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CAFII ALERTS WEEKLY DIGEST: July 29 – August 9, 2024

August 9, 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 begin its summer hiatus, during which it will be produced every two weeks. This hiatus will begin July 1 and continue until August 30, 2024. The Weekly Digest will resume regular production as of September 2, 2024.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

Five Takeaways For Health And Social Service Providers Operating in Québec: The Act Respecting Health And Social Services Information Now In Force

By Danielle Miller Olofsson, Stikeman Elliott, August 1, 2024

https://www.stikeman.com/en-ca/kh/privacy-and-cybersecurity-law/five-takeaways-for-health-and-social-service-providers-operating-in-quebec

On July 1, 2024, most of the provisions of Québec's Bill 3, An Act respecting health and social services and amending various legislative provisions took effect. Now known as the Act respecting health and social services information, CQLR c R-22.1 (the "Act"), the Act's four objectives are (i) to protect health and social services information ("HSSI"); (ii) to allow legitimate access to HSSI; (iii) to improve the quality of services offered to Québecers; and (iv) to enable a needs-based management of health and social services.

The Act, originally passed on April 4, 2023, brings much-needed clarity to Québec's health information protection regime. It also provides a degree of harmony between Québec and other Canadian provinces with respect to the processing of HSSI. The Act, however, places substantial compliance requirements on health and social service bodies ("HSSB") operating in Québec and, by extension, on any service providers an HSSB intends to engage.

This post considers 5 of the most salient features of the Act.

1. A Broad Definition of HSSI

The Act defines HSSI as "any information that allows a person to be identified, even indirectly, and that has any of the following characteristics:

- it concerns the person's state of physical or mental health and his or her health determinants, including the person's medical or family history;
- it concerns any material taken from the person, including biological material, collected in the context of an assessment or treatment, or any implants, ortheses, prostheses or other aids that compensate for the person's disability;
- it concerns the health services or social services provided to the person, including the nature of those services, their results, the location where they were provided and the identity of the persons or groups that provided them;
- it was obtained in the exercise of a function under the Public Health Act;
- or any other characteristic determined by government regulation."

The definition also includes any identifying information such as a person's name, date of birth, contact information, or health insurance number when it appears next to the information listed above or when it is provided to register such a person is an institution or program.

2. An Inclusive Definition of HSSB

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In addition to the Ministère de la Santé et des Services Sociaux (Ministry of Health and Social Services; the "Ministry") the Act includes in its list of HSSBs, or entities subject to the Act, the following organizations or entities:

- The Health and Welfare Commissioner;
- Commission sur les soins de fin de vie (Commission on End of Life Care);
- Corporation d'urgences-santé (Health Emergency Corporation);
- Héma-Québec;
- Institut national d'excellence en santé et en services sociaux (National Institute for Excellence in Health and Social Services);
- Institut national de santé publique du Québec (National Institute for Public Health);
- Régie de l'assurance maladie du Québec (Health Insurance Board);
- an organization that coordinates organ or tissue donations, designated by the Ministry.
- a person or a group operating a private health facility within the meaning of the Act respecting health services and social services;
- a person or a group operating a specialized medical centre within the meaning of the Act respecting health services and social services;
- a health communication centre governed by the Act respecting pre-hospital emergency services;
- a person or a group operating a centre for assisted procreation within the meaning of the Act respecting clinical and research activities relating to assisted procreation;
- a person or a group operating a laboratory within the meaning of the Act respecting medical laboratories and organ and tissue conservation;
- a person or a group operating a private seniors' residence referred to in section 346.0.1 of the Act respecting health services and social services;
- an intermediate or family-type resource within the meaning of the Act respecting health services and social services;
- a resource offering lodging referred to in section 346.0.21 of the Act respecting health services and social services;
- a holder of a funeral services business license issued in accordance with the Funeral Operations Act;
- a holder of an ambulance service permit issued in accordance with the Act respecting pre-hospital emergency services;
- a palliative care hospice within the meaning of the Act respecting end-of-life care.

3. Governance Requirements
If an entity qualifies as a HSSB, the Act requires that it adhere to the following governance requirements when processing HSSI:

Security safeguards
HSSBs must protect HSSI with measures that are reasonable given the sensitivity and the purposes to which the HSSI will be used, the quantity and distribution of the information, the medium on which it is stored and its format.

Accuracy
HSSBs must ensure that HSSI is up to date, accurate and complete to serve the purposes for which it was collected or used. For example, health information used in an ongoing treatment of a patient will require a higher level of accuracy than contact details used for fundraising purposes.

Accountability
The person with the highest authority in the HSSB is responsible for ensuring compliance with the Act. This responsibility may be delegated in writing to a member of the body's board of directors, to a senior officer or to another person identified in the Act. The title of the person responsible for an HSSB's compliance must be published on the web site or made available to the public.

Access Restrictions
HSSBs must log all accesses they grant personnel and professionals practicing on their premises to the HSSI they hold as well as all uses made of the information. An annual report of these uses and accesses must be sent to the Ministry of Health and Social Services.

Openness
HSSBs must adopt a governance policy the exact contents of which will be defined by the Minister but describing, among other things:

- the roles and responsibilities of the personnel and professionals including students and trainees, practicing their profession within HSSB as they concern the HSSI's life cycle;
- the categories of people who, in the exercise of their function, may have access to HSSI;
- the logging mechanisms and security measures for ensuring protection of the HSSI;
- an update schedule of the technological products or services an HSSB uses;
- the terms and conditions according to which HSSI may be communicated;
- the procedure for managing data incidents; the complaints handling procedure; and
- a description of personnel training and awareness activities concerning the protection of HSSI.

HSSBs are required to keep a register of the technological products or services they use and make this available to the public on their websites or by another appropriate means.

HSSBs are also required to provide and train their employees, including students and trainees, and professional on their governance policy.

Privacy Impact Analysis ("PIA")
A HSSB must conduct a PIA every time it considers acquiring, developing, or overhauling a technological product or service or any electronic service delivery project where the project involves the collection use, storage, communication or destruction of HSSI. The PIA must be proportionate to the sensitivity of the information, the purpose for which it is used, the quantity distributed, and the medium on which it is stored and its format. It must also ensure that HSSI collected from an individual in a digital format be made accessible to that person in a structured, commonly used technological format.

As with Québec's private sector personal information protection legislation, a PIA must also be conducted prior to communicating HSSI outside of the province of Québec.

Purpose limitation
Finally, HSSBs must dispose of or anonymize HSSI once the purpose for which it was collected has been met.

4. Incidents

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A particular requirement the Act imposes on HSSBs and that will surely require further guidelines is the duty to report to the Commission d'accès à l'information ("CAI") (the Information and Privacy Commissioner) as well as to the individuals whose information is involved, not only a confidentiality incident that has occurred but one that the HSSB has reason to believe will occur if such an incident presents a risk of serious injury. The factors to consider in determining whether there is a risk of serious injury are the sensitivity of the information, the anticipated consequences of its use and the likelihood that it will be misused. The HSSBs must also keep an incident register, the contents of which are to be determined by government regulation.

5. Penalties

The Act provides for the following potential administrative monetary penalties:

Fines range between $1,000 and $10,000 for a natural person or $3,000 and $30,000 in all other cases for anyone who:

- keeps or destroys information in contravention of the Act;
- refuses to communicate information that they must communicate under the Act or impedes such communication, in particular by destroying, modifying or concealing the information or by unduly delaying its communication,
- hinders the delegated manager of government digital data or a person in charge of the protection of information in the performance of their functions,
- fails to report, where required to do so, a confidentiality incident to the Minister or to the Commission d'accès à l'information or
- fails to comply with a condition, other than a condition relating to the use of information, set out in an authorization issued to transfer personal information outside of Québec or provided for by an agreement entered into for research purposes, for data processing by a third party or for an intra group transfer;

Fines ranging between $5,000 and $100,000 for a natural person and $15,000 and $150,000 in all other cases for anyone who:

- communicates information that cannot be communicated under the Act,
- collects, accesses or otherwise uses information in contravention of the Act or a regulation made under the Act,
- sells or otherwise alienates information held by a body or information communicated to them by a body, unless, in the latter case, the information concerns them,
- identifies or attempts to identify a natural person using de-identified information without the authorization of the body that holds it or using anonymized information,
- fails to comply with a condition relating to the use of information set out in an authorization issued to transfer personal information outside of Québec or provided for by an agreement entered into for research purposes, for data processing by a third party or for an intra group transferor,
- contravenes requirements relating to the use of certified service providers,
- holds information without complying with prescribed security measures to protect this information,
- impedes the progress of an investigation or inspection of the CAI or the hearing of an application by the CAI by providing it with false or inaccurate information, by omitting to provide information it requires or otherwise,
- fails to comply, within the specified time, with a demand made to service providers regarding certification or otherwise to another entity regarding compliance with the Act, or
- fails to comply with an order of the CAI allows access to information to which access should be forbidden under the proposed law.

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It should be noted that the CAI may also instigate penal proceedings for a breach of the Act. The statute of limitation for such an action is 5 years from the time the offence was committed.

Conclusion
Although certain provisions of the Act have yet to be implemented, the law will hold HSSIs to severe governance standards – standards that already exist in other Canadian provinces. Any service provider to a Québec HSSB should, therefore, expect to have comparable governance requirements imposed on them as the Act begins to take effect.

Ontario Ministry Proposes Managing General Agency Licensing Regime

By Kate McCaffery, Insurance Portal, July 30, 2024

https://insurance-portal.ca/life/ontario-ministry-proposes-managing-general-agency-licensing-regime/?utm_source=sendinblue&utm_campaign=daily_complete_202407-31&utm_medium=email

The Ontario Ministry of Finance is proposing Insurance Act amendments that create licensing requirements for managing general agencies (MGAs).

This move follows reviews by the Financial Services Regulatory Authority of Ontario (FSRA) and by the Canadian Council of Insurance Regulators (CCIR) that identified compliance issues in the life and health insurance MGA sector, including that certain MGAs used tiered-recruitment business models which caused significant issues related to how products in Ontario are distributed in some cases.

Minimum standards
The changes to the regulatory framework include creating minimum standards through a dedicated licensing class for life and health MGAs and entities that perform insurer-delegated activities. They also give FSRA new rule-making authority needed to license and supervise MGAs. The proposed changes also clarify the duties of insurers, MGAs and agents.

"Reviews undertaken by FSRA and regulatory partners found evidence of unfair consumer treatment resulting from poor conduct of some life and health MGAs and their agents and some deficiencies in insurers' oversight," the consultation documents state. "Consequently, the Ministry of Finance is proposing to introduce a life and health MGA licensing regime to create minimum professional standards, provide more regulatory certainty and enhance consumer confidence. We invite interested businesses and individuals to share their feedback."

Consultation on the proposed changes closes on September 9.

OTHER CAFII MEMBER-RELEVANT NEWS

Term Life Insurance Policies See The Highest Increase In 2023

By Alain Thériault, Insurance Portal, July 31, 2024

https://insurance-portal.ca/life/term-life-insurance-policies-see-the-highest-increase-in-2023/?utm_source=sendinblue&utm_campaign=daily_complete_202407-31&utm_medium=email

According to LIMRA's estimates on individual life insurance sales, the number of term life insurance policies sold in 2023 grew by 11.8 percent compared to 2022. In contrast, the number of whole life insurance policies sold increased by 3.6 percent in 2023 compared to the previous year. During this same period, the number of universal life insurance policies sold decreased by 8.2 percent.

The data used in the following charts were prepared exclusively for the Insurance Journal by LIMRA, as part of the term life insurance feature in the July 2024 edition.

A persistent decline
Despite a surge in term and whole life insurance sales in 2023, the number of policies sold in Canada has been steadily declining since 2010. A recent article published by Insurance Portal highlighted the growing gap between the number of Canadians covered by individual life insurance and the overall population.

Insurance Portal quantified this gap by cross-referencing LIMRA data with Statistics Canada figures. From 2010 to 2023, the annual number of policies sold dropped from 733,941 to 667,752. During the same period, the Canadian population grew from 33.8 million to 39.5 million. There were 21.7 policies sold per 1,000 people in 2010, compared to only 16.9 in 2023. If the per capita penetration rate had remained constant since 2010, the industry would have sold 857,440 policies in 2023 instead of 667,752.

Rising premiums
Conversely, individual life insurance premiums have consistently increased over the past 13 years, with few exceptions. From $1.040 billion in 2010, individual life insurance sales in terms of premiums rose to $1.895 billion in 2023.

Whole life insurance drove this increase, generating $1.271 billion in 2023, up 10.2 per cent from $1.153 billion in 2022. Much more modestly, term life insurance premiums grew from $357.0 million to $375.5 million between 2022 and 2023, a 5.2 per cent increase.

In terms of premiums, universal life insurance sales declined by 14.2 per cent during this period, falling from $289.3 million in 2022 to $248.3 million in 2023.

Whole life insurance costlier
The average annual premium paid by individual life insurance policyholders has also increased. From $1,417 in 2010, the average premium per individual life insurance policy rose to $2,838 in 2023.

At $6,966 in 2023, the average annual whole life insurance premium surpasses the overall average annual premium. The average whole life insurance premium increased by 6.3 percent compared to $6,544 in 2022.

The average annual universal life insurance premium ranks second at $2,295 in 2023, a decline of 6.5 percent from $2,455 in 2022. The average annual term life insurance premium fell by 5.9 percent, dropping from $1,058 in 2022 to $996 in 2023.

Competing needs
"The average premium per policy has increased by about 22 percent since 2013" – Matthew Rubino

Matthew Rubino, head of LIMRA's life insurance sales reports and the data set prepared for the Insurance Journal, explains that over the past decade, "the average premium per policy has increased by about 22 percent since 2013 when adjusted for inflation. A lot of this has likely come from a greater focus on whole life sales during this period." Rubino adds that in 2013, about 47 percent of premiums came from whole life insurance policies, while by the end of 2023, this share had risen to 68 percent.

Regarding the decline in the number of policies, Rubino also observes this trend in the United States. He attributes it to several factors. "Consumers have competing financial priorities. Our data suggest they are more worried about saving for retirement, covering basic living expenses, long-term care services and financial emergencies, which deter them from buying coverage," explains Rubino.

Discouraged from buying insurance
Rubino notes that young adults are delaying life events such as marriage, adopting or having children, and purchasing homes. "They are more likely to have student loans, face high mortgage rates, and struggle with inflation, which is cutting into their disposable income. This likely deters them from buying life insurance," he believes.

According to Rubino, lack of knowledge also plays a role. His analysis suggests that people overestimate the cost of life insurance.

He observes that Canadians are not confident in what or how much coverage they need and don't know where to turn to get credible information. "Just 4 in 10 Canadians report working with a financial professional. Our research suggests that people who say they need coverage and work with an advisor are more likely to complete a purchase," concludes Rubino.

EU Banks To Face Regulatory Action ON Climate: DBRS

Regulators Expected To Get Tough On Non-Compliance With Climate-Related Obligations

By James Langton, Investment Executive, July 15, 2024

https://www.investmentexecutive.com/news/research-and-markets/eu-banks-to-face-regulatory-action-on-climate-dbrs/

With banks falling short of expectations to manage and disclose climate risks, European regulators are set to turn up the heat on the banks in the months ahead, suggests Morningstar DBRS.

In a new report, the rating agency said the European Central Bank (ECB) has signalled it intends to start penalizing banks that fail to comply with regulatory requirements involving their climate and environmental risks, such as their emissions reporting obligations.

"We anticipate this might be a turning point for regulators in their mission to make banks more accountable to [climate and environmental] exposures," it said.

The prospect of ramped up enforcement action comes in the wake of various exercises the regulators have carried out — including stress testing, thematic compliance reviews and self-assessment exercises — that have uncovered a lack of action by the banks on their climate-related risks.

"The ECB concluded earlier this year that many banks are still lagging in terms of availability and quality of ESG disclosures," it said. It also noted that a recent review of 95 large European banks found that over 90% of the banks had corporate portfolios (lending and investment banking) that weren't aligned with their climate commitments, and that 70% were exposed to heightened legal risk as a result.

The physical effects of climate change are intensifying too, the report said.

"In Europe, floods, droughts and heatwaves have already started to cause considerable financial damage," it said, noting that, last year floods in Slovenia caused damage equivalent to 16% of its GDP.

Against this backdrop, DBRS said it expects banking regulators to get tougher with banks and their climate-related regulatory obligations.

"In our view, the European regulators' tolerance bandwidth around banks addressing climate-related risks is likely to continue to narrow," it said.

Along with fines, this could also mean raising capital buffers and restricting dividend payouts at banks that aren't meeting their requirements, it noted.

"Though these measures appear unlikely for the time being, we anticipate the ECB's recent signalling that it will escalate penalties on noncompliant banks to mark the beginning of the authorities flexing their regulatory muscles," the report said.

Embedded Finance: How Banks And Customer Platforms Are Converging

By Albion Murati and Oskar Skau, McMillan, McKinsey & Company, July 15, 2024

https://www.mckinsey.com/industries/financial-services/our-insights/embedded-finance-how-banks-and-customer-platforms-are-converging?stcr=EF963C86CDC849108FD06AF0FD49A749&cid=other-eml-alt-mip-mck&hlkid=7bb03581adb8410980eba5a3ff2ba77a&hctky=15382209&hdpid=1d1c812b-d182-4838-839c-79660df86971

Europe's embedded-finance market is growing at double-digit rates. It is becoming increasingly important for banks, merchants, and other customer platforms to participate.

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Revenues from embedded finance (EF)—the delivery of financial products by nonfinancial entities within their broader offerings—could surpass €100 billion in Europe by the end of the decade, according to McKinsey forecasts. The distribution of financial products and services, such as loans and insurance, in third-party channels is gaining importance as technology and data allow for instant and seamless customer journeys, and customers increasingly expect to find financial services when and where they need them, such as during a large purchase.

In many sectors, customers have come to expect merchants and other consumer and small and medium-size enterprise (SME) platforms to provide EF products and services. Meantime, banks are starting to see the importance of EF as a distribution channel. This article describes how the EF industry is developing and how customer platforms can respond to the demand and win market share.

How the EF industry is growing
The EF market generated an estimated €20 billion to €30 billion in Europe in 2023, about 3 percent of total banking revenues.1 Over the last ten years in Europe, embedded-finance volumes grew three times as fast as directly distributed loans. In 2023 and 2024, we interviewed a range of business leaders in the EF value chain. They expect consumer credit volumes to continue migrating toward embedded lending. For SMEs, leaders expect factoring and other straightforward types of financing to become embedded as enterprise resource planning vendors and SME-supplier marketplaces provide them at the point of need.

Combining the addressable-market forecasts with experts' growth predictions allowed us to estimate future EF revenues. EF channels might initiate 20 to 25 percent of retail banking sales to individuals and SMEs and account for 20 to 25 percent of retail and SME lending, up from 5 to 10 percent today (exhibit). By 2030, the EF market could surpass €100 billion and account for 10 to 15 percent of banking revenue pools.

a. **2008**: The internet bank channel was launched by some banks in the 1980s but did not gain traction until the mid-2000s, when internet usage became widespread.1 According to McKinsey anaysis, by 2008, the internet channel penetration was between 30 percent and 40 percent in most EU markets—for instance, 38 percent in Germany and the United Kingdom. The mobile bank channel took off around 2008 with the widespread adoption of smartphones. From 2008 to 2019, cash withdrawals per person in Europe decreased from 27 per year to 24, and the number of branches per capita fell 40 percent.
b. **2019–23:** Between 2019 and 2023, the mobile channel became more dominant, buoyed by pandemic-related physical distancing. Use of all other channels decreased as a share of interactions and in absolute numbers.
c. **2030**: As banks add functionality and remote advisory through the mobile bank between now and 2030, mobile is likely to continue gaining share at the expense of all other bank-captive channels.
d. **2023**: Over a 7-year span, from 2016 to 2023, the "buy now, pay later" (BNPL) share of e-commerce sales in seven European markets surged from 2 to 10 percent. This growth was mirrored by e-commerce's increasing share of retail sales, further solidifying BNPL's rise in the total payments mix for retail sales. In the Nordic countries, loan volumes from point-of-sale financing, including BNPL, grew by 8 to 10 percent per year from 2016 to 2022, while loan volumes for other retail lending products grew at 4 to 5 percent per year. While in Europe, the embedded-finance channel accounted for 5 to 6 percent of lending revenues from retail and small and medium-size enterprises in 2023 and could reach 20 to 25 percent by 2030.

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The Drivers of Growth

On the demand side, customers increasingly expect convenience and seamlessness in their customer journeys. A 2023 McKinsey survey of auto finance found that 40 percent of consumers already prefer online channels for financing a car purchase. They want instant access to affordable financial services such as loans and insurance, when and where needed, with the fewest possible clicks. Further opportunities for finance offerings at the point of sale arise from the consumer trend away from purchasing and toward subscription and leasing models. In an unpublished June 2021 McKinsey survey of six European markets, consumers said they expect to use more integrated financing solutions in most retail categories. SMEs have similar expectations for integrated financing. Proprietary research conducted by McKinsey in 2021 in the B2B point-of-sale market found that buyers would purchase four times as much directly from suppliers' websites if the option were available.

For merchants, embedded finance increases sales through higher conversions, increased basket sizes, and enhanced customer lifetime value. According to an RBC Capital Markets research report, buy now, pay later solutions contribute to a 20 to 30 percent increase in checkout conversion and even greater improvements in basket size.2 One global large-ticket retailer has identified the provision of financial services as a priority in the coming years because doing so is a critical sales enabler and competitive advantage. Customers using this retailer's embedded lending solutions in physical and online channels spend 20 percent more than other customers per visit. However, solutions must be convenient. While this retailer saw just 5 percent cart abandonment for one embedded lending solution, that figure rose to 30 percent for a similar service that was harder to use—worse than not having a lending solution at all.

On the supply side, the cost of offering embedded finance has been significantly reduced in recent years because of technological advances such as in applications programming interfaces, which make it easier for systems to interoperate, and better and more widely adopted electronic identification schemes. Underwriting decisioning for lending can now be automated at nearly zero marginal cost through instant connections to public data sources such as tax records and private sources such as account transactions and balances. Forthcoming regulatory developments, such as the proposed financial data access (FIDA) framework and the third European Payment Services Directive, will further facilitate embedded finance. For example, the FIDA proposal would cover mortgages and loans, pensions, savings and non–life insurance products, and data that could underlie a creditworthiness assessment.

For financial services providers, embedded finance will become an increasingly important means of customer acquisition in some areas. In one major European market, we found that the acquisition cost of a qualified SME lending lead is 15 to 20 times higher than an EF lead.

Bringing customers, customer platforms, and EF providers together can also help solve societal problems. Inbank, an Estonian fintech, has built a partner portal on which hundreds of solar panel installers can offer financing to their customers. Installers can configure the loan using a few customer data points and receive an automatic loan decision. Customers can sign the loan digitally, and the vendor can download the contract as well as payment and sales reports.

Many EF value chains are immature, with imbalances in how the benefits are shared among the participants, and some of their solutions, such as "0 percent interest, pay later," have become unsustainable with increased funding costs. The providers of the financial products and services in the value chain are increasingly focused on solving these tensions.

Two ways embedded finance is delivered to customers

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Companies deliver EF solutions to the market by using one of two archetypes: a partnership that brings together a customer platform with a financial services provider or a system built and owned by a merchant.

Partnership archetype: Customer owner and financial services provider
Customer platforms and merchants that do not want the investment and commitment of building their own EF capability often partner with a provider. These partnerships range from plain-vanilla point-of-sale financing for electronics retailers to more specialized models. Amazon Germany offers preapproved and tailored loans to its SME sellers via a seller portal in partnership with ING. ING gets leads from Amazon through the seamless redirection of sellers and uses Amazon data on seller performance to make credit decisions and provide loans in a few clicks. Another example is eBay, which, in partnership with YouLend, offers sellers flexible funding that can be used for any business purpose and is typically repaid as a percentage of their sales.

There are many specialists and fintechs in the provider space, and incumbent banks are waking up to the challenge. Many financial services providers are investing in embedded finance, for example, by digitizing and automating credit origination and modularizing their ability to integrate with third-party channels so they can do it quickly and inexpensively.

This approach lets the party that owns the customer focus on their core business, retain the flexibility to switch providers, and keep their brand separate from financial services. Common drawbacks are misaligned incentives, inequitable profit distribution, and a lack of harmonized and fully integrated offerings, which can hurt the customer owner's value proposition.

Merchant-alone archetype: Built and owned
If the customer owner is sizable and the EF offering significantly contributes to the core value proposition, the merchant may benefit from building and owning its EF capability. This archetype is common among auto OEMs. Volkswagen, for instance, offers loans though Volkswagen Credit. Since the company deeply understands the residual values of its cars, it can value its trade-ins more accurately than a third party, leading to better customer offers and margins. Customers also get the convenience of a financing offering at their point of need, online or at the dealership. As more customers buy online directly from the dealer, more OEMs may take ownership of financing, including leasing.

Several retail merchants have adopted this archetype. The UK-based online retailer Very evolved from a shopping catalogue business in 2009. It has offered its EF solution, Very Pay, to customers for more than a decade. The Polish online marketplace Allegro, which sells 70 million items a month, launched its fintech, Allegro Pay, in 2020.3

The build approach provides a foundation for shared incentives and strong alignment, including the flexibility to modify offerings in the light of transparent economics. It can also ensure the control and use of data—for example, for personalized campaigning and offerings. However, these advantages should be weighed against the risk of later deciding to switch to a third-party provider, which could require abandoning a significant investment.

We expect that both of these archetypes will endure through the decade. The first, we expect, will remain more prevalent where integration costs are low and the market is more fragmented—in fashion e-commerce, for example. The second will likely persist in some large vendors, at least in their core geographies.

Five practices for delivering lasting, value-positive EF solutions

Leading EF solutions have in common five features that companies can emulate to maximize the value of their EF initiatives for the partners and their customers:

1. Distinctive customer journeys. Several elements of the customer journey, such as instant decisioning and straight-through processing, are standard today. Leading vendors and platforms go beyond those. They use regular customer journey teardowns to understand customer conversion and pain points and constantly improve their solutions. They also measure customer responses to changes—for instance, with AB testing—to develop innovative customer journeys.
2. Joint vision and delivery. EF solutions are best supported by joint teams from the finance provider and the customer owner. Each party can take responsibility for its part of the journey, from pre- to postpurchase, with clear customer engagement rules and mutual ownership of customer satisfaction.
3. Data sharing and collaboration. When the parties share their data, the EF provider can make better decisions, such as when granting a loan, and the customer owner can improve conversion rates and marketing with postpurchase payments data.
4. Win–win partnership economics. An open-book, profit-sharing philosophy enables mutual value creation and leads to solutions that can evolve and endure.
5. Enhanced unit economics. EF partners can continuously improve their combined economics by, for instance, considering originate-to-distribute models that can lower their capital needs, and by leveraging data from the customer owner to reduce costs for data in credit decision-making.

With increasing customer pull and better delivery tools, EF likely will continue to grow and affect virtually every sector through the rest of the decade. By 2030, 10 to 15 percent of banks' revenues and 20 to 25 percent of retail and SME lending revenues may originate in EF, and total European EF revenues could reach €100 billion. Given this potential, companies and banks can gain from examining how they might deploy embedded finance.

Why The Right Risk-Tolerance Tool Ensures Consistent Defensible Advice

Morningstar's Risk Profiling Expert On Understanding The Stability Of Risk Tolerance Amid Market Fluctuations And The Role Of Reliable Assessment Tools In Financial Planning

By Manal Ali, Wealth Professional, July 04, 2024

https://www.wealthprofessional.ca/news/industry-news/why-the-right-risk-tolerance-tool-ensures-consistent-defensible-advice/386334?utm_campaign=WPCW01021NEWSLETTER07&utm_medium=newsletter&_hsenc=p2ANqtz-8JLluESfOcFv2wY98LHNWZLTYxVfvBhjvFTqFVwWWdiAnA8OcHucl4D0NEdzjYo39aq7SeD0zfpRwQKRNs5uXTy_OqdA&_hsmi=314804528&utm_source=newsletter

"Risk tolerance is a personal trait, much like a personality trait, enduring over a lifetime," explains Nicki Potts. The director of financial profiling and planning at Morningstar clarifies the often-confused terms of risk tolerance and risk profile. Potts highlights the significance of validity and reliability in risk assessment tools, and how Morningstar ensures the effectiveness of its tools through rigorous processes.

Risk tolerance can be measured using psychometrics, a field combining psychology and statistics to ensure the accuracy and reliability of assessment tools. On the other hand, a risk profile encompasses risk tolerance and various other factors

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like needs, capacity, experience, and knowledge. Therefore, an individual might have a singular risk tolerance but multiple risk profiles tailored to different financial goals such as retirement or education.

Assessing risk tools
Just as a person doesn't shift from being an introvert to an extrovert overnight, their risk tolerance remains stable over time and market conditions. Not all questionnaires claiming to measure risk tolerance are created equal. A robust test should be both valid (measuring what it claims to measure) and reliable (providing consistent results over time). Potts states, "If you say it's a risk tolerance tool, it should measure risk tolerance and nothing else. Reliability means it should produce similar results when used repeatedly under the same conditions."

Discussing Morningstar's approach, Potts highlights the rigorous process behind their risk profiler, originally developed by FinaMetrica. "Our tool has been measuring risk tolerance for over 20 years, setting the standard globally," she says. The tool's effectiveness is rooted in its extensive development and continuous improvement, backed by a global database of nearly 2 million profiles.

Data from the Morningstar Profiler, spanning various market conditions, demonstrates remarkable consistency in average scores. This consistency is crucial. If a client's risk tolerance fluctuated every time they met with an advisor, providing consistent, defensible advice would be challenging.

The value of conversations in risk assessment
One of the critical insights Potts shares is the real value derived from the conversation between advisors and clients, facilitated by risk assessment tools. "The value is not in the score but in the report and the ensuing discussions. These conversations help clients make better financial decisions," she notes. The dialogue initiated by these tools allows advisors to set correct expectations and guide clients through volatile market conditions.

Dangers of short-term volatility on risk assessment
A risk tolerance test influenced by short-term market volatility poses dangers for both clients and advisors. For instance, if a poorly constructed test during a bull market suggests clients are more aggressive than they truly are, they might panic sell during a downturn, realizing losses. Conversely, a faulty test during a bear market might indicate excessive risk aversion, leading to overly conservative investments and unnecessary sacrifice of returns. Such inconsistencies make it difficult for financial planners to demonstrate to regulators that their tools are fit for purpose.

So why do many advisors believe clients become more risk-averse during downturns, and why do clients often panic sell during market crashes if risk tolerance is stable? It's likely not the risk tolerance that changes but rather the perception of risk in the marketplace. Clients might be comfortable with a 30 percent drop in their portfolio value, but fear induced by media warnings of severe economic crises can trigger irrational decisions.

Potts emphasizes the need for clear communication, assuring clients, "This is what you're comfortable with, this is the profile we've set for you, and these are the range of possible outcomes you can expect. Here's the deepest drawdown, and here's how long it could take to recover. This is what you can expect in the long term.'

"With this understanding, clients can block out market noise and focus on their long-term goals. It's about aligning their portfolio with their profile, reviewing the progress they've made so far, and maintaining perspective. The past is behind us, the present is happening now, but let's focus on the progress toward your goals. It's about recognizing the hard work and the journey you've undertaken."

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If advisors have set expectations correctly, they can use volatile times—or even periods when markets are doing well—to remind clients not to get overly excited. Behavioral coaching and guidance can work to a degree, but even seasoned investors can get carried away when mania sets in.

Using the tools to establish guardrails

During periods of manic panic, there's a fear of missing out. People think, 'Everyone's doing it, so I should be too.' We can't stop human emotions—humans are emotional and sometimes irrational. The best advisors can do is put guardrails in place.

Advisors need to constantly re-coach and realign clients, suggesting practices like not checking portfolios every day but instead once a month or quarterly. If someone is prone to impulsive decisions, they could invest in less liquid assets, making it harder to trade on whims.

These simple strategies help prevent impulsive actions. When clients do feel the urge to act, they'll remember the reasons behind these guardrails.

It's crucial for advisors to manage risk assessment and client profiles holistically, aligning them with progress toward their goals. Advisors must help clients maintain perspective amidst market fluctuations, keeping them focused on their long-term objectives.

Potts underscores the importance of personalization in financial planning and the irreplaceable role of human advisors. "Advice has got nothing to fear," Potts maintains, "Those who truly understand the real meaning and process of planning know it's not just a robo-system where an AI can spit out a score and assign a portfolio.

"Advisors are essential for coaching, guiding, and empowering clients to make decisions. That's the true value of an advisor, which AI can't replicate. Any tool used should offer personalization to help build strong client relationships and a point of difference. With this approach, there's nothing to worry about."

Morningstar's commitment to maintaining the reliability and comprehensiveness of their risk profiling tools is evident in their data-driven approach. "We have a global database and continuously review our tools based on feedback from advisors. Our process is science-based, ensuring that our tools remain effective and reliable," Potts assures.

The Future of Banking Becomes Law: Implications of the Consumer-Driven Banking Act on Fintechs, Financial Institutions and Consumers

By Darcy Ammerman, Robbie Grant, Hyun Tae Kim, McMillan, June 27, 2024

https://mcmillan.ca/insights/publications/the-future-of-banking-becomes-law-implications-of-the-consumer-driven-banking-act-on-fintechs-financial-institutions-and-consumers/?utm_source=email

On June 20, 2024, Bill C-69, the Budget Implementation Act, 2024 received royal assent. Among other things, Bill C-69 enacts the Consumer-Driven Banking Act (the "CDBA") and makes related amendments to the

Financial Consumer Agency of Canada Act (the "FCAC Act"). Together, these changes establish Canada's first legislative framework for consumer-driven banking.

We recently published a pair of bulletins introducing the legislation and summarizing the key aspects of the CDBA, providing for a useful general overview of the new legislative framework.

What is Consumer-Driven Banking

Consumer-driven banking (also known as "open banking") empowers individuals and small businesses to direct financial institutions to share their data with participating entities of their choice. This marks a transformative shift in the financial services sector. Traditionally, consumers had limited control over their banking data and had to rely on risky methods such as screen-scraping to share their data with financial service providers. With consumer-driven banking, consumers can manage and control their data more than ever before, with the comfort of knowing that the sharing of their data will be subject to rigorous technical safeguards.

Implications for Fintechs, Financial Institutions and Consumers

The new legislative framework carries significant implications for financial technology companies ("Fintechs"), financial institutions, and consumers.

For Fintechs, the CDBA presents an opportunity to integrate innovative services into the consumer banking landscape, leveraging secure data-sharing to enhance service offerings. However, Fintechs will also need to navigate compliance requirements and make sure to implement robust data security measures to align with the forthcoming technical standards. This may require substantial investment of time and resources.

Financial institutions will face both opportunities and challenges. The new legislative framework promotes greater consumer data portability, potentially disrupting traditional banking models by fostering increased competition. Banks and other financial institutions will need to adapt by enhancing their digital platforms and integrating with third-party services, all while maintaining compliance with the new regulatory standards. This shift may also drive more strategic partnerships between traditional banks and Fintechs, fostering innovation but also requiring careful management of data security and customer trust.

For consumers, the CDBA promises increased control over personal financial data, enabling more personalized and competitive financial services. Enhanced data portability can facilitate better financial management and more informed decision-making.

Looking Forward

Many operative aspects of the new legislative framework will come into force on a day or days to be fixed by order of the Governor in Council.

As we discussed in our previous bulletin, several critical questions regarding the CDBA remain unanswered, including the exact meaning of small business and what constitutes derived data. While the framework for consumer-driven banking is now established, the operational aspects of the CDBA and the FCAC Act hinge on forthcoming regulations to be determined by the Governor in Council. These regulations will define the scope of data covered under the CDBA and outline violations under the FCAC Act. Notably, the Minister retains discretion in designating the technical standards body.

If you would like more information on this topic or have any questions about open banking, please contact the McMillan financial services team.

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

2024 THIA Innovation Summit

https://www.thiaonline.com/cgi/page.cgi/_evtcal.html?evt=116

WHEN: September 26, 2024, 8:45 AM - 5:00 PM
WHERE: Manulife Conference space, Downtown Toronto.

Reserve your spot today for THIA's Innovation Summit, which returns this fall for a day of engagement and insights into the issues, solutions and trends affecting the travel health insurance industry.

This year's Summit will take place on Thursday, September 26th (the day after THIA's AGM) at Manulife's conference space in Downtown Toronto from 8:45 AM – 5:00 PM EST, cocktail reception to follow.* We are pleased to advise that this space is wheelchair accessible.

Space is limited and sure to fill up quickly, and Early Bird pricing is only available until August 9, 2024.

*Event information is subject to change.

This Year's Innovation Summit Highlights
Navigating Disruption: Travel Health Insurance in a Time of Change
At this one-day summit, we will be exploring the impact of emerging technologies, consumer expectations and a shifting global landscape on the travel health insurance industry, while meeting travel health insurance leaders and other industry experts.

The Summit will feature two keynote speakers, provocative panels, technology experts and information about emerging businesses that are helping transform our industry and adjacent industries.

A light breakfast, lunch and a networking cocktail reception at the end of the day are included in your purchase price.

Pricing

THIA Member pricing is valid for active THIA members and non-member colleagues at their company. Non-members must be registered by an active THIA member.

- THIA Members Early Bird ticket (through August 9, 2024): $250 per person
- THIA Members Standard ticket: $300 per person
- Non-Members ticket: $350 per person

Accommodation

THIA has reserved a limited number of hotel rooms for attendees of our AGM on September 25th and the Innovation Summit on the 26th. The rooms are at the Canopy by Hilton Toronto Yorkville (387 Bloor Street East, Toronto ON M4W 1H7), a short walk from the Innovation Summit venue. The price is $359 per night plus applicable taxes. To take advantage of this rate, you must reserve by August 9, 2024. Visit here to reserve your room.

We strongly encourage those attendees who are travelling to Toronto for the event to ensure they have appropriate travel insurance coverage.