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CAFII ALERTS WEEKLY DIGEST: February 20 – February 23, 2024

February 23, 2024

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

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GOVERNMENT/LEGAL/REGULATORY/ BUSINESS DEVELOPMENTS

CLHIA Publishes Critical Illness Insurance Guide

Resource Aimed At Helping Consumers Understand Less Well-Known Product

By Terry Gangcuangco, Insurance Business, February 22, 2024

https://www.insurancebusinessmag.com/ca/news/life-insurance/clhia-publishes-critical-illness-insurance-guide-478323.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240222&_hsmi=295267004&_hsenc=p2ANqtz-9__OKV_YHfqk-mrt9bZ5eIb-0XwLANE_ClQyZVoTcANGJXjVk1w-2nHCs6m0OqYR9SGNJuY_BIYWlmYOP7KbaFISwiDQ&utm_content=&utm_source=

In a move to demystify critical illness insurance for consumers in Canada, the Canadian Life and Health Insurance Association (CLHIA) has published a comprehensive guide.

The 26-page resource, now available on the association's website, aims to shed light on the workings of critical illness insurance, along with the benefits and financial safety net it provides.

Stephen Frank, the CLHIA's president and chief executive, highlighted the significance of the guide, noting: "Over two million Canadians are covered by critical illness insurance through individual or group plans."

He suggested that the guide will be instrumental in illustrating the vital role that critical illness insurance plays in offering individuals enhanced financial flexibility upon diagnosis with a severe condition.

The guide comes as a response to the need for clarity regarding critical illness insurance, which offers a non-taxable lump sum payment to policyholders diagnosed with major illnesses such as cancer, heart attacks, strokes, multiple sclerosis, or Parkinson's disease.

The payout is intended to help with the various personal expenses that arise due to the illness, with policyholders afforded the freedom to use the funds as they see fit.

Despite being available in Canada for three decades, critical illness insurance is not as widely understood as other insurance types. "A Guide to Critical Illness Insurance" aims to bridge this knowledge gap by answering frequently asked questions such as the differences between critical illness insurance and other insurance types like life and disability, the conditions covered under critical illness policies, and common limitations and exclusions.

The guide was produced by product experts from Canada's life and health insurers, providing impartial, free guidance designed to assist consumers in navigating their options.

Scaling Up Risks: OSFI's New Supervisory Approach To Financial Institutions

By Eli Monas, Melissa Prado, Tim Pavlov, Jaidyn McEwen, Torys, February 21, 2024

https://www.torys.com/our-latest-thinking/publications/2024/02/osfis-new-supervisory-approach-to-financial-institutions?utm_source=email&utm_medium=email&utm_campaign=FinancialRegBulletin

The Office of the Superintendent of Financial Institutions (OSFI) released its new framework for supervising federally regulated financial institutions (FRFIs) on February 8, 2024. The new framework, which will come into force in April 2024, is the most significant change to OSFI's supervisory approach in 25 years.

What You Need To Know

- **Eight-point risk rating.** The new framework will expand the previous four-point intervention risk rating scale to an eight-point Overall Risk Rating Scale, which maps to OSFI's existing intervention stage ratings to provide an earlier indication of changes in OSFI's risk assessment of particular FRFIs.
- **Tier risk rating system.** OSFI will implement Tier Rating, which will be based on an FRFI's size and complexity, as well as OSFI's view of the impact that the FRFI's failure could have on the financial system.
- **New risk assessment categories**. New risk assessment categories (i.e., business risk, financial resilience, operational resilience and risk governance) will be introduced.
- **Risk rating drivers**. The new framework will include more information for FRFIs about the drivers of their risk ratings.

Introduction

OSFI's new supervisory framework introduces changes to the current risk rating scale, introducing an eight-point Overall Risk Rating Scale and Tier Rating system. Within this framework, there are new risk assessment categories, with the ultimate goal of ensuring that institutions understand what drives their individual risk ratings and OSFI's risk appetite.

A summary of the key changes is below.

Eight-point risk rating scale

The existing framework operates under a four-point "Intervention Risk Rating":
- Stage 0: Normal
- Stage 1: Early warning
- Stage 2: Risk to financial viability or solvency
- Stage 3: Future financial viability in serious doubt
- Stage 4: Non-viable/insolvency imminent

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The new framework will expand this to an eight-point "Overall Risk Rating Scale" (ORR), which will map directly to OSFI's existing intervention stage ratings.

Stage 0
OSFI will assign an ORR 1 when no significant issues are identified; an ORR 2 means that an FRFI has a low risk; an ORR 3 means that an FRFI has a moderate risk; and an ORR 4 is described as a watchlist to make it clear that identified issues need prompt attention or the FRFI is likely to be subject to formal intervention (i.e., a Stage 1 or higher rating).

An FRFI with an ORR between 1 and 4 will be in Stage 0. The rationale for splitting the existing Stage 0 into four distinct rating categories is to give FRFIs a better sense of how OSFI views their risk profile and provide signals for early corrective actions.

Stages 1 to 4
For higher ratings, OSFI will consider how quickly threats are developing.

An ORR 5 will be assigned to FRFIs that are in Stage 1 and is an early warning of issues that could impact viability. At this rating level, the impact to viability is not expected to occur within two years based on available information.

An ORR 6 will correspond to Stage 2. At this level, the FRFI poses material safety and soundness concerns. While the threat to viability is not immediate, it could occur within two years.

An ORR 7 will be assigned, and the FRFI will be placed in Stage 3, when future viability is in serious doubt (e.g., the FRFI has severe safety and soundness concerns that could affect viability within one year).

Finally, an ORR 8 will be assigned to FRFIs in Stage 4. At this point, non-viability is assessed as imminent.

Tier Rating

OSFI will also implement Tier Rating according to a 1-to-5 scale, which will be based on an FRFI's size and complexity, as well as OSFI's view of the impact that its failure could have on the financial system.

Large and/or complex FRFIs with the highest system impact will be defined as Tier 1 High.
Large and/or complex FRFIs with significant system impact are Tier 2 Medium-High.
Mid-size FRFIs with moderate system impact are Tier 3 Medium.
Small and/or less complex FRFIs with low system impact are Tier 4 Medium-Low.
Smallest, least complex FRFIs with very low system impact are Tier 5 Low.

Risk rating system: how Tier Rating, the ORR, and risk categories work together

The Tier Rating will determine the granularity of OSFI's risk assessment. For small FRFIs (in Tier 5), OSFI will assign an ORR that considers the four new risk assessment categories (discussed below): business risk, financial resilience, operational resilience and risk governance.

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For larger FRFIs (in Tiers 1 to 4), OSFI will also assign ratings for each of the four risk categories on the same 1-to-8 scale as the ORR. Each category will be rated according to the level of risk it poses to the viability of the FRFI. In addition, OSFI's internal assessment of the largest FRFIs (in Tiers 1 to 3) will also include a more detailed analysis of additional risks.

For FRFIs that receive individual rating categories, any category has the potential to drive the ORR—the category with the weakest rating will become the starting point for the ORR. The ORR can't be better than any of the rated categories; however, it can be worse (e.g., where different issues lead to multiple categories being rated at the same level).

New Risk Assessment Categories

Business risk
This category represents a forward-looking assessment of an FRFI's business model sustainability. Business risk can provide an early indicator of increasing prudential risk. If an FRFI fails to address a damaged business model, a loss of confidence can follow, resulting in financial stress.

Financial resilience
OSFI's assessment of financial resilience reflects the FRFI's ability to withstand financial stress and considers the FRFI's financial risk profile, capital and liquidity. OSFI assesses capital adequacy for financial resilience in severe but plausible stress scenarios, and considers capital management and the FRFI's ability to identify, measure and monitor risk. The analysis is forward-looking and includes the FRFI's contingency plan and access to capital. Financial resilience also includes consideration of liquidity adequacy, funding risk and the strength of liquidity management. This is a particularly important consideration for deposit-taking institutions.

Operational resilience
Under this category, OSFI considers the ability of the FRFI to respond and adapt to potential disruptions. This category includes an assessment of technology, cyber, and operational risks. Operational risks include business continuity, third-party and data management.

Risk governance
OSFI defines effective risk governance as the ability to identify, assess and manage risks appropriately. When assessing effectiveness, OSFI considers culture, accountability structures and the extent to which oversight functions provide independent and objective challenges. OSFI's assessment of risk governance includes the frameworks used to identify, assess and manage risks.

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Climate risk considerations

In addition to the four risk categories above, OSFI also identifies climate change as an example of a new risk type that is rapidly evolving and has the potential to significantly affect the safety of individual FRFIs and the system more broadly. Accordingly, climate risk considerations are relevant to all rating categories.

OSFI considers an FRFI's level of financial and operational resilience to climate change (including physical and transition risks) and the impact on business strategy, as well as the effectiveness of governance and risk management. The ORR, discussed above, can be driven by climate risks when these risks are significant in OSFI's assessment of the FRFI's viability risk.

How OSFI supervises FRFIs: risk rating drivers
There are four main elements to OSFI's supervisory process: the work OSFI does to identify risks at FRFIs, how OSFI assesses risks and assigns ratings, OSFI's response to risks and the monitoring of remediation activity, and how OSFI reports the results of their supervisory work.

> **Risk identification**
> OSFI factors in size, complexity and potential financial system impact in terms of the supervisory work it carries out. This is reflected in an FRFI's Tier Rating (as discussed above). Risk identification begins with data analytics. OSFI analyzes risk trends in a broader context by scanning the environment for emerging risks and other relevant trends. This work draws on stress testing and advanced analytics. OSFI then leverages the data and analytics to generate insights and timely signals of changes in risk level. Metrics derived from regulatory returns and other sources provide a consistent starting point for supervisory judgment. OSFI expects advanced data analytics will continue to lead to new supervisory capabilities.
>
> **Risk assessment**
> The ORR reflects the level of risk to the viability of an FRFI with the 1-to-8 scale described above.
>
> **Risk response and remediation**
> OSFI is "outcomes-focused". When OSFI has supervisory concerns, it will highlight these to FRFIs and explain the outcomes it wants to see.
>
> **Supervisory reporting**
> OSFI engages in supervisory reporting by providing FRFIs with written reports, by sharing information with Canadian and foreign regulators in certain situations, and by working with their partners in Canada's federal regulatory system.

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OBSI Experiences Highest Ever Levels Of Consumer Demand In 2023

By Ombudsman for Banking Services and Investments, February 16, 2024

Consumer complaint inquiries reached over 17,000 in 2023 – a 63% year-over-year increase from 10,650 in 2022, while opened cases more than doubled from 1,146 in 2022 to 3,056 in 2023.

Read the full report here (subscription not required): *OBSI experiences highest ever levels of consumer demand in 2023*

Q4 Consumer Complaint Inquiries And Cases Remain At Historically High Levels

By Ombudsman for Banking Services and Investments, February 16, 2024

Fourth quarter consumer inquiries and case volumes did not reach the all-time high levels seen in Q2 but remained very high. Total cases opened increased 18% quarter over quarter and were up 90% year over year, led by banking cases.

Read the full report here (subscription not required): *Q4 consumer complaint inquiries and cases remain at historically high levels*

OTHER CAFII MEMBER-RELEVANT NEWS

How Much Do Canadians Like Their Insurance Providers?

Ipsos Releases Findings Of Customer Service Index Insurance Tracker

By Terry Gangcuangco, Insurance Business, February 21, 2024

https://www.insurancebusinessmag.com/ca/news/breaking-news/how-much-do-canadians-like-their-insurance-providers-478059.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240221&_hsmi=295044818&_hsenc=p2ANqtz-8Pq6gZ-ysVY0RpDNy7kKQaN_h4jwI8EOUSxdgl2KeCzuCLCFeUag8vOKRHXSr639eExzacAUo7tzpHxG74U3BcCWcOLA&utm_content=&utm_source=

Canadians are "warming up" to their insurers, according to Ipsos, which has released the findings of its latest CSI (Customer Service Index) Insurance tracker.

"Diving into the regional specifics, distinct differences emerge. Customers in Quebec continue to show their satisfaction with their insurance experience, making it the only region with a positive Net Promoter Score (NPS)," Ipsos said in a news release.

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"On the contrary, British Columbia recorded a notably negative NPS, with customers there being least likely to recommend their insurance provider. Meanwhile, Ontario remained stable year over year, maintaining a negative NPS score."

Ipsos reported that the Canadian Automobile Association got the highest NPS in 2023. Other top performers were Sonnet, Co-operators, and Belairdirect.

In the banking insurance space, Desjardins bested RBC. Ipsos cited competitive challenges as both ended the year with negative scores.

"The evolution of policy members' expectations was another key facet of the industry's journey through 2023," Ipsos said.

"The year underscored the growing importance of transparency, expert guidance, and effective communication in reinforcing a sense of value among policyholders.

"Channel satisfaction presented an interesting narrative, with personal interactions with agents and advisors clinching the top spot. However, the digital wave is unmistakable, with a significant majority of clients preferring digital interactions. Co-operators and Belairdirect led this digital charge, setting benchmarks for website and mobile app experiences."

Ipsos added that concerns about claim coverage lingered while a "noticeable" portion of members expressed difficulty in doing business with their providers.

"As we stand at the gateway of 2024, it's clear that to drive positive NPS scores and propel the industry forward, there's a need to enhance customer experience, strengthen digital communication channels, and foster trust more broadly," Ipsos said.

Data And Gen AI Play Large Role In Cybersecurity For Insurance, WTW Expert Says

By Michael Shashoua, Digital Insurance, February 21, 2024

https://www.dig-in.com/list/wtw-cyber-risk-expert-advises-insurers-on-security-methods?utm_source=newsletter&utm_medium=email&utm_campaign=V3_DIG_Daily_Briefing_2023%2B%27-%27%2B02212024&bt_ee=Z77m1ZJQxzRm62ITLtawgPqDpnhhNTMDGJMMnKx8js3Dak%2BmNho4EknBrY3w3yuu&bt_ts=1708524082331

Willis Towers Watson's U.S. headquarters, 800 N. Glebe Road, Arlington, Virginia.Cooper Carry
As cybercriminals capitalize on Gen AI to step up their attacks on insurance companies as a source of valuable customer data, the carriers are learning that they can also use Gen AI to fight back.

Sean Scranton, a consultant on the cyber risk solutions team for financial and executive risk at Willis Towers Watson, responded in written form to questions from Digital Insurance, providing more details on the methods and means insurers need to defend against cyber attacks, including AI-powered ones.

What Practices Are Insurance Companies Implementing To Keep Client/Customer Apps Secure?

Insurance companies should set the standard for safeguarding customer information. Attacks on insurance companies in recent years with attempts to exfiltrate insured's information have put this topic in the forefront for our insurance clients. Data classification, access controls and provisioning, technological protection methods, and data retention procedures help to ensure information is accessible to only those with a need to know and destroyed when no longer needed. Insurance is a relationship and reputational business, and the ability to safeguard this information is critical.

What New Methods Are Insurers Using To Keep Customer/Client Data Secure?

As information continues to move to the cloud, there are quite a few cloud-based "new" technologies, such as the use of Cloud Access Security Brokers to enforce security. On the AI side, user behavioural analytics (UBA) analyzes "normal" user patterns and detects any anomalous behaviour that might indicate an intruder. In a larger sense, and due to the dissolving of physical network perimeter into the cloud, companies are moving towards a zero-trust network architecture, where every access attempt is not implicitly trusted and should be verified.

What Are Customers Seeing As Security Challenges In The New World Of Chatgpt / Gen AI?

Understanding the basic models of AI, from simple data mining to neural networks, to large language models. The best place to start, as with most technologies, is with a comprehensive risk assessment. From there, controls may be developed to mitigate the risks.

Challenging risks outside the technological realm include potential inherent bias in these models, the ethical ramifications of that bias, and the implicit trust people may put into these models.

Looking externally, the attacker's use of AI in developing cyber attack methods is at the forefront for security professionals. The ability to refine fraudulent requests such that these are nearly impossible to discern from a valid request is terrifying. Some clients have already had experience with voice deep fakes in order to execute wire transfer fraud.

What Other Cybersecurity Challenges Are You Seeing For Clients?

Ability to find security talent is paramount, as many estimates show 3.5 million job opportunities. Others include trying to keep pace with changing attack methods (which are mostly people-focused) and changing technologies, while at the same time supporting and securing legacy systems.

How Are Cyber Risks Changing For Companies As They "Digitize" For An Industry That Has Struggled To Catch Up To The Digital Age?

The use of AI shows promise as a new technology – and some will see it as the maturation of data mining. But this evolution further emphasizes the need for data classification; where is your data, who has access to it, how is it used. This is one of the more difficult domains of cybersecurity, and when new digitization projects are started, this must be holistically addressed throughout the project.

Realising The Full Potential Of Women In Insurance

FMG Head Of Claims On Encouraging Confidence And Creating Opportunities To Help Women Thrive

By Bennett Richardson, Insurance Business, February 20, 2024

https://www.insurancebusinessmag.com/nz/news/breaking-news/realising-the-full-potential-of-women-in-insurance-477775.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240220&_hsmi=294903272&_hsenc=p2ANqtz-93dbSrrQr9OEnLAzX8rU3804kxsz7j_JP6CQ7T4iVCb8LAh99gDQYOjG28zPrYqfYTv055wmHQs8NeFcpqr0-_-650Pg&utm_content=&utm_source=

There is sometimes a thinking around workplace personas that women need to act differently in order to get ahead – but this is a false choice, according to FMG head of claims strategic operations Jacqui McIntosh (pictured).

"It's taken me 20+ years of working to realize that everyone is better off if I just am my authentic self and not feel pressured to be who someone else thinks I should be to achieve success," McIntosh told Insurance Business.

Being authentic links strongly to self-confidence, a key ingredient for women to boost their impact within an organization and shape decision-making processes.

"Women need to have confidence in their own skills and capabilities," said McIntosh.

"Being confident doesn't mean being extroverted or the loudest in the room; it means knowing what you bring to the table and being willing to showcase that in a respectful way. Knowing your audience and building strong relationships within your organization before you need them is also great for influencing. And of course, you need to know your stuff."

McIntosh will be speaking on a panel about influencing decision-makers at the upcoming Women in Insurance Summit 2024 in Auckland on February 27, thanks to event sponsor Deloitte, gold sponsor Delta, and silver sponsor NIB. Book your tickets today

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A Positive Feedback Loop To Lift More Women's Careers

Of course, building career confidence can take time when there are limited opportunities or subtle structural impediments to advancement.

"We need to create opportunities where women have the chance to gain the crucial experiences needed to take that next career step. That doesn't mean a leadership course, it means practical, in the workplace opportunities to show the organisation their talents," said McIntosh.

While things are not as difficult for women as when McIntosh first entered the workforce, the insurance sector is widely seen as a laggard when it comes to matters such as pay gaps or corporate culture in some cases.

"Gender bias is still very real – we need to actively work to remove gender bias. In most workplaces now it is not overt, but it is still there - for example, a woman might be encouraged to move from a leadership role after returning from maternity leave as it will be easier for her work/life balance," said McIntosh.

"While this may be considered being helpful or thoughtful, approaches like this prevent women from thriving or reaching their full potential as they feel less connected and valued."

It also creates an active barrier to women entering top leadership roles, which has a knock-on effect in terms of reducing the number of role models for younger women to draw inspiration from.

"If women can't see other women flourishing in their careers, some struggle to believe that they can reach the [upper] level," said McIntosh.

Conversely, having more female role models in leadership positions creates a positive feedback loop and strengthens the pipeline of women moving up the corporate ladder. One example at FMG might be the recent appointment of Sarah von Dadelszen as board chair.

"Women… need people within their own organisations who they can look up to and strive to be like and then they need to be supported by those people to be successful," McIntosh said.

This allows women to know that they have the support of their peers, and that they are part of a trusting and respectful environment where having different ideas is celebrated – in short, it reinforces confidence.

More Women In Leadership Improves Business Results

There is no doubt that women have every reason to be confident in terms of contribution to the bottom line.

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The body of academic literature illustrating superior business performance at firms with higher female board representation now spans several decades – the general premise really isn't contentious anymore.

Drilling down into different industries and business conditions over that period suggests that female leadership can bring even more benefit to industries with a higher sensitivity to risk, such as insurance.

Some of the better-known surveys about the corporate benefits of gender diversity on the board have suggested as much in terms of performance amid a tough economy. The long-running Credit Suisse Gender 3000 report, for example, found as far back as 2012 that stronger share price performance of companies with more women on the board was particularly obvious during the GFC as the macro environment deteriorated and risk volatility increased.

More recent studies show that in environments where corporate governance is weaker, insurance firms with higher proportions of women on boards have a lower propensity for risk-taking, leading to better shareholder outcomes. Another recent finding is that the higher the proportion of female directors on the board, the higher the corporate environmental, social, and governance (ESG) practice score.

As emerging risks multiply amid a shaky economy and global supply chain woes, and a climate crisis pushes ESG initiatives to the top of more corporate agendas, perhaps the conditions for women to make an outsize impact on the insurance world are firmly in place in the post-pandemic world.

Another well-known report by McKinsey has been following the relative performance of thousands of firms, including some in New Zealand, since 2014 to measure the relationship between diversity and performance. Its fourth Diversity Matters report, released in December and the first since COVID hit, presents the strongest evidence yet for better business performance at firms with a greater representation of women on executive teams.

It shows that as more women have been appointed to boards over the years, and as the world has lurched from one crisis to another, the likelihood of financial outperformance at top-quartile companies has grown to a whopping 39% versus their bottom-quartile peers with fewer women on the board. Put simply, firms with lower diversity on their boards are relatively poor financial performers – and old-school thinking during a crisis is often detrimental.

For McIntosh, protecting the aspirations of younger women in insurance is a key motivator in the current environment.

"[I am] passionate about both supporting women to be successful in their careers and also ensuring the next generation of females don't have some of the negative experiences I have had. My main focus at the moment is supporting women to have confidence in themselves and their abilities at work," she said.

While she is against artificially inflating female representation, a more proactive approach to recruitment is needed.

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"I have never been an advocate for gender quota – I believe it should always be the best person for the job. But I will say that sometimes we have to go and look for women to make sure we have the best candidates on the table," she said.

It is all about making it easier for more people to succeed and aim for ever higher goals.

"Mentoring and coaching women is important to me, as is seeing strong females recognised for the skills, experience and passion they bring to the workplace," she said. "Personally, what I find the most rewarding is then seeing people go on to achieve the career success they have been striving for, including roles that are more senior than my own."

Global Lead On Why He Thinks "The Insurance Industry Is Approaching AI With The Wrong Mindset"

There Is A Great Collision Happening – Where Are We Going Wrong?

By Mia Wallace, Insurance Business, February 15, 2024

https://www.insurancebusinessmag.com/ca/news/technology/global-lead-on-why-he-thinks-the-insurance-industry-is-approaching-ai-with-the-wrong-mindset-477373.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240216&_hsmi=294463695&_hsenc=p2ANqtz-9d1XfbqVnGYEjAVStfFBXCk1s2H-L4uPXwMTLcvzwJ-TgUeYxL5lwz07PYzEmrMwWdLt_ce_3LJqNThsCmIlwE7NwS3A&utm_content=&utm_source=

"We've got to stop convincing ourselves that the first to use technologies is going to be the most successful when, in fact, it's the organization that uses it the right way that will ultimately be the winner."

'The great collision' represented by AI is already underway, according to Rory Yates, global strategic lead at EIS, and he's got some stark warnings for the insurance industry and how it's currently utilizing AI tools.

Championing A Positive Business Case For AI

"I've always taken the view that when I'm leading transformation projects, we're freeing up human capital to be deployed where it's really needed," Yates said. "I think the insurance industry is approaching AI with the wrong mindset because it's adopting from the position of a negative business case where you replace people in the name of efficiency. That's based on a displacement theory, where people just bear the brunt and it won't produce a better result for the end customers or humanity."

Yates noted that the Industrial Revolution is a pertinent example because what's happening today is itself a protracted revolution. The Industrial Revolution resulted in the deaths of many people and the decimation of many communities. It's something we don't want repeated. We're supposed to be living in an "era of intelligence", he said, so it's to be hoped that society is now better equipped from a technological and a moral standpoint to utilize machine intelligence without sacrificing people.

This will involve re-training to redirect people to where they can add significant value. In many cases this will be the customer experience, presenting the opportunity for a net positive for employees and customers alike. But if you make the business case negative, he said, all you do is shed that human asset.

The regulatory implications of AI

An area of significant concern is just how little people understand about AI. Machine learning is already well established, and although, superficially they know how to use Generative AI, they don't know what it is, where it comes from, how it's funded or what implications it has for their data.

"Companies are investing in massive multi-million dollar projects which is especially absurd when you realize these are the same insurers that won't utilize a public cloud because they're wary of putting their data out there," he said. "These businesses go through so much regulation around their customer data but when it comes to AI, they're throwing it out the door without really knowing where it's going."

Setting the right foundations for a healthy approach to AI

"We're also running the massive risk of rolling out genAI on top of a lot of weak data," Yates said. "Insurance has got a lot of data but it's largely unstructured so it's very hard to understand how insurers will make sure it's acting in the best interests of the customers. We're not even very good at that on a policy level and suddenly we think we're going to do it in this open model.

"So, we've got to get the foundations right if we're going to leverage the many possibilities of AI and do that in the constraints of it being provably better for humans. There's always going to be volatility and uncertainty, that's a given, but it comes back to asking the right questions and making sure if you're a CEO or CFO signing off on any projects, that you know what you're signing off on."

Yates believes that 2024 will be a tipping point for AI, and he noted that, of any industry, insurance likely has the most to gain from getting the foundations right. GenAI can bring simplicity to tasks where a high degree of accuracy is required, particularly around making policy information more accessible, more quickly. Keeping a human in the loop will be critical for data validation purposes, which highlights how this tool can be utilized to complement and enhance the working lives of people.

"There's a lot of really powerful use cases and I have no intention of standing in the way of them," he said. "But to get to these, there's an awful lot of responsibility we need to bake into our decision-making first to get this done right. We've got to invest in the fundamentals before we build. Because there's no point in knocking down the bungalow to build a skyrise AI only to later find we've not built it on strong foundations."

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Organizational Health Is (Still) The Key To Long-Term Performance

By Alex Camp, Arne Gast, Drew Goldstein, and Brooke Weddle, McKinsey & Company, February 12, 2024

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McKinsey's latest findings on organizational health demonstrate that it remains the best predictor of value creation and a sustainable source of competitive advantage in today's global marketplace.

For decades we've seen companies' fortunes rise and fall based on their ability to react to, and recover quickly from, geopolitical shocks, technological advances, economic uncertainty, competitors' bold moves, and other disruptions. Amid this volatility, which these days is accelerating rather than abating, many have a hard time staying the course. But some continue to survive and thrive despite the challenges. Why do these companies manage to succeed, year after year—operationally, financially, and otherwise—while others don't?

Twenty-plus years of proprietary McKinsey research tells us that one of the main reasons is organizational health.

Organizational health refers to how effectively leaders "run the place"—that is, how they make decisions, allocate resources, operate day to day, and lead their teams with the goal of delivering high performance, both near term and over time. Organizational health comprises three elements: how well the entire organization rallies around a common vision and strategy, how well the organization executes its strategy, and how well the organization innovates and renews itself over time.

Our latest research on the topic reiterates the degree to which organizational health is not just nice to have; it's required for sustained performance and organizational success. McKinsey's Organizational Health Index (OHI) continues to show, for instance, that, over the long term, healthy organizations deliver three times the total shareholder returns (TSR) of unhealthy organizations, regardless of industry. Other findings point to greater resilience and higher financial performance in healthy organizations, even as the world around them has become that much more complicated (see sidebar, "What is the Organizational Health Index?").

In this article, we look at the latest OHI results and highlight a few of the more compelling insights that the index reveals about leadership, data and technology, and talent management. We also identify several principles for building or maintaining organizational health over time—something that leaders often tell us they have limited time and resources to do.

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It's important to make the time, however—not just to spin up new activities but rather to think about how to run the business differently and factor both health and performance into daily actions. The causes of, and conditions for, organizational health are always changing. Just as medical associations continually update their recommendations on diet and fitness, so must the business community regularly monitor its practices and performance. The companies that do can differentiate themselves from others in the marketplace. They can more readily identify the kind of talent they need and the specific behaviours it will take to achieve their organizational objectives.

Organizational health can put companies on a fast track to performance—and a commitment to sustained health can keep them there.

The Staying Power Of Organizational Health

There is no one right path to sustained success, but the fact is that healthier organizations do tend to perform better than unhealthy ones, especially in times of uncertainty. And that performance advantage increases over time. According to our research, organizational health is the strongest predictor of value creation and a critical factor in sustained competitive advantage. In one evaluation of 1,500 companies in 100 countries, for instance, we saw that companies that had improved their organizational health realized 18 percent increases in their EBITDA after one year.

Consider the following data points.

Health And M&A. In merger situations, healthy organizations—those that applied various health interventions during the integration phase and emphasized organizational health throughout the integration—gained a 5 percent median change in TSR compared with industry peers after two years. The change for unhealthy companies was –17 percent over the same period.

Health And Transformations. In large transformations, companies that embedded organizational health investments and initiatives in their change programs across an 18-month period saw 35 percent higher TSR than companies that did not invest in health.

Health And Resiliency. Healthy organizations are not just higher performers, they are also more resilient and better able to manage downside risk. For instance, from 2020 to 2021, during the COVID-19 pandemic, healthy organizations were 59 percent less likely than unhealthy organizations to show signs of financial distress.

Health And Safety**.** Companies with superior organizational health are better able than their peers to provide safe work environments, thereby limiting their exposure to financial, operational, and reputational risks. Indeed, companies in the top quartile in organizational health have six times fewer safety incidents than those in the bottom quartile.

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The relationship between health and performance can be quantified in other ways, too, including in the areas of talent and culture. In our experience, employees and leaders in unhealthy cultures often focus on what made them successful in the past rather than on what may be required going forward—and their entrenched behaviors and ways of working can take on a life of their own. Consider the situation at one global company: employees had reported in company satisfaction and pulse surveys that they felt motivated to do their jobs—and yet, the company's performance remained stagnant. The CEO and executive team could not determine how to break through.

An organizational-health diagnostic revealed the problem: misaligned behaviors had dulled the company's performance edge. Employees were producing day to day—but not in the areas that mattered most for meeting the organization's long-term strategic goals. They were engaged but comfortable—"like being in a warm bath." To change the energy, the CEO and executive team embarked on a multiyear transformation in which they reengineered business processes, instituted different working norms for leadership teams, changed their protocols for meetings and communications, activated change agents across the organization, and pushed more decisions down to those on the front lines. Over time, employees' enthusiasm increased, and descriptions of "what it felt like to work there" became livelier and more focused on achieving great things together. Performance was on the upswing.

A Pulse Check: How Should Leaders Think About Organizational Health?

Clearly, organizational health matters as much now as it ever has. The latest OHI results reiterate what we know from McKinsey's 2023 State of Organizations research about how companies are faring in an era of unprecedented change. But in these latest OHI findings, three trends in particular stand out: how leaders are leading; the links between technology, data, and innovation; and the value of talent mobility.

1. Leadership Is Undergoing A Generational Transformation

It's fair to say that few—if any—executives anticipated the deeply disruptive business (and societal) changes that would emerge because of the 2020 global pandemic and the speed at which organizations needed to transform themselves. As they have reckoned with changes in where and how work gets done, leaders are learning that they need to be both decisive and empowering.

To that point, the OHI research indicates that decisive leadership is now one of the best predictors of organizational health. Unlike authoritative leadership, in which leaders use influence and authority to get things done, decisive leadership reflects leaders' quick decisions and their commitment to act on them. During the COVID-19 pandemic, senior leaders at Amazon made quick commitments—within days and weeks, not months—to prioritize essential supplies, protect customers from price gouging, raise the minimum wage for hourly workers, and increase overtime pay. They allowed unlimited paid time off, as well as two weeks of sick pay to those affected by COVID-19. The company also rapidly expanded the capacity in its data center to meet the surge in demand for cloud computing services, which resulted in increased operational efficiency and growth for Amazon Web Services.

Decisive leadership is not just for times of crisis, however; it's a requirement for any business that just wants to keep up. To that end, a number of organizations have taken steps to empower frontline workers. Senior leaders at TJ Maxx, for instance, have empowered more than 1,200 buyers across all stores, each of whom controls millions of dollars, to cut deals on the spot with manufacturers. By committing to a system of delegated decision making, leaders have ensured that items get into stores quicker—within a week, in most cases—than they would have under a more traditional, hierarchical review process. Leaders at Southwest Airlines have made a concerted effort to put critical customer information in frontline employees' hands: "Not only are [employees] able to work more quickly, but they are also providing a more tailored experience to customers," James Ashworth, vice president for customer support and services, told Forbes magazine. The end result has been "a lift in our customer satisfaction scores, as well as a decrease in our call handle times," he says.

According to the OHI research, companies with leaders who take decisive actions—and who commit to those decisions once they are made—are 4.2 times more likely to be healthy, as compared with their peers.

But it's not enough just to be fast with those decisions; our OHI research shows that decisive leaders who empower their employees (giving those closest to the work the autonomy to make their own decisions) are 85 percent more likely to improve the quality of organizational decisions, as compared with their peers. This supports previous McKinsey research pointing to a paradigm shift in leadership and, among other new requirements, the need for executives to shift from being controllers to becoming coaches who engage employees and help foster in them a bold mindset of testing, learning, and fast adaptation.

Bank Mandiri, for instance, is using digital tools to ensure that individuals across all parts of the company have access to data analytics. Previously, information requests and report generation at the bank could take weeks, and critical business information had to be pulled from a tangle of systems. Through a new self-service system, employees can now access the data that are most relevant to them in a timelier manner—in a matter of days rather than weeks—allowing employees to make better, faster decisions.

2. Data Is The Fuel For Everyday Innovation

Leaders have traditionally thought of innovation as a process for bringing "the next big idea" to life. But our latest OHI data reveal that companies are more likely to succeed with innovation initiatives if "big bang ideas" are supported by data-driven insights and supplemented with smaller, more frequent ideas that target improvements in everyday processes or ways of working.

In many organizations, the ideas for "little i" innovation often come from the people closest to customers—frontline employees. And, as it turns out, it pays to listen to them: the OHI data show that organizations that actively listen and act on recommendations from frontline employees are 80 percent more likely than others to consistently implement new and better ways of doing things.

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The research also reiterates that all forms of innovation are more likely to succeed when decisions are grounded in data and facts. According to the research, organizations that emphasize data-driven decision-making are 63 percent more likely than others to adapt to a changing business environment.

One of the best recent examples of data-informed innovation comes from Major League Baseball. The rise of data analytics prompted significant changes in many teams' operations; managers built their rosters and managed their lineups according to batting percentages, probabilities, and other data captured across the league. The downside of that data-driven innovation, however, was longer games (more pitching changes) and a product that was less appealing to younger viewers. Again, the league turned to data—this time conducting surveys, focus groups, and spending time with younger fans—to learn what was important to them. Based on that feedback, the league engaged in some experiments. It implemented rule changes in 2023 (pitch clocks, larger bases, pitching-change limits, and so on) that fundamentally altered the pace and action of the game. The league continues to embrace innovation and technology, not only to improve the game but the overall fan experience.

3. The Dynamic Deployment Of Talent Is Becoming Even More Of A Competitive Advantage

Workforce dynamics have been completely upended over the past few years, which has left organizations with an increasingly difficult HR-related task: ensuring that they have the right talent on board to tackle the highest-value-creating activities and successfully execute on their strategies. Our OHI research shows that the dynamic deployment of talent can be a powerful lever for both employee attraction and retention. It can also help organizations pivot quickly as markets change or new technologies and global trends emerge.

Companies that encourage and even facilitate internal role changes can sharpen employees' skills, maximize their versatility, and provide avenues for growth. According to our OHI findings, employees that experience more mobility at work are 27 percent less likely to report feeling burned out, 47 percent less likely to report intentions to leave their organization, and 2.3 times more likely to recommend their companies to others.

Employee rotations and upskilling became core components of one Latin American bank's digital transformation. When HR leaders realized that 62 percent of the company's technology workforce needed to be upskilled to meet the bank's transformation goals, they launched a large training initiative, which involved more than 1,500 courses focused on about 820 technology skills, 60 boot camps, and countless individual, on-the-job coaching sessions. The HR organization embedded this focus on technology coaching and capability building into all performance management discussions.

As a result of this effort, about 60 percent of the total technology workforce is engaged in upskilling, attrition is low, and what started as a "special transformation program" is now considered business as usual and a cornerstone of the bank's learning and development efforts

It's worth noting that more and more organizations are following the bank's lead and exploring the move to skills-based hiring—in part to address shortages in certain skill areas like technology but also to create pathways for "nontraditional" job candidates, or those who might not have a college degree or a formal certificate of expertise

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Getting And Staying Healthy

Sustained organizational success really comes down to leaders gathering the data that will help them understand which behaviors can help them to meet their performance goals as well as the type and scale of health improvements their organization should target.

It's critical for leaders to establish a baseline of the organization's current strengths as well as the strengths it is targeting. With that baseline in mind, leaders can set clear behavioral priorities and begin to act—but it's also critical to remember that context matters. Organizations will need to launch health interventions that are specific to the business, their performance goals, and their customer value proposition. Two hotel chains—one luxury, one economy—may offer similar services in the market, but each requires different kinds of behaviors to deliver on their value propositions and meet their performance targets. Regardless of their starting points, each will need to track progress against goals and adapt as needed along the way.

McKinsey research points to four foundational behaviors, what we call power practices, that can have disproportionate effects on organizational performance—and whose absence can create a significant drag on organizations: strategic clarity, role clarity, personal ownership, and competitive insigh.

- Strategic clarity. Healthy organizations effectively translate vision and strategy into actionable and measurable objectives that are clearly articulated and shared with employees at all levels.
- Role clarity. Healthy organizations tend to have structures, processes, and working norms that speed up decision making, remove layers of bureaucracy, and make it easy for employees to get things done—even when situations are new or ambiguous.
- Personal ownership. Healthy organizations hire and develop managers who have a deep sense of personal ownership for their work and who foster that same sense of ownership in their teams and employees.
- Competitive insights. Healthy organizations tend to have a clear view of where and how they fit in the competitive landscape and of their value propositions; they use these insights to set strategic priorities, make decisions, and allocate resources.

If any of these power practices are missing or at risk, organizations should take steps to address them; it's a no-regrets move for achieving good organizational health.

In addition to this list, companies also need to identify which kinds of talent and behaviors are required for them to truly differentiate themselves from competitors—the organizations' so-called "secret sauce." Industry insights and benchmarks can provide some direction, but the final list of behaviors that convey competitive advantage to one company and not others can only be identified by an organization's senior leaders.

The "born remote" technology company GitLab provides a good example. Long before these days of remote and hybrid workplaces, the company established foundational norms to get the most out of its distributed workforce. Ways of working were designed to be independent of time and place. Employees are encouraged to "write things down," for instance, and playbooks are readily available online. GitLab's operating model emphasizes a shared reality, equal contributions, decision velocity, and measurement

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clarity. The central behaviors at the company's core have given it an advantage as other companies continue to try to define remote and hybrid working models. And GitLab has demonstrated top-decile performance against OHI benchmarks.

As this and many other examples show, leaders in outperforming companies always have a plan to be "good enough" at everything and "truly excellent" at the handful of things that matter for them and the organization. And when it comes to how they run the place, they emphasize cultural consistency across the organization.14

The Leadership Imperative

Our research makes a clear and compelling case that organizational health is the foundation for companies' ability to successfully create value, attain profitability, build resilience, and thrive in so many other areas.

So why don't more senior executives make it a priority?

In our experience, there are several common obstacles. The first is inconsistency in how leaders think and talk about organizational health: conversations about organizational health often anchor on employee engagement as the default, and executives often consider organizational health as being separate from performance. In fact, they are actually one and the same. Leaders should be asking themselves, "How do I run the place each and every day—in each and every meeting—in ways that are both healthy and conducive to creating high performance?"

Related, senior leaders may not see the trees for the forest; many will discuss organizational health as a top-level theme but are much less often involved in the interventions and implementation required to achieve and sustain organizational health. Third, realizing improvements in organizational health takes time—and executives often need to move fast. The default here is to focus on putting out fires rather than fixing the system.

And finally, there's a sense that bad health implies bad leadership. C-suite leaders must make organizational health a central component of their leadership styles and manage it as rigorously as they do their P&L. Otherwise, they may not actually recognize unhealthy actions when they see them. For this reason, leaders may need to spend extra time, attention, and resources on health interventions. They may need to reframe quarterly discussions and incentives and other elements of performance management around the idea of maintaining organizational health.

Even for those companies that are seemingly in great shape, it's important to continue to monitor the organization for symptoms of upset or disruption. Just as top athletes can lose time or distance or skill if they skip workouts for an extended period, so can companies fall behind competitors if they take a break and rest on their laurels. Commitment is crucial.

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

KPMG Webinar: From Start To Scale: Unlocking Generative AI's Potential

Date: February 27, 2024
Time: 11:00 am – 12:00 pm (ET)

From Start to Scale: Unlocking Generative AI's Potential
A DX Coffee Chat with Nantes Kirsten from Bell

The countdown is on! With just one week remaining until our DX Coffee Chat, make sure you secure your spot ahead of time. You don't want to miss out on a conversation with Bell as we discuss how business leaders can stay ahead in the rapidly-evolving AI landscape. Get ready for practical insights that will help prepare you to lead and contribute to AI-driven success at your organization.

Better understand generative AI adoption in Canadian workplaces and the impact on business dynamics, with highlights from KPMG's Generative AI Adoption Index research.

Empower your organization with change management strategies that can enable your team to thrive in an AI-powered work environment.

Discover how to identify, evaluate, and scale use cases that achieve your company's objectives.
Learn about proactively mitigating AI risk with frameworks and tools.

Accelerate your journey from generative AI proof of concept to full-scale implementation, equipped with leading practices and success stories.

Register here

Webinar and In-person Event by FSRA: (FSRA All-Day Event) 2024 FSRA Exchange - Regulating In A Rapidly Changing Environment

Date: Monday, March 4, 2024
Time: 8:00 am – 3:30 pm EST
Location: Sheraton Center Toronto Hotel. If you register to attend virtually, link will be sent close to the date.

Join us for the third annual FSRA Exchange event as our lineup of top industry and regulatory leaders discuss current issues and innovations. It's also a great opportunity to network with your peers and the FSRA team.

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We are honoured to have some special speakers for this event, such as: The Honourable Peter Bethlenfalvy, Minister of Finance; Joanne De Laurentiis, FSRA's Board Chair; and Mark White, FSRA's CEO.

Register Here ***- Registration deadline: February 19, 2024***

THIA BC Industry Reception

Date: Thursday, March 7, 2024
Time: 7:00 – 10:00 pm EST
Location: TuGo Head Office

We are delighted to invite members of the travel health insurance industry and affiliated organizations and associations in Western Canada to attend our first industry reception in British Columbia. At this social and education event, meet your industry colleagues, enjoy a special guest presentation and learn about THIA and our TRIP course

Register Here
Fee: *This event is free to all industry members, however registration is required.*

LIMRA and LOMA Canada Annual Conference

Time: Wednesday, May 1, 2024
Location: Manulife, Toronto, ON

The world is moving fast. Each industry is very different today than it was 10 years ago. The change 10 years from now will be even greater. Where will these changes take place in the life insurance industry and what are the critical success factors for winning companies? David Levenson, CEO and President, LIMRA and LOMA, will share our organization's research and best thinking to guide companies on how to expertly navigate what's ahead.

Register Here
Early bird rate (by April 1, 2024)
LIMRA/LOMA member: CD$725 + HST
Non-member: CD$950 + HST

Regular rate (after April 1, 2024)
LIMRA/LOMA member: CD$950 + HST
Non-member: CD$1,175 + HST

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THIA's 2024 Annual Conference

Date: May 22-24, 2024
Location: Quebec City, Canada

THIA's conference is the highlight of the Canadian travel insurance year and for the first time we are hosting this special event on Canadian soil. We expect to welcome many returning attendees and, by holding our premier event in beautiful Quebec City, we hope to meet many first-time attendees as well.

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- Engaging insights from industry experts
- Networking opportunities with peers and prospects from across the globe

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Register Here **-** *'Early Bird' registration for THIA and UStiA members is $1,025 CAD until March 31, 2024.*