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CAFII ALERTS WEEKLY DIGEST: March 24 – March 31, 2023

March 31, 2023

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 DEVELOPMENTS

Federal Budget Promises Reform To Banking Complaints

FCAC Charged With Selecting Single, External Complaints Body

By James Langton, Investment Executive, March 28, 2023

https://www.investmentexecutive.com/news/from-the-regulators/budget-promises-reform-to-banking-complaints/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN&hash=6d73923380f292a40dc042b455f0fde3

The federal government has reiterated its pledge to reform complaint handling in the banking sector and has tapped the Financial Consumer Agency of Canada (FCAC) to lead the process.

In the 2023 federal budget, the government proposed "to introduce targeted legislative measures to strengthen the external complaints handling system for banks and to designate a single, not-for-profit body […] to be the sole external complaints body."

The promise would do away with the existing model that requires banks to use a qualified external complaint handling body (ECB) — but allows them to choose between the Ombudsman for Banking Services and Investments (OBSI) and ADR Chambers Banking Ombuds Office (ADRBO).

That approach has come under fire from consumer advocates, which have argued the multiple ECB model is unfair to consumers.

Those concerns were validated in a review by the FCAC that was published in 2020, which found several failings with the existing system, including that it falls short of international standards and that the multiple-ECB model adds complexity and inefficiencies for consumers.

That review also raised concerns about "how allowing banks to choose the ECB negatively affects consumers' perceptions of the fairness and impartiality of the system."

And it questioned whether allowing competition in complaint handling benefits consumers.

While OBSI originally dealt with all banking complaints, most of the big banks have since gravitated to ADRBO, including Bank of Nova Scotia, National Bank of Canada, Royal Bank of Canada, and TD Bank Group. Of the Big Six, only Bank of Montreal and CIBC still use OBSI.

In the wake of the FCAC's report in 2020, the Prime Minister's 2021 mandate letter to Finance Minister Chrystia Freeland directed her to establish a single, independent ombudservice for banking complaints. The 2022 federal budget promised to follow through on that pledge.

The Tuesday, March 28, 2023 budget not only reiterated the promise, but also indicated that the FCAC will select the sole arbiter of consumer complaints.

"All Canadian financial consumers would benefit from a strengthened external complaints system in banking, with additional benefits for lower-income households, as they are generally more at risk of having lower levels of financial literacy and confidence," the government noted in its statement on the impact of the proposed reforms that accompanied the budget.

During pre-budget consultations, a collection of consumer groups — including FAIR Canada, CanAge, Prosper Canada, Option consommateurs, Public Interest Advocacy Centre, Kenmar Associates, Canadian Association of Retired Persons, and the Consumers Council of Canada — called on the government to follow through on its promise to overhaul complaint handling in the banking sector.

"It has been over a year, and one budget, since the government identified this issue as a priority, yet we have seen no action," the groups said in a joint pre-budget submission.

"It is critical that we replace this broken system with one that effectively levels the playing field for financial consumers and adheres to well-accepted international guidelines and best practice standards for banking ombuds services," the groups added.

The groups argued that addressing the flaws with the current complaint handling system is more urgent in the prevailing economic climate of high inflation, rising interest rates, and a predicted economic slowdown.

"Amid these economic challenges, consumers need the certainty that they can access a fair, independent ECB that reflects international standards for financial ombuds services to fairly resolve complaints that banks themselves are unable to resolve satisfactorily," the groups said. "OBSI is best placed to meet this standard."

Federal Budget Seeks To Expand Financial Institutions' Diversity Disclosure, Virtual Meetings

Government Aims To Improve Transparency At Federally Regulated Financial Institutions

By James Langton, Investment Executive, March 28, 2023

https://www.investmentexecutive.com/news/from-the-regulators/budget-seeks-to-expand-financials-diversity-disclosure-virtual-meetings/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN&hash=6d73923380f292a40dc042b455f0fde3

Canada's federal government is planning to introduce broader diversity disclosure requirements in federal financial legislation and to facilitate the use of virtual corporate meetings.

In the 2023 budget tabled on Tuesday, March 28, the federal government indicated that it will propose amendments to the legislation governing federally regulated financial institutions, amendments that adopt the diversity disclosure requirements for directors and top management that were already introduced in federal corporate law.

In 2020, new diversity disclosure requirements for federally incorporated public companies took effect that expanded reporting requirements about the make-up of boards and senior management beyond gender — which is the focus of securities law requirements in this area — to include race, ethnicity, and disabilities.

Among other things, the revised corporate law requirements also mandated disclosure regarding term limits and board renewal, the consideration of diversity in selecting directors and top management, and companies' use of diversity targets.

"Requiring diversity disclosures for federally regulated financial institutions will benefit under-represented communities, including women, Indigenous people, persons with disabilities, and Black and racialized people, by promoting awareness that can lead to their increased representation on boards and among senior management," the government said in a statement accompanying today's budget.

The government also plans to introduce legislative amendments that facilitate virtual-only corporate meetings and to set conditions for ensuring participation in these events.

Last year, the Canadian Securities Administrators (CSA) issued guidance that called on companies to ensure that they meet their obligations under securities law when holding virtual or hybrid meetings. The guidance also encouraged firms to ensure that shareholder participation in virtual meetings matches traditional, in-person corporate meetings.

In Tuesday, March 28's federal budget, the government stated: "Mandatory diversity disclosures and conditions to ensure owner participation in virtual meetings may increase public confidence in these institutions by improving transparency between [federally regulated financial institutions], their owners, and the public."

Ottawa's Newest Tax Hit Signals Concerning Reliance On Financial Sector For Revenue, Analysts Say

By Stefanie Marotta and Jameson Berkow, The Globe and Mail, March 29, 2023

https://www.theglobeandmail.com/business/article-banks-dividend-tax-change/

Ottawa's plans to pull billions of additional dollars from banks and insurers signals a concerning shift as the federal government increasingly turns to the financial sector for revenue, analysts say.

In the federal budget released on Tuesday, March 28, the Liberals unveiled an amendment to tax rules on dividends that financial institutions receive from Canadian companies. The measure is expected to generate $3.15-billion over five years starting in 2024, and $790-million annually after that.

Banks and insurers have been allowed to exclude dividends from their business income, enabling them to lower their tax burden, the government said in its budget. The latest change requires the financial companies to account for dividends of Canadian shares held by financial institutions.

The change could cause a modest hit to earnings per share this year by slightly less than 1 per cent, but the broader sentiment from government marks a "worrying trend," according to Keefe, Bruyette & Woods analyst Mike Rizvanovic.

It's the second consecutive major shift in taxation for the financial sector since last year's budget, which introduced two substantial tax initiatives.

"While the financial impact of the new measures appears modest, it provides yet another reason for Canadian bank investors to be concerned about the government's approach in taxing the sector," Mr. Rizvanovic said in a note to clients. "The government's approach will weigh on sentiment for the sector with investors likely wondering about what other potential measures could be introduced in the years ahead."

Many of the banks are appealing the change, National Bank of Canada chief financial officer Marie Chantal Gingras said during a conference on Wednesday morning, March 29.

"It was a bit of a surprise on the dividend front," Ms. Gingras said. "Our very first initial estimate is that it's really non-material, maybe approximately 1 per cent of our revenue."

Investors did not appear immediately concerned by the new measure, with shares of Canada's five largest banks all moving slightly higher when markets opened on Wednesday, March 29. The Canadian group followed climbing U.S. bank stocks amid waning fears that three major bank failures could stoke further contagion. The KBW Bank Index rose 1.4 per cent as of 10:15 a.m. on Wednesday, March 29.

Last year's budget introduced two new charges for the sector. The Canada Recovery Dividend required large banks and life insurers to pay a temporary 15-per-cent tax on taxable income above $1-billion for 2021. It is expected to raise $604-million annually starting in 2022, for a total of $3.02-billion over five years, according to estimates by the Parliamentary Budget Officer in September 2022.

The government also unveiled a permanent change to the sector's corporate income tax rate that raises an estimated $2.25-billion over five years. It increases the tax rate by 1.5 percentage points to 16.5 per cent on taxable profits over $100-million.

Scotiabank analyst Meny Grauman said that banks and insurers have seen their annual tax burden jump by a combined $2.5-billion over the past two budgets.

"This rising tax burden on Canadian financials clearly points to a less favourable domestic operating environment, an environment that for the large Canadian banks is also being negatively impacted by higher minimum capital ratios," Mr. Grauman said in a note to clients. "Although all of these items are small in and of themselves, they should increasingly weigh on valuations as they appear to be becoming a more regular occurrence."

Federal Budget 2023: Ottawa Moves To Strengthen Air Passenger Rights After 'Unacceptable' Flight Delays, Airport Chaos

By Sean Silcoff, The Globe and Mail, March 28, 2023

The federal government promised in its 2023 budget to address "unacceptable flight delays, long lineups at airports, and mishandled baggage" that affected Canadians last year by strengthening the rights of passengers and improving their experience at airports.

The budget proposes $1.8-billion over five years for the Canadian Air Transport Security Authority (CATSA) to maintain and increase service levels, improve screening wait times, and strengthen airport security measures. The budget also proposes legislative changes that will require sharing and reporting of data by airports and airlines to reduce delays and improve co-ordination. Transport Canada will get $5.2-million over five years to collect and analyze air-sector performance data.

To help pay for the CATSA funding, the government said it would increase the security charge levied on air travellers by 32.85 per cent starting May 1, 2024. Fees for a one-way domestic flight will rise to $9.94 from $7.48; for an international flight, they will increase to $34.42 from $25.91. It's the first time since 2010 that the government has raised the fee.

The government said it would amend the Canada Transportation Act to beef up airline obligations to compensate passengers for delays and cancellations. The budget stated the changes would "align Canada's air passenger rights regime with those of leading international approaches and ensure that Canadians are fairly compensated for travel delays that are within airlines' control."

It also pledged to change the Act to make the Canadian Transportation Agency's complaint adjudication process more efficient and to give the Transport Minister the authority to impose a regulatory charge on airlines to help cover costs of resolving complaints by air passengers. The government this month committed $76-million over three years to CTA to support tougher measures to respond to customer service issues.

Ottawa has been under pressure from the travelling public and business groups to tackle logjams at airports.

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The resurgence in air travel in the summer of 2022 was marred by long waits in terminals and on planes amid shortages of employees at airports, airlines, and among the government contractors that screen passengers. The troubles extended to the recent Christmas season, when two snowstorms hampered or halted aircraft movements at several airlines. Passengers complained of lost luggage, delayed or cancelled flights, and holidays that were entirely called off.

Read Story (Subscription Required): *https://www.theglobeandmail.com/business/article-federal-budget-air-passenger-rights/*

OSFI Consultation On Culture And Behaviour Risk

By Koker Christensen, Kathleen Butterfield, and Craig Bellefontaine, Fasken, March 3, 2023

https://www.fasken.com/en/knowledge/2023/03/osfi-consultation-on-culture-and-behaviour-risk

On February 28, 2023, the Office of the Superintendent of Financial Institutions (OSFI) released its draft Culture and Behaviour Risk Guideline ("Draft Guideline") for a three-month consultation period.

The Draft Guideline was informed by feedback to OSFI's Culture Risk Management Letter dated March 15, 2022, which signalled OSFI's plans to release a guideline on culture risk management, consistent with information papers and culture risk supervisory activities by international regulators (see Fasken bulletin: OSFI Seeks Input on Culture Risk Management). OSFI's view is that culture can either support or weaken the resilience of Federally Regulated Financial Institutions (FRFI), which in turn could affect confidence in the broader financial system. Accordingly, the stated intent of the guideline is to set expectations that FRFIs have governance processes and practices that define, assess, and manage culture and behaviour risks in a manner that is proportional to their business and risk profile.

OSFI plans to release an accompanying self-assessment tool that may be used by FRFIs to review the design and effectiveness of their practices, which should also help gaps or opportunities for improvement in compliance with the final culture risk management expectations.

Key Definitions

In order to provide clarity and in response to feedback on the Culture Risk Management Letter, OSFI proposes the following definitions:

1. **Culture:** commonly held values, mindsets, beliefs, and assumptions that guide what is important and how people should behave in an organization;

2. **Behavioural Patterns:** behaviours that are common or typical across a group of people; and

3. **Behavioural Risks:** Behavioural Patterns that are misaligned to the expected behaviour and the desired culture of the FRFI and/or increase financial and non-financial risks.

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Of note, OSFI is clear that the Draft Guideline is intentionally focussed on Culture broadly and is not limited to "risk culture," a subset of Culture that encompasses the common values, attitudes, and beliefs about risk and risk-taking within FRFIs.

Expected Outcomes and Principles

The Draft Guideline sets out three expected culture and risk outcomes and a number of related principles, which are summarized below.

Outcome #1: Culture and behaviour are designed and governed through clear accountabilities and oversight

Principle #1: Desired culture and expected behaviours are designed to align with the purpose and strategy of the FRFI and governed through appropriate structures and frameworks.

OSFI will expect each FRFI to establish appropriate governance procedures and structures to oversee culture and expected behaviour. These governance procedures may include considerations related to remuneration, ethics and conflict management, performance, talent management, risk and resilience, escalation, and whistleblowing among others.

Governance procedures and structures are to: (a) support the design and development of FRFI culture; (b) be applied consistently and embedded across the organization; and (c) be updated and reviewed on a regular basis for currency.

Definition and development of desired culture is expected to include:

- A clear articulation of the desired culture, including expected behaviours and values;
- Alignment to the FRFI's purpose, vision, strategy, and enterprise risk management approach;
- Consideration of key talent and people management strategies;
- Consideration of policies, processes, practices, and systems needed to support the desired culture;
- The implementation of frameworks, mandates, and objectives that reinforce accountabilities; and,
- *Proactive* management of culture and behaviour risks through monitoring, assessment, and reporting to support ongoing oversight and continuous improvement.

Outcome #2: Desired culture and expected behaviours are proactively promoted and reinforced
In order to achieve Outcome #2, OSFI will expect FRFIs to implement human resources tools, including leadership, talent and performance management practices, and compensation and incentive plans to promote and/or reinforce their desired culture and expected behaviours.

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Principle 2: Leaders, at all levels, consistently promote and reinforce the desired culture and expected behaviours through their words, actions, and decisions.

Senior leaders, including senior management and heads of oversight functions, will be expected to set a 'tone from the top' that is aligned with the desired culture expected behaviours. In addition, leaders at all levels will be expected to lead by example with respect to their behaviours and decisions. Leaders at all levels will also be expected to consistently hold people accountable to the desired FRFI culture and expected behaviours.

Principle 3: Talent and performance management strategies and practices promote and reinforce the desired culture and expected behaviours.

Talent management and performance management tools will be expected to be used to achieve the desired FRFI culture.

More specifically, the Draft Guideline provides that talent management strategies and practices should take into account desired FRFI culture and expected behaviours and that current and future talent needs are also to be identified and addressed in the manner required for the FRFI to achieve its strategic objectives and desired culture.

In addition, performance management strategies and practices (goal setting, performance evaluation, promotion, discipline, and termination) are to take the desired FRFI culture and expected behaviours of the FRFI into consideration.

Principle 4: Compensation, incentives, and rewards promote and reinforce the desired culture and expected behaviours.

The compensation structure and incentive plans at FRFIs will be expected to be designed to encourage expected behaviours and discourage undesired behaviours *at all levels*, including Senior Management, material risk takers, and staff. More specifically, OSFI will expect that FRFIs *ensure* that compensation, rewards, and incentive practices and decisions, including adjustment decisions:

- Demonstrate the values, expected behaviours and desired culture of the FRFI;
- Promote sound decision-making, prudent risk-taking, and effective risk management; and,
- Align with and support performance and talent management decisions and actions, including any disciplinary measures.

Outcome #3: Risks emerging from behavioural patterns are identified and proactively managed

Principle 5: FRFIs proactively monitor for, assess, and act to address risks related to culture and behaviour that may influence their resilience.

FRFIs will need to implement mechanisms to identify, assess, and manage Behavioural Risk. Such mechanisms are to include qualitative and quantitative methods and techniques (such as informal conversations with employees, surveys, interviews, focus groups, employee-related data, and performance indicators) to identify behavioural patterns across the FRFI.

Behavioural patterns that reflect the expected behaviours and support the desired FRFI culture are to be encouraged and reinforced, whereas those that do not are to be assessed in order to understand:

- Root causes;
- Potential impacts;
- Unintended consequences; and
- Prevalence (e.g., whether the behavioural patterns are widespread),

with particular attention to be paid to widespread behaviour risks and those that may pose a substantial risk to a specific area of the FRFI or impact resilience. These risks are to be reported within the FRFI in a manner consistent with reporting on other risks within the FRFI.

FRFIs will need to determine which behavioural patterns and behaviour risks require a response (which could include ongoing monitoring of existing behavioural patterns, actions to modify existing behavioural patterns, or reinforcing existing behavioural patterns that support the desired FRFI culture).

Next Steps

A Guideline Information Session is scheduled for Monday, March 6, 2023 from 1:30-2:30 PM (ET) with sign-up available on this OSFI registration page.

In addition to consulting with their regulatory teams, FRFIs may want to consult with their HR and employment law advisors on the Draft Guidance when preparing feedback to OSFI. Feedback can be provided to culture@osfi-bsif.gc.ca until May 31, 2023.

OTHER CAFII MEMBER-RELEVANT NEWS

Canadian Life Insurance Sales See Slight Improvement In 2022

Figures Achieved Despite Economic Challenges

By Miko Pagaduan, Wealth Professional, March 20, 2023

https://www.wealthprofessional.ca/news/industry-news/canadian-life-insurance-sales-see-slight-improvement-in-2022/374504?utm_source=GA&e=YnJlbmRhbi53eWNrc0BjYWZpaS5jb20&utm_medium=20230320&utm_campaign=WPCW-Newsletter-20230320&utm_content=9B8F63D4-69B1-4D0C-AE64-59C8BBAFABC8&tu=9B8F63D4-69B1-4D0C-AE64-59C8BBAFABC8

The year 2022 was challenging for many industries, and the Canadian life insurance market was no exception. Despite the challenging economic conditions, LIMRA's latest Retail Canadian Life Insurance Sales Survey reports a slight improvement in the new annualized premium for Canadian life insurance policies.

According to the survey, the total Canadian life insurance new annualized premium increased by 1% in 2022. This is significantly lower than the growth rate of 25% observed in 2021. The growth rate in 2022 was impacted by inflation and other economic conditions that made it difficult for people to purchase life insurance policies.

Matthew Rubino, a research analyst at LIMRA Insurance Research, said, "Inflation and challenging economic conditions dampened Canadian life insurance sales growth in 2022. That said, 2022 sales exceeded pre-pandemic levels. The new annualized premium in 2022 was 23% higher than in 2019, suggesting sales are returning to a more predictable pattern as the disruptions from the pandemic have passed."

Life insurance numbers in Canada

The fourth quarter of 2022 witnessed a decline of 2% in new annualized premiums, compared to the fourth quarter of 2021. Additionally, the year-over-year policy count decreased by 8% for both the quarter and the year.

Despite the overall slowdown, whole life insurance saw an increase of 1% in the fourth quarter, with more than half of the carriers reporting positive sales growth. The whole life premium grew by 2% in 2022, compared to the previous year. Whole life insurance represented 65% of the total Canadian life insurance market in 2022.

The survey reveals that the new annualized premium for whole life insurance policies increased by 1% in the fourth quarter of 2022, with more than half of the carriers reporting positive sales growth. In 2022, the whole life premium grew by 2% compared to 2021 results, and it represented 65% of the total Canadian life insurance market.

However, the survey also showed that term life insurance sales have dropped for a fifth consecutive quarter. Term new annualized premium fell by 10% in the fourth quarter, resulting in an 8% decline for the year. Term premium held a 20% market share in 2022. Rubino explained, “Sales of these products normalized in 2022 and are in line with results experienced in 2019.”

After three consecutive quarters of growth, universal life (UL) new premium dropped by 7% in the fourth quarter compared to the 45% growth experienced in the fourth quarter of 2021. For the year, UL new premium remained 9% above 2021 results, driven by non-level cost of insurance product sales. UL premium held 15% of the total Canadian life insurance market in 2022.

The survey showed that the year-over-year policy count dropped by 8% for the fourth quarter and 8% for the year. Although the growth rate was not as remarkable as that of 2021, the slight improvement in sales in 2022 indicated that sales are returning to a more predictable pattern.

US life insurance sales

On the other hand, despite a slowdown in the second half of 2022, US life insurance sales matched the record-high premium sold in 2021, according to LIMRA's US Retail Individual Life Insurance Sales Summary for the Fourth Quarter of 2022. The report shows that life insurance premiums totaled $15.3 billion in 2022, propelled by strong growth in the first half of the year.

However, LIMRA Senior Vice President John Carroll noted that "life insurance sales slowed in the second half of the year as consumers' worries about inflation and the economy increased and concerns about COVID-19 declined." As a result, LIMRA forecasts that life insurance sales growth will remain level until 2024.

The report shows that all product lines experienced declines in the fourth quarter of 2022, with the total new annualized premium falling by 13%. Policy sales fell 10% in both the quarter and the year. Whole life (WL) new premium dropped 19% in the fourth quarter of 2022, compared with the prior year. Overall, WL premium totaled $5.8 billion in 2022, a 5% drop from 2021, but still above pre-pandemic sales results. WL premiums represented 38% of the individual life insurance market in 2022.

Term new premium growth fell 5% in the fourth quarter, year-over-year. In 2022, the term new premium was $2.8 billion, 5% lower than the 2021 results. Term premium held a 19% market share in 2022.

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Life And Health Insurers To Conduct Joint Benefits Fraud Investigations

By Kate McCaffery, The Insurance Portal, March 3, 2023

[*Life and health insurers to conduct joint benefits fraud investigations - Insurance Portal (insurance-portal.ca)*]

The Canadian Life and Health Insurance Association (CLHIA) announced a new initiative on March 1, one significant for member life and health insurers working on the problem of benefits fraud.

Insurers reportedly paid out nearly $41 billion in supplementary health claims in 2021 and nearly $27 billion in 2020. “It is estimated that employers and insurers lose millions of dollars each year to benefits fraud,” they state. In conversation with The Insurance Portal, CLHIA representatives pointed out that even one per cent of $41 billion is hundreds of millions of dollars.

The new initiative will see life and health insurers conducting investigations jointly into potential benefits fraud schemes. Insurers who see suspected fraud in their own data, or through a substantiated tip, or through the CLHIA’s own data pooling initiatives, may request to begin a joint investigation. Other insurers signed onto the initiatives may then request to join the investigation.

The initiative builds on the 2022 launch of a CLHIA-supported program which uses advanced artificial intelligence to identify fraud patterns across an industry pool of anonymized claims data – an initiative they say will expand in scope as more industry data are included.

Following the completion of a joint investigation conducted under the most recently announced initiative, the CLHIA says that impacted insurers will review next steps on a case-by-case basis. Actions can include insurers no longer accepting claims from a provider or clinic, working with plan sponsors directly, and referring the matter to professional bodies and law enforcement.

“The industry continues to make significant investments in technology, skilled staff and education programs to mitigate fraud,” the Association stated in its announcement about the initiative.

“Participating insurers will collaborate on joint investigations into suspected benefits fraud schemes that impact multiple insurers.” The CLHIA’s representatives added that the Association plans to hire a full-time administrator responsible for overseeing and co-ordinating this initiative going forward.

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Will ChatGPT Transform Insurance? Insurtechs Weigh In

By Gia Snape, Insurance Business Canada, March 7, 2023

https://www.insurancebusinessmag.com/ca/news/breaking-news/will-chatgpt-transform-insurance-insurtechs-weigh-in-438605.aspx?utm_source=GA&e=YnJlbmRhbi53eWNrc0BjYWZpaS5jb20&utm_medium=20230308&utm_campaign=WPCW-Newsletter-20230308&utm_content=9B8F63D4-69B1-4D0C-AE64-59C8BBAFABC8&tu=9B8F63D4-69B1-4D0C-AE64-59C8BBAFABC8

Whatever your feelings are about generative artificial intelligence (AI), ChatGPT believes it can positively impact the insurance industry.

The chatbot, which became a global sensation after its launch in November 2022, made a case for itself at a demonstration at the Insurtech Insights Europe conference last week.

Prompted about the benefits it could give to insurance companies, ChatGPT said its "knowledge" (based on 175 billion data parameters) and communication skills could assist customers with their insurance queries and help insurers stay on top of emerging trends and customer needs.

A highly intelligent AI language processing tool, ChatGPT sparked feverish debate about its implications for the digital world, even as it gained popularity in various industries such as healthcare and education.

But leaders of insurtech companies, many of which use AI to transform claims, underwriting, distribution, fraud detection, and more are optimistic about the doors that ChatGPT could open.
The combination of AI and a conversational interface could have transformative power for insurance, according to one CEO.

"If you can ask a computer, in natural language, to solve a problem for you, and it can do what you ask it for with a high probability, that's a game changer," said Amrit Santhirasenan, co-founder and CEO of hyperexponential.

"Additionally, if you have AI models that have the sophistication and freeform ability to interpret with intelligence, that is also going to have huge leverage. We'll see practitioners who adopt these technologies really level up."

What are the pros and cons of ChatGPT for insurance?

It's unlikely, at its current stage, for generative AI to completely replace underwriters, claims handlers, or customer service representatives, experts said.

ChatGPT itself has a significant list of pitfalls: it can't grasp context or nuance in human communication, such as sarcasm; it's limited in its ability to handle multiple tasks; and it doesn't have enough expertise to draft complex or technical documents, such as policy wordings.

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It can also hold biases or prejudices, based on the data that it's trained on, which opens a Pandora's box of ethical issues for insurance companies.

The value in generative AI lies in its potential to automate non-core but essential tasks.

"If someone could write the right prompts to an AI, rather than manually format a spreadsheet, they could work in a 100th or even a millionth of the time," Santhirasenan said.

According to Roi Amir, CEO of Sprout.ai, insurance companies could use the underlying technology to jumpstart their own innovations.

Sprout.ai trained its own AI to handle insurance claims data, boasting that its claims automation platform can process most claims within minutes. Amir said other companies will be looking to harness generalized AI for similarly specific applications.

"If you look at many [AI] models today, you know, they are built to be very specific to a problem," he told Insurance Business. "ChatGPT is a great generalized model. What I think we will see is many companies using it as their baseline model and add layers of intelligence and specificity for their individual domains.

"It will jumpstart a lot of things because it enables you to start from a much better level of abstraction. Smart companies will be leveraging that to solve very, very specific problems."
Santhirasenan agreed: "If we take these sophisticated AI models and specialize them, we can create 'supercharged' versions of AI applications in different sectors [of insurance]."

It could take time, however, for some specialty and commercial lines to find value out of AI models because of a lack of data, the CEO acknowledged. But personal lines such as home and auto insurance, where there are hundreds of millions of data points already available for AI to leverage, could see astonishing results.

"We're only at the beginning of this, but we could see some incredible things out of the personal lines spectrum [of business] very quickly," Santhirasenan added.

Lawrence Buckler, VP of sales at Sprout.ai, pointed out that AI had existed as an invisible lever in insurance for many years, before ChatGPT came to mainstream consciousness.

"ChatGPT made something tangible that had never been tangible to a lot of people before. At Sprout, we've been using AI for several years to solve problems that most people don't see," he said.

"Now we have customers that are using AI to fully resolve complex data problems very quickly, effectively, and consistently."

While the evolution of the technology is still unclear, the overnight sensation around generative AI is a boon for insurance companies, noted Bill Brower, VP of industry relations and claims solutions at Solera.

"The biggest thing [ChatGPT] is doing for the insurance industry is that it gets people more and more comfortable with AI capability," Brower said.

"The more we see consumers adopting AI in other areas of life, the more it's going to help insurers with [using AI] in their applications."

Artificial Intelligence Drives 62% Of Insurers To Cut Headcount: Survey

By Jen Frost, Insurance Business Canada, March 3, 2023

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Sixty two per cent (62%) of insurers have cut staff due to the implementation of artificial intelligence (AI) and machine learning (ML) technologies in the past 12 months, according to the results of a global survey.

Rackspace surveyed IT decision makers across a range of sectors in the Americas, Europe, Asia, and the Middle East and received 52 responses from individuals at insurance companies.

"When we look to computers or we look to technology to make an organisation more profitable and more efficient … some of these organisations have employed, in some cases, mountains of people to be able to do some of this work," said Jeff DeVerter, chief technology evangelist, Rackspace Technology.

"Some of the low-level analyst work that used to be done in large spreadsheets, that used to be done in some specific tooling for the industry, maybe we're finding now that AI and ML are actually able to do the work of a lot of those folks who were effectively manually doing work before."

While DeVerter said he did not see the senior underwriter of the future being replaced by AI, he did predict an end to "armies of underwriters."

"Should you worry? I'd redirect that and say, you have indispensable industry knowledge, but the job you have today is probably going to change, and so you've got to change with it," DeVerter said.

"Detroit is a great example, in the auto industry you had companies make some changes as robotics came in, and had individuals changed their skilling, they would have been a lot better off, but you just can't keep doing things the way we've always done them.

"The industry knowledge is indispensable, that's needed to train models, it's needed to move forward and needed to take those models and then figure out how we can monetise them even better in the future."

The "smart individuals are reading the tea leaves and figuring out what skills they need to adopt", DeVerter said.

Insurers face an AI talent challenge

Some insurers may be looking to reduce headcount as a result of AI and technology gains, but a talent and skill shortage in the area was seen as the "greatest challenge" where it came to adoption so far, cited by 67% of insurer respondents. Nevertheless, 90% of insurers said they had grown their AI and ML workforce in the past 12 months.
The businesses that are ahead have been looking at the technology for at least five years, DeVerter said. Other challenges included a lack of new business use cases (58%), algorithm or model failure (52%), and lack of technology infrastructure (52%).

Eighty one per cent (81%) of insurer respondents said that AI and ML now led their IT and business strategy, compared to 63% for cybersecurity and 58% for cloud.

What benefits are insurers seeing from AI?

More than half (52%) of insurers said they had realised "substantial benefits" from AI/ML already, according to the Rackspace survey, with another 23% saying they'd seen modest benefits. Meanwhile, 25% said it was too early to tell. Insurers listed the benefits as follows:

- 81% achieved risk reduction, and increased understanding of business/customers
- 79% increased sales
- 77% personalised marketing
- 75% increased productivity
- 73% increased revenue streams, and operation cost reduction
- 69% improved customer satisfaction
- 67% achieved faster time to profitability, reduced cost of new product development, and ability to hire/recruit new talent
- 65% increased innovation

Insurer IT decision makers still face AI/ML pushback from within the business

Despite reported benefits, more than half (56%) of insurance IT decision-makers said they had received some form of "pushback or scrutiny" over the penetration of AI into their business.

Reluctance could stem from a "collision of the business and IT", DeVerter said. "IT gets their feathers ruffled a little bit when business comes and says, here's this new technology that you need to implement based on this other data and storage, do we have enough?"

On the flipside, an IT department may hit hurdles when pitching use of the technology to an organisation that could view them as "server jockeys," DeVerter said.

Blockchain, IoT, and cloud technology were said to be more important than AI and ML in Rackspace's survey two years ago, but these have since slid down insurers' lists of priorities.

Do insurers trust AI?

Over a third (38%) said they strongly trust AI and ML results, with more (42%) only slightly trusting the results.

About as many (38%) strongly versus 33% slightly thought that there were enough checks and balances in place to avoid any negative consequences of AI/ML.

Forty four percent (44%) strongly vs. 35% slightly thought that there was sufficient governance in place to safeguard against AI and ML misuse.

AI and ML a "systemic wave" across sectors

Insurers' perceptions and use of AI and ML may be shifting, but the industry is not unique in this regard. Adoption of the technology was described as a "systemic wave" by DeVerter.

"If you look at the benefits to these projects, it's not like, 'hey, we're just trying to reduce costs and move to the cloud, hey, we're just trying to be more cautious around security or risk' – but if you look at where this is having an impact, it's having an impact in risk reduction across sales, marketing, productivity, revenue streams," DeVerter said.

"It's not just impacting every market segment in every industry and every country, but every aspect of the companies as well, so it's a pretty exciting place to be right now."

CAMGA Announces Establishment Of Managing General Agent-Focused Ombudservice

By Lyle Adriano, Insurance Business Canada, March 6, 2023

[CAMGA announces establishment of managing general agent-focused ombudservice | Insurance Business Canada (insurancebusinessmag.com)]

The Canadian Association of Managing General Agents (CAMGA) has announced that a new ombudservice dedicated to Canada's managing general agents (MGAs) has been created.

According to a CAMGA release, the ombudservice will have jurisdiction over inquiries and matters related to CAMGA's MGA Code of Ethics and the MGA Code of Business Operating Standards. As a requirement to join CAMGA, MGAs must agree to adhere to the codes.

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The Association has partnered with Barb Szychta, who will serve as the MGA ombudservice. Szychta has over 30 years of insurance industry experience, and has worked as a broker, an insurance & risk management instructor, and as vice president of risk management services with an MGA.

"The Association is committed to raising the level of professionalism and transparency within its member MGAs," commented CAMGA executive director Steve Masnyk. "The standards are public, as are the names of the MGAs meeting them; this independent ombudservice will adjudicate any issues raised with respect to members of CAMGA."

"MGAs are fast becoming the foremost underwriters within the commercial & specialty insurance markets, and such a growing footprint requires additional transparency and accountability towards their broker partners as well as their capacity providers; this service is another step towards making CAMGA member MGAs the gold standard for options and solutions," added CAMGA president MaryKate Townsend.

Last September, CAMGA launched the new Bridge platform, which serves as an access point for brokers looking to connect with commercial and specialty MGA markets. It is free to use for brokerages of all sizes.

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Dates: From Tuesday, April 4 through Thursday, April 6, 2023
Venue: Canada Life, Hugh C. Baker Room, 330 University Avenue, Toronto, ON

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- ***It's effective.*** In a lively and highly interactive learning process that includes real-life case studies and instruction by subject matter experts, participants live and breathe insurance.

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Dates: Tuesday, April 18, 2023
Time: 12:00 p.m. – 1:00 p.m. EST

As lines blur between fintechs and regulated financial institutions, players are seeing increased regulatory focus and, as a result, heightened risk. Join us as we explore issues affecting fintechs and discuss how they can successfully navigate new regulatory requirements and supervisory interventions.

In the second session of our fintech series, we'll be discussing the impact of current economic headwinds and increasing regulatory focus on bank and fintech partnerships. Samantha Tom of Borrowell and James Povitz of National Bank will also be joining us to take a look at the challenges and opportunities these partnerships bring, what drives a successful partnership, and the impact on fintech activity from recent economic and regulatory developments.

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