELEVANT NEWS

Insurance Executives Say Artificial Intelligence Is Coming

By Kate McCaffery, Insurance Portal, December 06, 2024

A new cross-discipline industry trends report from Earnix and Market Research Group LLC, shows that insurers are still struggling with outdated, siloed technology stacks that hinder collaboration, innovation and business growth. They say this makes it difficult for departments to work together productively and it also delays decision-making.

The survey of 431 pricing, actuarial, underwriting, C-suite and technology executives from around the world was conducted in 2024. The results show an industry trying to come to grips with modernization. It found that two thirds expect to deploy artificial intelligence (AI) models within the next two years. At the same time, less than one-third presently have AI models in place today; 58 per cent of respondents say that implementing a rule change takes more than five months. For 21 per cent of respondents, the process takes more than seven months.

Read full article (subscription required): https://insurance-portal.ca/entrepreneurship/insurance-executives-say-artificial-intelligence-is-coming/

Canadian Finance And Insurance Industries Growing

By Kate McCaffery, Insurance Portal, December 02, 2024

https://insurance-portal.ca/society/canadian-finance-and-insurance-industries-growing/

Gross domestic product (GDP) figures published by Statistics Canada for the third quarter of 2024 and for September 2024 show the financial and insurance industries growing slightly during those respective periods.

According to the Gross domestic product, income and expenditure, third quarter 2024 report, real GDP increased 0.3 per cent in the third quarter, after rising 0.5 per cent in the first two quarters of the year. On a per capita basis, GDP fell 0.4 per cent, the sixth consecutive quarterly decline, they say.

Increased spending

Household spending rose 0.9 per cent in the third quarter, led by increased spending on vehicles. Higher spending on financial services also contributed to the increase. Per capita household expenditures moved 0.2 per cent higher in the third quarter after falling in six of the last eight quarters.

Employee compensation, meanwhile, rose 1.7 per cent during the period, driven by wage growth in finance, real estate and company management and education services. Educational services figures were influenced by new collective bargaining agreements signed in Quebec and Ontario.

Against this backdrop, household savings rose, thanks to the fact that disposable income grew 2.3 per cent, double the rate of spending (1.2 per cent) in nominal terms. “The household saving rate reached a three-year peak of 7.1 per cent in the third quarter, up from 6.2 per cent in the second quarter. By comparison, the saving rate at the end of 2019 was below three per cent,” the report states. “The household saving rate is aggregated across all income brackets; in general, savings rates are greater in higher income brackets.”

Finance and insurance

In the monthly report, Gross domestic product by industry, September 2024, Statistics Canada says finance and insurance rose 2.1 per cent in the third quarter, the highest quarterly growth rate since the fourth quarter of 2021.

At the same time quarterly figures show, corporate income overall fell 1.1 per cent, after increasing 2.1 per cent in the previous quarter. Gross operating surplus for financial corporations – coming in at 0.9 per cent higher than in the

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previous period – grew despite the destructive weather negatively impacting the surplus of property and auto insurers. "Offsetting the lower surplus for property and auto insurance companies was higher income in the banking sector, where falling interest rates enabled higher spreads between loans and deposits," says the report.

In September 2024 alone, meanwhile, Real GDP rose 0.1 per cent, unchanged over August's figures. Statistics Canada says 11 of the 20 sectors it studies expanded in September, including the finance, insurance, real estate, rental and leasing sectors, which it groups together. The increase, it says, was largely driven by credit intermediation, thanks to increased mortgage and non-mortgage loan activity at chartered banks.

Yet Another 'Review' Of Banks' Sales Practices. This Is Busy Work And Useless

By John Turley-Ewart, The Globe and Mail, December 02, 2024

https://www.theglobeandmail.com/business/commentary/article-yet-another-review-of-banks-sales-practices-this-is-busy-work-and/

Last week, the Ontario Securities Commission and the Canadian Investment Regulatory Organization launched a "coordinated review into the sales practices within Canadian bank branches."

The OSC and CIRO's move followed a March CBC MarketPlace undercover exposé that reported instances of bank branch staff mis-selling credit cards and lines of credit and offering inappropriate financial advice to customers. Undue pressure on bank staff to meet sales targets was apparently at fault.

Yet this is not the coordinated review as advertised by the OSC, a Crown corporation, and CIRO, a self-regulatory body. The Financial Consumer Agency of Canada, or FCAC, an arm of the country's bank supervisory regime, conducted a similar exercise in 2018. The OSC and CIRO are now tackling this issue on their own, opening the door to a potential hodgepodge of rules that are hard to apply and enforce.

The FCAC's examination of big bank branch sales practices, titled Domestic Bank Retail Sales Practices Review, generated important findings at the time. It determined that the banks' "governance frameworks do not manage sales practices risk effectively" and that "controls to mitigate the risks associated with sales practices are underdeveloped." These observations refer to the use of internal audit and bank compliance programs as a check on unreasonable sales targets that encourage unethical behaviour by branch staff.

Bank branches in Canada are and have always been established to support individual and community economic growth by selling individuals, small business owners and large business operations profitable banking products and services. When bank branches prove unprofitable, like any other business, they eventually close.

Equally true, unethical sales practices undermine credibility and the long-term business sustainability of a bank branch. For this reason, the policies, procedures and training at Canada's banks are designed to support an ethical sales culture. It is the table stakes for success.

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Mistakes are costly. A classic example involves Wells Fargo Bank in the U.S. between 2002 and 2016. Failing to ethically manage its sales culture led to staff misleading customers and opening unauthorized client accounts to meet sales goals – an outcome that cost the bank billions in fines, millions in restitution paid to investors and an effort that continues to this day to rebuild trust with customers.

The FCAC found that risks of bad sales practices at bank branches exist in Canada – that they sometimes happen, but not typically. To guard against them, the FCAC promised "a modernized supervision framework that will allow it to proactively ensure banks have implemented the appropriate frameworks."

But it never happened. Promise made, promise forgotten?

A rehash of the FCAC's work by the OSC and CIRO isn't helpful. Step one should have been determining why the FCAC didn't deliver its 2018 promise for a new framework. Could it be that another framework atop existing consumer protections in the Bank Act created regulatory confusion?

Recall, too, that Canada's bank supervisor, the Office of the Superintendent of Financial Institutions, or OSFI, issued a regulatory notice on Nov. 21 this year on culture risk management. It's a move that also comes into play on the OSC and CIRO file, as culture impacts sales practices.

Another study of bank branch sales practices as proposed last week is not a step forward for consumers or the regulated. Nor is it coordinated, as Canada's bank supervisory regime is not involved.

The OSC and CIRO would better serve and protect consumers from unsavoury bank branch sales practices by truly integrating their concerns with the FCAC and OSFI. Their goal should be producing a common approach and consistent enforcement tools that all four regulators could help supervise. Canadian consumers and banks would be better for it.

How Is Emerging Tech Changing Insurance?

By Grace Crane, Digital Insurance, November 05, 2024

https://www.dig-in.com/list/how-ai-is-impacting-the-insurance-industry?utm_campaign=NL_DIG_Morning_Briefing_11062024&position=1&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_11062024&oly_enc_id=1794I9343067F0V

Elad Tsur, former CEO and co-founder of Planck, acquired by Applied Systems, shared his thoughts on the future of AI and the insurance industry with Digital Insurance at ITC Vegas 2024.

What are your predictions on emerging technologies in the underwriting process and overall in the insurance industry?
AI is everywhere, from simple tools that will help to improve efficiency, all the way to customer-facing processes. From an AI deployment perspective, 2026 will be closer to 2027 than to 2025--meaning we're going to see a dramatic increase in use of AI in next year, but the year afterwards, deployment will be way, way, way bigger… Next year, carriers will be

adopting AI way more than they have so far. And again, even that would be neglectful compared to what they will have in 2026.

In terms of underwriting, we'll see most of the usages around reducing expense ratios and not so much in reducing the loss ratios. You're going to see lots of pressure on the efficiency of the process, and despite the potential of AI to help the loss ratios way more in value compared to the expense ratios, you're going to see the first products integrated and adopted in the expense ratios.

But I think that even more than that, you're going to see products in changing the ease of use of insurance, changing the interface. There are products that are customer facing to make it seem very innovative or cool to the market, not necessarily bringing actual value to the carrier, besides maybe more customers. There is lots of value there, but the bigger impact on carriers will be improving expense ratios, and maybe four to five years from now, that will also include using AI in loss ratios.

How does insurance compare to other industries in GenAI adoption? Where are there opportunities for innovation?
Insurance is very late to adopt, definitely. I'm not complaining, and I'm not judging. I think, on the contrary, I think that actually the insurance business needs to be risk averse, and the fact that they're cautious about adopting any technology that might impact the bottom line is healthy for the industry, in which the sole purpose of it is the ability to correctly assess the level of risk and taking that risk on… The customer facing is usually agents, and not the carriers themselves…

I think that being the back-end and not front-end to the customer, the insured, is something that made it possible for the industry not to adopt AI that fast, with customer-facing, because we're starting to expect that from them. So brokers will be adopting AI faster, that is also my prediction.

Another trend we'll see– you used to only see brokers that care about writing business, and carriers care about underwriting the business and about their risk selection, and brokers didn't care about risk selection, they weren't doing that. Now we see more and more brokers doing risk selection. There were some carriers, very innovative ones, incentivizing brokers to do risk selection activity… You see more and more brokers that are doing risk selection, and the fact that they will be adopting AI, not just to improve their internal processes and not just to have better interactions with customers, but also to do risk election, I think is very interesting, especially Planck for and for what I've seen in the past eight years.

How are skill sets changing? Are we seeing a really big shift there?
The responsibility of every single role will be more tailored to emotional intelligence (EQ) … Analytics, looking at data, doing calculations and then matching records will be automated by AI, because intelligence is cheap these days, that's the answer.

The AI will be more intelligent than what we are, and I think most of the responsibilities of almost any role in the industry, will shift it more towards the emotional and the more human level, because the machines can do the mundane, boring tasks of matching data and reconciling data, making calculations, typing, and storing information.

I think that bringing the human part to the discussion, to an interaction is something that, let's say probably 15 years from now, AI will be able to do that as well, but I think that it will not be at that same level as us for the next decade. And I think that this is why all of the roles will be focused more on the human side than on the digital side or on the boring, mundane tasks that you definitely would want the machine to do.

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How would that impact new talent just coming into the industry? What are your thoughts on the fear or anxiety of emerging talent towards AI or new tech?
I would be stressed about it. You're building your career, you want to know what to focus on in building the foundations to your career and we've never had technology that can think, that has intelligence and will surpass our level of intelligence. Why would an employer hire a human being, if the employer can hire an AI?

But to replace the whole human being takes more than just their level of intelligence. It will take a while to see AI completely replace us… I don't think [new talent] should be that anxious about it, but they should realize that they will need to be a bit agile in their career…I would focus on trying to increase my EQ skills and my IT skills.

How About One, Universal Life Insurance Application?

The Current Approach Means Agents, Brokers, And Consumers Often Settle For A Less Competitive Company And Rating And More Expensive Product.

By Howard Wolkowitz, Insurance Thought Leadership, November 03, 2024

https://www.insurancethoughtleadership.com/life-health/how-about-one-universal-life-insurance-application

Individual company applications can work against consumers by making it harder to shop for carriers.

For example, you complete an application for a consumer for a specific life insurance company but don't receive the rating the client deserves. Now what?

You now have an application, a paramedic exam, lab results, and medical records. You decide that, in the customer's best interest, you want to apply to another company for a more competitive rating.

You must complete a new application and start the process from the beginning. Why? Company #1 paid for the exam and medical records. The records belong to that company, not the agent or customer. Most of the time, the first company will not release these records.

As a result, agents, brokers, and consumers often settle for a less competitive company and rating and more expensive product. Who wins? It's never the consumer.

What a possible solution would look like

- A universal application would provide the most comprehensive information because it would be redesigned to incorporate questions that the most conservative carrier would ask.
- A universal application could also be used as a preliminary inquiry form that can go to more than one carrier simultaneously, saving duplication of efforts.

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- The medical records would belong to the broker/agent company that ordered the records and would be available to all underwriters who would review the application.

Obstacles that will need to be overcome first

- Would current HIPAA and compliance restrictions to personal customer information need to be revised?
- Who would pay for the paramedic exam, labs, and medical records, and where would these records be housed?
- Would carriers be able and willing to underwrite a “shopped” application in which they compete to win the business?

Pros and cons to each party

- Carriers: Less competitive carriers will not want this process. Carriers can use their captives to sell less competitive solutions.
- Captive and affiliated producers: This process will encourage and force these producers to consider alternative solutions when their company is not the best fit or offers the best solution.
- Independent producers: This would allow producers to comply with Reg 186 Best Interest Rule by ensuring customers a best-interest look at their options.
- Third-party intermediaries: Their productivity and ability to shop multiple carriers would increase drastically.
- Customers: There are no cons for the customer, only upside. This one application will streamline the process, speed up the underwriting and approval process, give consumers valuable alternative solutions, and comply with the best-interest methodology.

Life insurance companies, lobbyists, and regulators

- Who will lead the creation of a comprehensive, universal life insurance application? Will insurance companies be allowed to opt out and maintain their proprietary applications?
- How will HIPAA and compliance guidelines allow for the access and storage of confidential medical records, or will they be revised?
- How will the cost of client acquisition be handled? Who will pay, who will own, and who will be responsible for the compliance requirements of confidential medical and health information?

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