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CAFII ALERTS WEEKLY DIGEST: March 1 – March 8, 2024

March 8, 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

FSRA To Launch Questionnaires On Risk And Business Practices

Provincial Regulator Is Attempting To Identify Hidden Risks And Set A Baseline For Business Practices

By Jonathan Got, Investment Executive, March 04, 2024

https://www.investmentexecutive.com/inside-track_/tashia-batstone/empowering-women-as-clients-and-as-financial-planning-professionals/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=f9f4f6eaaf33f1b05c846d7c2a532f58

The Financial Services Regulatory Authority of Ontario (FSRA) will introduce two questionnaires: one to help the regulator identify risks it is unaware of and another to determine a baseline for business practices and compliant behaviour, FSRA representatives said at the 2024 FSRA Exchange event in Toronto on Monday afternoon.

FSRA recently finished designing a questionnaire for its upcoming "intelligence program," which will help identify pockets of risk the regulator is unaware of, said Swati Agarwal, director, life and health companies and national supervision with FSRA.

The questionnaire will be sent to all insurance companies in Ontario.

"There could be higher-risk MGAs; there could be higher-risk insurance companies. We just don't know what we don't know," she said.

The provincial regulator will also launch a business practice and compliance questionnaire, said Robert Prior, FSRA's senior manager of market conduct in the life and health insurance agent unit. The questionnaire will be sent randomly to licensed agents, rather than to specific people, and will require agents to attest they're telling the truth.

Prior said he hopes the questionnaire will uncover opportunities to correct non-compliant behaviour and highlight best practices.

"The idea is that it has an educational component. It's not about catching bad guys all the time," Prior said. "It's pointing out what people have done right [and] using it as a learning opportunity to improve overall business practices."

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Understanding B-13: OSFI's Guidance On Technology And Cyber Risk Management

By Rosalie Jetté, Angela Jiao, Adam S. Armstrong, and Molly Reynolds, Torys, March 01, 2024

https://www.torys.com/our-latest-thinking/publications/2024/03/osfis-guidance-on-technology-and-cyber-risk-management?utm_source=email&utm_medium=email&utm_campaign=TransactionsBulletin

On January 1, 2024, Canada's Office of the Superintendent of Financial Institutions' (OSFI) new *Guideline B-13 – Technology and Cyber Risk Management (B-13)* came into effect. B-13 establishes OSFI's expectations for how federally regulated financial institutions (FRFIs) should manage technology and cyber risk.

In B-13, OSFI defines technology and cyber risk as the risk arising from any inadequacy, disruption, failure, or damage from unauthorized access or use of technology assets. This encompasses any IT failure, data incident, or cyber incident. It also includes the risk arising from the people or processes that enable and support business needs as they relate to technology assets. In articulating technology and cyber risk in this way, we believe OSFI perceives technology risk management as a comprehensive, enterprise-wide exercise at both technical and governance levels.

B-13 covers three broad categories of requirements:

- **Governance and risk management** requirements set out the expectations for formal accountability, leadership and organizational structure used to support risk management and oversight of technology.
- **Technology operations and resilience** requirements set out expectations for management and oversight of risks related to the design, implementation, management, and recovery of technology.
- **Cyber security** requirements set out expectations for management and oversight of cyber risk.

B-13 As It Relates To Additional OSFI Measures

As technology and cyber risks intersect with other risk areas, OSFI notes that B-13 should be read and applied in conjunction with other OSFI guidance, tools and supervisory communications, in particular, OSFI Guideline B-10 (Third-Party Risk Management) (B-10) and Guideline E-21 (Operational Risk Management) (E-21). The following high-level intersections are relevant when reading B-13 alongside other OSFI Guidelines:

The updated version of B-10, coming into effect May 1, 2024, will apply when the technology asset comes from, or the technology and cyber risk is being managed by, a third-party vendor for the FRFI. E-21 aims at mitigating operational risks, which can provide useful insight into the management of operational risks stemming from technology assets, whether proprietary to the FRFI or procured from a third-party vendor.

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The Integrity and Security Guideline (I&S) provides insight for the management of security risks stemming from technology assets, whether proprietary to the FRFI or procured from a third-party vendor.

To assist with the compliance efforts that are required by OSFI, we take a look at the new requirements of B-13 and highlight their interactions with the requirements of other guidelines published by OSFI, while offering some practical insights, in our side-by-side comparison chart.

What Does It Mean For Clients?

FRFIs should review their information technology and cyber security policies, practices and procedures to ensure that they mitigate the technology or cyber risks of their technology in accordance with their risk tolerance, as established in considering B-13. In doing so, they should consider how these policies and procedures can intersect with other risk areas (such as third-party and operational risk management) and how existing processes (e.g., due diligence, risk rating, risk assessments) may be leveraged as part of the compliance efforts for B-13 as well.

Organizations not directly subject to OSFI's Guidelines should also familiarize themselves with B-13 and consider their governance, security, and resilience posture in the face of these guidelines to a) consider how their organization could utilize OSFI's guidelines to improve their policies and contracting practices, and b) where applicable, prepare for contractual negotiations with FRFIs that are required to comply.

Assessing And Mitigating Risks

The chart, "Key risk management expectations across OSFI guidelines" (available for download below) aims to highlight and align key expectations of OSFI across various guidelines (though not exhaustively). OSFI guidance makes clear that by considering technological, operational and third-party risks together, organizations will ensure that they have the best practices in place to mitigate their technology or cyber risk in a manner that adheres to their overall risk tolerance. This in turn will enable FRFIs to comply with the regulator's expectations.

Practical Insights For Frfis

Governance

Collectively, B-13, B-10 and E-21 all set the expectation that FRFIs will create and implement risk-based frameworks. In recognizing that there is no "one-size-fits-all approach" for managing risks created by technologies, OSFI recognizes that compliance with its guidance will require FRFIs to make numerous risk-based decisions that reflect "the unique risks and vulnerabilities that vary with an FRFI's size, the nature, scope, and complexity of its operations, and risk profile".

Since all four guidelines are intended to help FRFIs consider risk mitigation based on their acceptable, considered risk profile, it makes sense for FRFIs to align all of their policies to a consistent, cohesive risk profile. In applying the guidelines, FRFIs should note that taking an action to mitigate a risk in one area (e.g., B-10) may lessen the overall risk assessment under B-13. FRFIs should determine their risk tolerance as a whole before drafting policies and negotiating third-party agreements.

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Assessing Risk

In conducting a risk assessment of the relevant technology, FRFIs will need to consider multiple overlapping factors, such as accountability for the management of the technology asset (including, for example, the management of changes, patches and releases), integration of systems, subcontracting, concentration risk of the third party and technology, cyber security risk, etc.

FRFIs should consider using OSFI's Cyber Security Self-Assessment to analyze a technology's cyber risk.

In all cases, the assessment should also be informed by legal and regulatory requirements, as well as industry standards. For example, an artificial intelligence system designated as "high risk" under legislation such as the proposed federal Artificial Intelligence and Data Act (AIDA) will likely be considered high risk during a B-13 or B-10 assessment.

Managing Risks

All four guidelines mentioned above require that FRFIs mitigate risks created by technology and, if applicable, third-party vendors, by ensuring that there is an operational framework to respond to such risks. In this operational framework, an incident management plan or business continuity plan, for example, should be: 1) adequately and regularly tested to ensure that it is practically workable; 2) preventative and reactive; 3) set out in writing; and 4) responsive to material changes in the arrangement.

All four guidelines mentioned above require that FRFIs manage how material changes are handled. There are a variety of ways to manage changes in practice, such as setting out a detailed change management process, triggering termination grounds or triggering transition service obligations following material changes.

When setting up appropriate processes within the organization, cyber security vulnerabilities are a key consideration. Organizational (e.g., training and awareness, participating in information-sharing amongst industry actors, etc.), technical (extended detection and response tool, 24/7 monitoring, threat hunting, etc.) and legal measures (template contracts, negotiation playbooks, and internal policies) should be included in this respect.

Performance And Incident Management

FRFIs should ensure that their internal processes and procedures, as well as their vendor arrangements, allow them timely access to accurate and comprehensive information about the performance of their assets and security, such as through technical (e.g., access to systems or logs) or legal measures (e.g., ongoing due diligence, audit rights).

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In addition, FRFIs should review their vendors' and their own incident response processes and practices and ensure alignment. They should also ensure that their agreements with third parties include provisions relating to 1) notification, including triggers and deadlines; 2) prompt cooperation, including clear expectations relating to information sharing; 3) oversight over the investigation and mitigation measures, including appropriate escalations; and 4) if applicable, responsibility for notification of individuals whose information may be impacted by the incident, including reporting to relevant authorities, such as to OSFI under the Technology and Cyber Security Incident Reporting Advisory.

Desjardins Expands Quebec Distribution Through Managing General Agency

By Alain Thériault, Insurance Portal, February 26, 2024

https://insurance-portal.ca/life/desjardins-expands-quebec-distribution-through-managing-general-agency/?utm_source=sendinblue&utm_campaign=daily_complete_202402-27&utm_medium=email

Quebec-based insurance advisors within the IDC Worldsource (IDC) network can now offer their clients Desjardins' life and health insurance products. Desjardins made this announcement public on Feb. 23, 2024.

The Desjardins products accessible to IDC include market-linked term investments, annuities, and guaranteed investment funds.

"This marks another step in our pan-Canadian growth plan in individual life insurance," said Chantal Gagné, Senior Vice-President, Life and Health Insurance Division at Desjardins, in an exclusive interview with the Insurance Portal prior to Desjardins' public announcement. "Our goal is to increase our capacity. Winning over advisors will be a challenge. The key will be to have great products and excellent service," she added.

Acquired IDC In The First Quarter Of 2023

Desjardins acquired IDC in the first quarter of 2023 from Guardian Capital Group. The $750 million transaction allowed Desjardins to gain a network of 5,000 independent advisors. Gagné said she did not know the exact number of active IDC advisors in Quebec.

Until now, Desjardins exclusively distributed its products in Quebec through its network of caisses and SFL Wealth Management, a group of franchisees free to choose products from various suppliers. The SFL network is also active elsewhere in Canada under the Desjardins Financial Security Independent Network (DFSIN) brand. Gagné revealed that the SFL network consists of 1,200 advisors across Canada, including 650 in Quebec and 550 DFSIN advisors outside Quebec.

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Outside Quebec, Gagné said the State Farm Canada network of agents' transition to Desjardins was completed at the end of 2019. This network distributes both property & casualty and life insurance products. Desjardins acquired State Farm Canada in 2015. Gagné said that 500 agents, formerly State Farm agents, serve this network.

Continuity Outside Quebec

IDC advisors outside Quebec already had access to Desjardins insurance products, Gagné noted. "We have other agreements in Canada with several managing general agencies (MGAs)," added Gagné.

She explained why, until now, Desjardins had developed its managing general agency network exclusively outside Quebec. "In Quebec, we had the advantage of the extensive coverage of the caisses. To diversify our distribution, we needed to quickly increase our capacity outside Quebec," she said.

According to information available on the Desjardins Group website, the Federation des Desjardins caisses du Quebec consisted of 210 Caisses in Quebec as of Jan. 1, 2023, as well as the Desjardins Ontario Credit Union Inc.

Gagné added that 230 advisors serve the caisses network, which has 7.5 million members in Quebec.

Upon assuming her current role created a year ago, Gagné inherited all business lines in personal insurance, including individual insurance. She was serving as Vice President at the time. She is also responsible for group insurance and retirement savings, support and claims, and sales and distribution networks.

Increasing Quebec Footprint

By opening distribution to IDC in Quebec, Desjardins aims to increase its footprint in the province. Denis Dubois, Executive Vice President, Wealth Management and Life and Health Insurance at Desjardins Group, told Insurance Portal in December 2022 that the tide had turned after challenging times.

These challenges, according to him, accounted for the decline in market share of Desjardins Insurance in Quebec, from 15.0 per cent in 2020 to 14.2 per cent in 2021. Desjardins regained lost ground in Quebec in 2022, increasing its market share in Quebec to 15.2 per cent. These figures are drawn from the Insurance Journal's annual reports on the market share evolution of Canada's largest insurers.

According to Gagné, Desjardins had already begun paving the way for IDC Quebec. "To prepare for a more sustained growth plan, we invested over the last three years in really improving our product range, the quality of our service, and our tools. We want to be a key player in individual insurance in Canada, and acquiring IDC is part of this ambition," she said.

Gagné added that Desjardins' sales through managing general agencies in 2023 represented 12.5 per cent of its total sales in Canada, and 30 per cent of its sales outside Quebec. "Desjardins' total growth in individual insurance in Canada in 2023 reached 19 per cent. Desjardins' pan-Canadian growth plan in individual insurance aims to double our individual insurance sales by 2032," Gagné revealed.

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"One of the additional levers to reach our growth targets is to increase the number of people who can distribute Desjardins products," she emphasized.

Expanding To Other Mgas In Quebec

Desjardins plans to extend the distribution of its products to other MGAs in Quebec. "In the coming months of 2024, we will start with partners with whom we are already working outside Quebec and who are national," specified Gagné. She chose not to name them, stating, "there are several." It's well known that Financial Horizons, Hub Financial, and PPI are among the other major pan-Canadian MGAs.

Gagné explained why Desjardins is carrying out its plan in stages. "We only get one chance to make a good impression. We want to progress at a gradual pace to maintain high-quality service for advisors."

"The partnership with IDC helps us better understand the needs of the MGA market and ensure we're making the right improvements to succeed with independent network advisors," she said.

In Quebec, Gagné anticipates reactions from regional players. "For the 2024 game plan, we're starting with IDC and our other national partners. In 2025, we'll see. The plan for regional players is not yet decided. Opening to IDC and other national MGAs represents a lot of internal capacity and potential new advisors. We don't have an official number, but our estimates reveal that we have enough for this year's order book," she said.

Managing Competition Between Networks

How will they manage competition with the SFL network in Quebec? "We were already experiencing the same situation outside Quebec with our DFSIN network. DFSIN has MGAs around it that can offer Desjardins products. Both networks can sell Desjardins products. In Quebec, IDC is not a new competitor for SFL, as it already has its client base," Gagné explained. "We have spoken to our top SFL advisors, and they see this as a logical continuation of the IDC acquisition."

Gagné added that there would be no referrals between advisors serving the caisses members and those from MGAs. "These are two distinct networks," she underlined.

She said she aims to ensure harmonious coexistence between the networks, "and continue the growth started in the last two to three years with our current networks. "We don't want to shift opportunities, but create new ones," she stated.

Making Its Mark

The acquisition of IDC previously stirred discussions in the independent network. "In reaction to the acquisition, we saw 55 per cent growth in sales in the MGA market outside Quebec last year, because we acquired the largest MGA in Canada. This solidified our intention to make our mark in the independent network," Gagné highlighted.

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Following the IDC acquisition, some MGAs raised questions about the independence of the independent networks acquired by insurers. At the time, Phil Marsillo, President of IDC, countered that there would be no imposed quotas on selling Desjardins products.

Gagné assured that the same would apply to IDC in Quebec. "IDC Worldsource will not have quotas to meet in distributing Desjardins products," Gagné confirmed.

OTHER CAFII MEMBER-RELEVANT NEWS

'Bizcation' Increasingly Popular Among Young Canadian Professionals

New Survey Offers Insights Into The Trend

By Terry Gangcuangco, Insurance Business, March 04, 2024

https://www.insurancebusinessmag.com/ca/news/travel/bizcation-increasingly-popular-among-young-canadian-professionals-479590.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240304&_hsmi=296690846&_hsenc=p2ANqtz--PUS3REXpDxQ-B2tOIUE9D3gnJHuuWW0eqbpZwhTdtvOWLD__5-MUj1IjhLiyHPQUvS_rrSaf1zejGvj0XExhGvwT-ww&utm_content=&utm_source=

The trend of blending work with leisure travel, known as “bizcations,” is gaining popularity among young Canadian professionals, according to a new study by Allianz Global Assistance.

The company’s seventh annual Vacation Confidence Study revealed that nearly half of the professionals in the 18-34 age group plan to combine remote work with their vacation plans this year.

This emerging trend allows employees to work while travelling, eliminating the need to take formal time off. Another form of “bizcation” is adding leisure days at the start or the end of business trips.

The shift towards remote work has notably encouraged the abovementioned blend, with 17% of Canadians aged 18 to 34 citing the stress and planning required for taking time off as significant deterrents to traditional vacationing.

The study also highlighted that a significant portion of these ‘bizcationing’ travellers are planning extended stays, with about one-third aiming for trips of around three weeks or longer.

Dan Keon, vice president of marketing and insights, emphasized the importance of reliable travel protection for those embracing the leisure travel lifestyle.

“Bizcationers are travelling more frequently throughout the year and need reliable travel protection,” he said. “Allianz is committed to supporting the evolving needs of travellers in the dynamic landscape of remote work and blended travel experiences.

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"We ensure that professionals can embark on 'bizcations' with confidence, knowing that they are covered for every aspect of their journey."

Ipsos conducted the poll online with 2,000 Canadian adults, 24% of whom are planning to travel to Mexico/Caribbean this year; 21%, to the US.

How Generative AI Can Help Banks Manage Risk And Compliance

By Rahul Agarwal, Andreas Kremer, Ida Kristensen, and Angela Luget, McKinsey & Company, March 01, 2024

https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/how-generative-ai-can-help-banks-manage-risk-and-compliance?stcr=04E8F363D1C64027B105982AD878B1A5&cid=other-eml-alt-mip-mck&hlkid=c731e56b330b49969726dc0102872242&hctky=10045072&hdpid=1c90fdb2-a11c-4781-b1ee-18e7c2299d3d

In the next five years, generative AI could fundamentally change financial institutions' risk management by automating, accelerating, and enhancing everything from compliance to climate risk control.

Generative AI (gen AI) is poised to become a catalyst for the next wave of productivity gains across industries, with financial services very much among them. From modeling analytics to automating manual tasks to synthesizing unstructured content, the technology is already changing how banking functions operate, including how financial institutions manage risks and stay compliant with regulations.

It's imperative for risk and compliance functions to put guardrails around gen AI's use in an organization. However, the tech can help the functions themselves improve efficiency and effectiveness. In this article, we discuss how banks can build a flexible, powerful approach to using gen AI in risk and compliance management and identify some crucial topics that function leaders should consider.

Seizing The Promise Of Gen AI

Gen AI has the potential to revolutionize the way that banks manage risks over the next three to five years. It could allow functions to move away from task-oriented activities toward partnering with business lines on strategic risk prevention and having controls at the outset in new customer journeys, often referred to as a "shift left" approach. That, in turn, would free up risk professionals to advise businesses on new product development and strategic business decisions, explore emerging risk trends and scenarios, strengthen resilience, and improve risk and control processes proactively.

These advances could lead to the creation of AI- and gen-AI-powered risk intelligence centers that serve all lines of defense (LODs): business and operations, the compliance and risk functions, and audits. Such a center would provide automated reporting, improved risk transparency, higher efficiency in risk-related decision making, and partial automation in drafting and updating policies and procedures to reflect changing regulatory requirements. It would act as a reliable and efficient source of information, enabling risk managers to make informed decisions swiftly and accurately.

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For instance, McKinsey has developed a gen AI virtual expert that can provide tailored answers based on the firm's proprietary information and assets. Banks' risk functions and their stakeholders can develop similar tools that scan transactions with other banks, potential red flags, market news, asset prices, and more to influence risk decisions. These virtual experts can also collect data and evaluate climate risk assessments to answer counterparty questions.

Finally, gen AI could facilitate better coordination between the first and second LODs in the organization while maintaining the governance structure across all three. The improved coordination would enable enhanced monitoring and control mechanisms, thereby strengthening the organization's risk management framework.

Emerging Applications Of Gen AI In Risk And Compliance

Of the many promising applications of gen AI for financial institutions, there's a set of candidates that banks are exploring for a first wave of adoption: regulatory compliance, financial crime, credit risk, modeling and data analytics, cyber risk, and climate risk. Overall, we see applications of gen AI across risk and compliance functions through three use case archetypes.

Through a virtual expert, a user can ask a question and receive a generated summary answer that's built from long-form documents and unstructured data. With manual process automation, gen AI performs time-consuming tasks. With code acceleration, gen AI updates or translates old code or writes entirely new code. All these archetypes can have roles in the key responsibilities of risk and compliance:

- *Regulatory compliance.* Enterprises are using gen AI as a virtual regulatory and policy expert by training it to answer questions about regulations, company policies, and guidelines. The tech can also compare policies, regulations, and operating procedures. As a code accelerator, it can check code for compliance misalignment and gaps. It can automate checking of regulatory compliance and provide alerts for potential breaches.

- *Financial crime.* Gen AI can generate suspicious-activity reports based on customer and transaction information. It can also automate the creation and update of customers' risk ratings based on changes in know-your-customer attributes. By generating and improving code to detect suspicious activity and analyze transactions, the tech can improve transaction monitoring.

- *Credit risk.* By summarizing customer information (for example, transactions with other banks) to inform credit decisions, gen AI can help accelerate banks' end-to-end credit process. Following a credit decision, it can draft the credit memo and contract. Financial institutions are using the tech to generate credit risk reports and extract customer insights from credit memos. Gen AI can generate code to source and analyze credit data to gain a view into customers' risk profiles and generate default and loss probability estimates through models.

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- *Modeling and data analytics.* Gen AI can accelerate the migration of legacy programming languages, such as the switch from SAS and COBOL to Python. It can also automate the monitoring of model performance and generate alerts if metrics fall outside tolerance levels. Companies are also using gen AI to draft model documentation and validation reports.

- *Cyber risk.* By checking cybersecurity vulnerabilities, gen AI can use natural language to generate code for detection rules and accelerate secure code development. It can be useful in "red teaming" (simulating adversarial strategies and testing attack scenarios). The tech can also serve as a virtual expert for investigating security data. It can make risk detection smarter by speeding and aggregating security insights and trends from security events and behavior anomalies.

- *Climate risk.* As a code accelerator, gen AI can suggest code snippets, facilitate unit testing, and assist physical-risk visualization with high-resolution maps. It can automate data collection for counterparty transition risk assessments and generate early-warning signals based on trigger events. As a virtual expert, gen AI can automatically generate reports on environmental, social, and governance (ESG) topics and sustainability sections of annual reports (see sidebar, "How generative AI can speed financial institutions' climate risk assessments").

Once companies have embedded gen AI in these roles and functions, they have seen a second wave of emerging use cases across other aspects of risk management. Gen AI can streamline enterprise risk by synthesizing enterprise-risk-management summaries from existing data and reports. It can help accelerate the internal capital adequacy assessment process and model capital adequacy by sourcing relevant data. Banks can also use it to summarize risk positions and draft risk reports and executive briefings for senior management.

Another area in which gen AI can play an important role is operational risk. Banks can use it for operational automation of controls, monitoring, and incident detection. It can also automatically draft risk and control self-assessments or evaluate existing ones for quality.

Key Considerations In Gen AI Adoption

While several compelling use cases exist in which gen AI can propel productivity, prioritizing them is critical to realizing value while adopting the tech responsibly and sustainably. We see three critical dimensions that risk leaders can assess to determine prioritization of use cases and maximize impact (exhibit).

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Exhibit

Risk leaders can prioritize risk, impact, and feasibility considerations when planning gen AI implementation in a risk function.

Initial assessment to prioritize generative AI (gen AI) use cases based on impact, feasibility, and risk scoring[1]

Risk

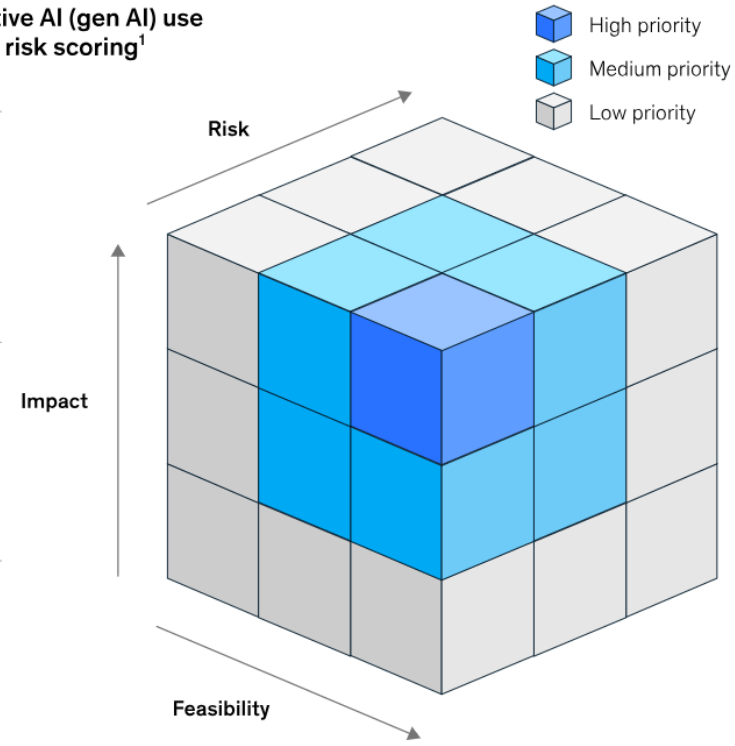
Source and use of data
Security threats
Performance and transparency
Strategic risk
Third-party risk

Impact

Revenue generation
Operational cost savings
Strategic priority of the organization
Scalability of gen AI ecosystem
Solves pain points not addressed by traditional AI

Feasibility

Data quality and architecture
Readiness of tech stack
Upskilling and hiring needs
Change management needs



[1]Taking quantitative and qualitative dimensions into account.

Chief risk officers can base their decisions on assessments across qualitative and quantitative dimensions of impact, risk, and feasibility. This process includes aligning with their banks' overall visions for gen AI and associated guardrails, understanding relevant regulations (such as the EU AI Act), and assessing data sensitivity. All leaders need to be aware of the novel risks associated with this new tech.

These risks can be broadly divided into eight categories:

- impaired fairness, when the output of a gen AI model may be inherently biased against a particular group of users
- intellectual property infringement, such as copyright violations and plagiarism incidents, as foundation models typically leverage internet-based data
- privacy concerns, such as unauthorized public disclosure of personal or sensitive information
- malicious use, such as dissemination of false content and use of gen AI by criminals to create false identities, orchestrate phishing attacks, or scam customers
- security threats, when vulnerabilities within gen AI systems can be breached or exploited

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- performance and "explainability" risks, such as models providing factually incorrect answers and outdated information
- strategic risks through noncompliance with ESG standards or regulations, creating societal or reputational risks
- third-party risks, such as leakage of proprietary data to the public realm through the use of third-party tools

Winning Strategies For Planning A Gen AI Journey

Organizations that can extract value from gen AI should use a focused, top-down approach to start the journey. Given the scarcity of talent to scale gen AI capabilities, organizations should start with three to five high-priority risk and compliance use cases that align with their strategic priorities. They can execute these use cases in three to six months, followed by an estimation of business impact. Scaling the applications will require the development of a gen AI ecosystem that focuses on seven areas:

- a catalogue of production-ready, reusable gen AI services and solutions (use cases) that can be easily plugged into a range of business scenarios and applications across the banking value chain
- a secure, gen-AI-ready tech stack that supports hybrid-cloud deployments to enable support for unstructured data, vector embedding, machine learning training, execution, and pre- and postlaunch processing
- integration with enterprise-grade foundation models and tools to enable fit-for-purpose selection and orchestration across open and proprietary models
- automation of supporting tools, including MLOps (machine learning operations), data, and processing pipelines, to accelerate the development, release, and maintenance of gen AI solutions
- governance and talent models that readily deploy cross-functional expertise empowered to collaborate and exchange knowledge (such as language, natural-language processing, and reinforcement learning from human feedback, prompt engineers, cloud experts, AI product leaders, and legal and regulatory experts)
- process alignment for building gen AI to support the rapid and safe end-to-end experimentation, validation, and deployment of solutions
- a road map detailing the timeline for when various capabilities and solutions will be launched and scaled that aligns with the organization's broader business strategy

At a time when companies in all sectors are experimenting with gen AI, organizations that fail to harness the tech's potential are risking falling behind in efficiency, creativity, and customer engagement. At the outset, banks should keep in mind that the move from pilot to production takes significantly longer for gen AI than for classical AI and machine learning. In selecting use cases, risk and compliance functions may be tempted to use a siloed approach. Instead, they should align with an entire organization's gen AI strategy and goals.

For gen AI adoption by risk and compliance groups to be effective and responsible, it is critical that these groups understand the need for new risk management and controls, the importance of data and tech demands, and the new talent and operating-model requirements.

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Risk Management And Controls

With gen AI, a new level of risk management and control is necessary. Winning responsibly requires both defensive and offensive strategies. All organizations face inbound risks from gen AI, in addition to the risks from developing gen AI use cases and embedding gen AI into standard workplace tools. So banks will need to evolve their risk mitigation capabilities accordingly.

The first wave heavily focuses on human-in-the-loop reviews to ensure the accuracy of model responses. Using gen AI to check itself, such as through source citations and risk scores, can make human reviews more efficient. By moving gen AI guardrails to real time and doing away with human-in-the-loop reviews, some companies are already putting gen AI directly in front of their customers. To make this move, risk and compliance professionals can work with development team members to set the guardrails and create controls from the start.

Risk functions need to be vigilant to manage gen AI risks at the enterprise level. They can fulfill that obligation by taking the following steps:

1. Ensure that everyone across the organization is aware of the risks inherent in gen AI, publishing dos and don'ts and setting risk guardrails.
2. Update model identification criteria and model risk policy (in line with regulations such as the EU AI Act) to enable the identification and classification of gen AI models, and have an appropriate risk assessment and control framework in place.
3. Develop gen AI risk and compliance experts who can work directly with frontline development teams on new products and customer journeys.
4. Revisit existing know-your-customer, anti–money laundering, fraud, and cyber controls to ensure that they are still effective in a gen-AI-enabled world.

Data And Tech Demands

Banks shouldn't underestimate the data and tech demands related to a gen AI system, which requires enormous amounts of both. Why? For one, the process of context embedding is crucial to ensure the accuracy and relevance of results. That process requires the input of appropriate data and addressing data quality issues. Moreover, the data on hand may be insufficient. Organizations may need to build or invest in labeled data sets to quantify, measure, and track the performance of gen AI applications based on task and use.

Data will serve as a competitive advantage in extracting value from gen AI. An organization looking to automate customer engagement using gen AI must have up-to-date, accurate data. Organizations with advanced data platforms will be the most effective at harnessing gen AI capabilities.

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Talent And Operating-Model Requirements

Since gen AI is a transformational technology requiring an organizational shift, organizations will need to understand the related talent requirements. Banks can embed operating-model changes into their culture and business-as-usual processes. They can train new users not only on how to use gen AI but also on its limitations and strengths. Assembling a team of "gen AI champions" can help shape, build, and scale adoption of this new tech.

We expect gen AI to empower banks' entire risk and compliance functions in the future. This implies a profound culture change that will require all risk professionals to be conversant with the new tech, its capabilities, its limitations, and how to mitigate those limitations. Using gen AI will be a significant shift for all organizations, but those that navigate the delicate balance of harnessing the technology's powers while managing the risks it poses can achieve significant productivity gains.

Climate Change Implications For Life And Health Insurers Expected To Increase Over Time

By Kate McCaffery, Insurance Portal, February 28, 2024

A new report from the Geneva Association, an association of insurance and reinsurance CEOs founded in 1973, finds that climate change impacts on life and health insurers have not been significant as of yet, but they are likely to increase as climate change incidents become more frequent and severe.

"Extreme weather events cause severe damage to homes and buildings, but they also cause injury and death," writes Jad Ariss, managing director of the Geneva Association. He adds that climate change also reduces biodiversity, impacts food supplies, and exacerbates the spread of diseases, even to regions that were previously unaffected. "The climate crisis itself has become a mental health issue," he adds. "Working to better understand and reduce these risks will help keep them insurable."

Read full article (subscription required): *https://insurance-portal.ca/health/climate-change-implications-for-life-and-health-insurers-expected-to-increase-over-time/?utm_source=sendinblue&utm_campaign=daily_complete_202402-29&utm_medium=email*

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Canadian Life Application Activity Increases In February

By Kate McCaffery, Insurance Portal, March 07, 2024

https://insurance-portal.ca/life/canadian-life-application-activity-increases-in-february/?utm_source=sendinblue&utm_campaign=daily_complete_202403-07&utm_medium=email

Depending on which measure you look at, Canadian life insurance application activity saw year-over-year growth of 5.2 per cent or 9.1 per cent in February 2024, according to the most recent report on Canadian life insurance application activity from Massachusetts-based, MIB Group.

"This is the 10th consecutive month that Canadian activity has seen year-over-year growth," the report states. "February 2024 saw flat year-over-year activity for ages zero to 30, declines for ages 31 to 50, growth for ages 51+, in the double digits for ages 61 to 70 and triple digits for ages 71+," the monthly report states. Activity for ages 61 to 70 and over age 71 was up a notable 33.1 per cent and 155.2 per cent, respectively.

On a year-to-date basis, activity in February 2024 continued in positive territory, up 7.6 per cent when compared to the same period in 2023. Month-over-month, February 2024 activity grew 10.4 per cent when compared to January 2024.

Double-digit year-over-year growth
"February saw double-digit year-over-year growth for amounts up to and including $250,000, flat activity for amounts over $2.5-million, up to and including $5-million, and declines for all other amounts, in the double digits for amounts over $5-million," MIB continues.

When looking at activity patterns where a product type was submitted to the company, universal life saw double digit year-over-year growth, whole life saw "growth" and term life application activity declined.

"About 32 per cent of total Life Index volume for Canada in February 2024 did not include a product type. We believe the vast majority of these submissions are for life insurance applications and have included them in the composite analysis presented in this report," they conclude, saying activity remains up – 9.1 per cent year-over-year and 9.1 per cent year-to-date even when looking solely at submissions identified as life insurance products.

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BMO Insurance Refines Its Underwriting Questions

Targeted Questions, Simplified Requirements Are Part Of The Changes

By IE Staff, Investment Executive, February 26, 2024

https://www.investmentexecutive.com/news/industry-news/bmo-insurance-refines-its-underwriting-questions/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=f9f4f6eaaf33f1b05c846d7c2a532f58

BMO Insurance has enhanced its accelerated underwriting of life insurance in an effort to speed up processing times.

Specifically, the firm will use "targeted medical and lifestyle questions," based on data analytics, as a way to potentially avoid additional testing during the underwriting process, a release said.

Those questions are based on an individual's risk profile, said Katarina Nikolic, vice-president and chief corporate underwriter with BMO Insurance, in an emailed statement. "We also leverage our internal data and analytics capabilities to further reduce risk and only request evidence when it is needed," she said.

Further, the electrocardiogram (ECG) requirement has been removed for all life products, and the motor vehicle report requirement will also no longer apply for most ages and for coverage amounts below $10 million, the release said.

BMO used to require either a resting or stress ECG for most life insurance policies over $1 million, as well as for older ages and higher insurance amounts, Nikolic said.

Regarding motor vehicle reports and life insurance, she said they're difficult to obtain in some provinces. "We found we were able to gather enough information from client disclosures that allowed us to quantify the risk," she said.

The underwriting changes apply to up to $750,000 of coverage for clients aged 51 to 60, up to $3 million for clients aged 41 to 50, and up to $5 million for clients aged 18 to 40. Eligible term, universal life and whole life insurance plans are listed in an online document.

"Investing in our data and analytics has been an important strategic driver for us over the past few years," said Rohit Thomas, president and CEO of BMO Insurance, in the release. "These changes will help financial advisors save time and ensure consumers can get coverage in place faster and with less paperwork."

In November, Manulife Insurance reduced its number of standard life underwriting questions to 13 from 31.

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

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

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.

As always, you won't want to miss:

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

A chance to participate in scheduled professional and leisure activities

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