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CAFII ALERTS WEEKLY DIGEST: November 10 – November 17, 2023

November 17, 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.

The Weekly Digest will take a three-week winter hiatus, spanning the months of December 2023 & January 2024. Following the December 22/23 edition, the next Weekly Digest will be produced for the week of January 8 to January 12/24.

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GOVERNMENT/LEGAL/REGULATORY DEVELOPMENTS

AMF Names New Enforcement Chief

Interim Executive Director, Eric Jacob, To Take The Role Permanently, Starting November 13

By James Langton, Investment Executive, November 10, 2023

https://www.investmentexecutive.com/news/from-the-regulators/amf-names-new-enforcement-chief/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=f9f4f6eaaf33f1b05c846d7c2a532f58

The Autorité des marchés financiers' (AMF) interim head of enforcement, Eric Jacob, has been named the division's new chief.

Jacob, who joined the AMF in 2008 and served as interim executive director of enforcement since March 17, is taking the role permanently as of November 13.

"Eric brings a wealth of knowledge and experience to the top role at AMF enforcement, as evidenced by his committed work at the head of various units and impressive track record at the AMF," said Yves Ouellet, president and CEO of the regulator, in a release.

"His recognized sector expertise, strategic vision and facilitative approach will provide significant value to AMF enforcement and the entire AMF team," he added.

While serving as interim head of enforcement, Jacob also maintained his previous position as superintendent, client services and distribution oversight, a position he held since 2021. He will now continue in that role on an interim basis.

FSRA Publishes Technology Risk Management Guidance

By Kate McCaffery, Insurance Portal, November 9, 2023

The Financial Services Regulatory Authority of Ontario (FSRA) is taking steps to address information technology (IT) risks, including but not limited to cyber threats, in a new guidance document spelling out how the regulator interprets applicable regulations and how it will approach compliance oversight of its regulated entities.

The final Information Technology (IT) Risk Management Guidance "will help FSRA-regulated sectors and individuals effectively manage threats to their IT systems, infrastructure and data," FSRA states in an announcement about the new guidance's publication. "The guidance describes practices and desired outcomes for regulated entities and individuals but does not prescribe how to achieve them," the guidance continues.

For each of its regulated sectors, including credentialing bodies, health service providers, insurance agents and agencies, pension administrators and insurance companies, the document outlines seven practices for effective IT management, a process for notifying the regulator when an incident is material (interestingly, it is the regulated entity themselves who must determine if the breach is material – the regulator provides evaluation criteria), and sector-specific requirements.

Among the sector-specific requirements for incorporated insurance companies, agents, adjusters and agencies, for example, FSRA says it considers insurers to ultimately be responsible for the fair treatment of customers. "This includes ensuring that IT risks are being effectively managed through all of its distribution channels and outsourced functions related to the conduct of insurance business," they state, adding that this does not absolve intermediaries of their own responsibilities, as well.

"FSRA defines IT risk as the risk of financial loss, operational disruption or damage, or reputational loss resulting from the inadequacy, disruption, destruction, failure or damage by any means to a regulated entity or individual's IT systems, infrastructure and data," the guidance states. "IT risk encompasses, but is not limited to, cyber risk. While cyber risk is specifically related to deliberate or accidental breaches of security, IT risk also includes any risk extending from the use of IT (e.g., aging digital infrastructure). IT risk represents a significant and growing threat to the businesses, operations and to the stability of FSRA's regulated sectors," they add. "FSRA's focus on IT risk is consistent with FSRA's statutory objects."

Read article (Subscription required): *https://insurance-portal.ca/society/ontario-regulator-publishes-technology-risk-management-guidance/?utm_source=sendinblue&utm_campaign=daily_complete_202311-13&utm_medium=email*

FCA Review Spots Greenwashing Risks

Fund Managers Must Do More To Comply With Labelling Rules, Guidance

By James Langton, Investment Executive, November 16, 2023

https://www.investmentexecutive.com/news/from-the-regulators/fca-review-spots-greenwashing-risks/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=f9f4f6eaaf33f1b05c846d7c2a532f58

The regulator reported that, while most fund managers have made some effort to adhere to its expectations for the design, delivery and disclosure requirements for ESG and sustainable funds, work remains, particularly in terms of disclosure to retail investors.

Among other things, the regulator found funds that weren't aligned with their ESG and sustainability goals, portfolio holdings that didn't match funds' ESG objectives or names, key information that wasn't adequately explained or put into context for investors, and stewardship activities that weren't clearly understood.

The review came ahead of the FCA finalizing its rules and guidance on fund labelling and sustainability disclosure requirements.

"The changes we are making to the regulatory regime through upcoming rules on labelling will help retail investors and consumers understand and be confident in knowing exactly what they are investing in," said Camille Blackburn, director of wholesale buy-side with the FCA, in a release.

"Embedding the guiding principles and the good practice we have identified in our review will help firms to comply with proposed new requirements," she said.

In a report detailing the results of the review, the FCA said it expects fund managers to "assess how they are meeting our rules and guidance in relation to their ESG and sustainable investment funds."

It also stressed it expects them to identify risks of consumer harm stemming from the design, delivery and disclosure of their funds.

OSC Priorities Include Lifting Limitations On Advice

Regulators To Explore The Regulation, Provision Of Advice Online

By James Langton, Investment Executive, November 16, 2023

https://www.investmentexecutive.com/news/from-the-regulators/osc-priorities-include-lifting-limitations-on-advice/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=f9f4f6eaaf33f1b05c846d7c2a532f58

The regulation of advice may be facing a revolution as the Ontario Securities Commission (OSC) re-examines the borders around advice, including whether discount brokers should be able to provide some form of it.

The prospect of redrawing the boundaries around advice was set out in the OSC's draft statement of priorities, which details the regulator's agenda for the coming year.

Specifically, the OSC indicated it aims to study the regulation and provision of advice in the order execution only (OEO) channel, which includes discount brokers and robo-advisors.

"There is an increasing consensus that the present limitations on advice being provided by OEO firms are preventing important information from being provided to do-it-yourself (DIY) investors who are increasingly seeking advice from unregistered channels, including social media platforms," the regulator said in its draft statement.

The result is that investors may be getting information that is "incomplete or misleading, and in some cases may not comply with securities laws," it said.

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And OEO firms may be prevented from providing risk warnings to investors about products or services, such as leveraged investments, meme stocks, options trading and margin, it noted.

Given these concerns, the OSC said that, along with the Canadian Investment Regulatory Organization (CIRO), it will examine "whether OEO firms can provide non-tailored advice to meet the needs of DIY investors while not diluting the value of robust established advice channels so the two are not confused."

The rethinking of advice falls on a long list of proposed priorities for the regulator, including long-standing goals — with the rest of the Canadian Securities Administrators (CSA) — such as proposing binding authority for the Ombudsman for Banking Services and Investments.

It's also planning work to assess the implementation of the client-focused reforms, including compliance sweeps (with CIRO and the rest of the CSA) targeting know-your-client, know-your-product, and suitability requirements.

Additionally, the OSC (again, along with CIRO and the CSA) will further investigate dealers' product shelves "and the decisions to rely on predominantly proprietary products."

The OSC will also propose a rule to govern the distribution of disgorged money to harmed investors.

"The proposed priorities build on the OSC's ongoing work to deliver on our mandate to modernize regulation and respond quickly to market changes," said Grant Vingoe, CEO of the OSC, in a release.

"As we consider our work through the lens of evolving macroeconomic conditions and investor attitudes, we are taking a long-term view to ensure our capital markets continue to deliver compelling investment opportunities and strong investor protection," he said.

Alongside the extensive list of policy priorities, the OSC will craft a new strategic plan, in the wake of the regulator's recent reorganization (spinning off the adjudicative function), the results of the provincial auditor general's latest review, and the recommendations of the Capital Markets Modernization Taskforce.

"Together, these changes have prompted the need for a new and refreshed strategic plan to ensure that we are well-positioned for the future," the OSC said. "[W]e are exploring options for our strategic direction, and defining our priorities for the next six years."

The regulator aims to publish its plan in the spring.

In the meantime, comments on the draft statement of priorities are due by December 18.

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OTHER CAFII MEMBER-RELEVANT NEWS

Research Finds Life Insurance-Shaped Hole In Canadians' Estate Plans

Despite Majority Having Plans To Entrust Estate To Next Generation, Few Are Aware Of The Potential Tax Burden

By Leo Almazora, Wealth Professional, November 13, 2023

https://www.wealthprofessional.ca/investments/life-and-health-insurance/research-finds-life-insurance-shaped-hole-in-canadians-estate-plans/381317?hsmemberId={{contact.hs_object_id}}&utm_source=GA&e=cm9ieW4uamVubmluZ3NAY2FmaWkuY29t&utm_medium=20231113&utm_campaign=WPCW-Newsletter-20231113&utm_content=&tu=

Most Canadians intend to transfer at least part of their estate to the next generation, but just a few are leveraging the benefits of life insurance for those plans, according to a new study.

The study, conducted by Pollara Strategic Insights for IG Wealth Management, found nearly nine-tenths (87%) of Canadians plan to transfer all or part of their estate to future generations.

However, many of the Canadians polled are in the dark about the potential tax burden of inheriting assets – including assets, vehicles, and properties – on the beneficiaries. The survey found only two-fifths (39%) of Canadians know the tax implications and cost that their beneficiaries stand to assume upon their passing.

And while some life insurance policies can offer tax advantages in estate planning – most life insurance payouts are tax-exempt, so policies payable on death to one’s beneficiaries can potentially mitigate taxes and help ensure assets remain in the family – only 29% of Canadians in the study said they were knowledgeable about those benefits.

"We're on the heels of the largest inter-generational wealth transfer in history, so it's important Canadians understand the role life insurance plays to help maximize the value of their estate and minimize tax implications," Christine Van Cauwenberghe, head of Financial Planning at IG Wealth Management, said in a statement.

When it comes to raising awareness about the planning benefits of life insurance, financial advisors play a critical role. According to the study, Canadians with a financial advisor are more knowledgeable about the features and benefits of life insurance than those who do not (71% vs. 50%).

“It can be difficult to think about your own mortality and leaving your loved ones, but adding a life insurance component into your wider financial plan is crucial to ensuring that the next generation is set up for financial security and success,” said Alana Riley, head of Insurance, Mortgage and Banking.

"With the help of a financial advisor, Canadians can integrate their insurance and estate planning into their larger financial plan to ensure that they are maintaining their wealth and safeguarding their legacy," Riley said.

Capgemini Says Insurers Largely Unprepared For Coming Wealth Transfer To Beneficiaries

By Kate McCaffery, Insurance Portal, November 10, 2023

The Capgemini Research Institute is warning that the life insurance industry is largely unprepared for the US$ 7.8 trillion that is expected to transfer to beneficiaries by 2040. The shift is unprecedented for insurers, they add; the outflow of assets under management (AUM) could reach US$ 7.8 trillion as these assets are transferred to beneficiaries. This amount, worth approximately 40 percent of insurers' AUM, is currently held by policyholders over the age of 65.

A new report from Capgemini, The Aging Well Opportunity: How Trust and Engagement Can Unlock Growth For Insurers, also found through surveys with 6,775 insurance customers over the age of 50 in 20 countries that 60 percent of individuals over 65 have not sought professional financial advice to prepare for retirement or transfer their wealth. The report also draws on interviews with 200 senior executives across 14 markets.

"The demographic shift, coupled with the greatest wealth transfer to take place in the coming years, threatens the life insurance industry as it competes to serve the needs of an aging population," the report's researchers state. "Ecosystem partnerships, such as engaging with firms that specialize in serving seniors, can help insurers orchestrate value-added services and close their capabilities gap in key areas." They add that new partnerships should focus on affluent customers. These clients, they say, want innovative life products, but only 27 percent of insurers have the advanced product development capabilities to provide them.

"Strained government finances and a growing retirement protection gap mean the responsibility to age well is increasingly shifting to individuals. As people live longer, the impact of an aging population on the life insurance market landscape will be significant," the report states.

"Insurers that enhance touchpoints across the customer lifecycle will protect their current assets and unlock future growth. The goal is to evolve from today's product-centric approach, where offerings are determined mainly by what's technically feasible, to a more customer-centric model, based on broader value propositions and more personalized experiences. Insurers that successfully evolve will fortify trust across generations and minimize the risk of losing assets."

Read article (Subscription required): *https://insurance-portal.ca/life/capgemini-says-insurers-largely-unprepared-for-coming-wealth-transfer-to-beneficiaries/?utm_source=sendinblue&utm_campaign=daily_complete_202311-13&utm_medium=email*

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Generative AI Reveals Underwriting Customer Service Applications For Insurers, Nationwide And Others Say

By Michael Shashoua, Digital Insurance, November 15, 2023

https://www.dig-in.com/news/nationwide-others-on-gen-ai-underwriting-customer-service?position=personalized_1&campaignname=DIG%20Morning%20Briefing-11152023&utm_source=newsletter&utm_medium=email&utm_campaign=V3_DIG_Daily_Briefing_2023%2B%27-%27%2B11152023&bt_ee=nbjatT9DmSoUKlw%2FW9CTZls9sIoLqg5jsIsqAMRpraE%2BC5R6T4Cjx%2BdigE%2FRulv3&bt_ts=1700057161880

Many insurers are already pursuing their own AI "centers of excellence," budgeting and planning to begin building in 2024, states Cindy MacFarlane, global insurance, AI and data leader at Deloitte.

Generative AI may have spurred these actions. "We're seeing this really become a reality compared to a couple years ago where it was – AI, nobody really wanted to talk about it," MacFarlane said.

Insurers are paying more attention to AI and looking at how to harness Gen AI for both property and casualty risk, underwriting and customer service functions, as well as internal functions such as workflow management.

Generative AI can change the internal workings of an insurer by taking over simple tasks so associates are free to focus on serving policyholders, as Jim Fowler, chief technology officer of Nationwide states. "We see Gen AI as using artificial intelligence to create virtual assistants, virtual workers, that will automate the simple tasks that our associates do, to free them up to do what we believe they do best, which is provide judgment, to be empathetic to members and customers, and to bring critical reasoning and thinking skills to every situation," he said.

Also, Generative AI can increase the value and usefulness of data, according to Fowler. "We've got this foundational set of transactional systems that have created a single source of truth when it comes to data, to allow us to enter into what we think is a new phase for us, which is what we're calling our augmented intelligence phase where we're going to empower a bionic enterprise that brings humans plus machines together, to be able to run the company and serve our intermediaries, our members and our customers in a very different way," he said.

The complexity of insurance policies, in both life and property and casualty, could be better communicated by using Gen AI, according to Kimberly Harris-Ferrante, distinguished vice president analyst, Gartner.

"Instead of having a person searching through your policy system, or going through and reading an actual policy, you could generate a summary of that using natural language that you then either give to a human, whether it's a claims adjuster or a call center rep, to say here's what the coverage is," she said.

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The technology can fulfill several functional points for insurers, as Harris-Ferrante explained:

- P&C claims adjusters can use Gen AI to get a summary of what is and is not covered in a policy as they respond to a claim.
- In commercial underwriting, Gen AI could summarize the risks of a specific property.
- Generative AI can combine service chatbots with analysis of the customers they serve to determine customers' eligibility for policies.
- Generative AI can summarize legal and compliance documents to more clearly show what an insurer has done to comply with regulation.
- Generative AI can be used to develop new insurance products and generate marketing messages.
- Pairing Generative AI with cloud data can generate sentiment analysis of customers that service representatives can use for a personalized approach to the customer. Similarly, personalizing marketing messages based on sentiment analysis increases their rate of return.

Generative AI also has the potential, according to Harris-Ferrante, to personalize P&C and life insurance underwriting.

"It's in the moment of data entering a system. It's in the moment of the conversation with the customer. It's in the moment an alert comes in from [an] IoT device, and you can generate a message to the customer that says, 'Hey, this data just came in, are you okay?'" she said. "It's generating some type of thing that generally is in the moment, highly personalized and highly contextualized to the situation because it has that in the moment queue and in the moment data."

While insurers may not yet be applying Gen AI to these external, customer-facing functions, Deloitte's MacFarlane believes that while "some are all in on use cases that are internally focused, we know that this is going to go more external, when the regulatory bodies have an idea of how they want to regulate this and we can track the models better and understand hallucinations and false positives," she said. "It's only the beginning. We're seeing good traction there."

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What's Happening In Canada's Life Insurance Sector?

New Report Highlights Key Figures And Trends

By Mika Pangilinan, Insurance Business, November 1, 2023

https://www.insurancebusinessmag.com/ca/news/life-insurance/whats-happening-in-canadas-life-insurance-sector-465149.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20231114&_hsmi=282489190&_hsenc=p2ANqtz--Chr_LK6dFLA1hbH85ozoZZCEGLNIv_lC_UswdY4vSbhD48muy1FlHvqPlRMGsIwx3CbalEf8c4fiPfB1IO6POitYymA&utm_content=&utm_source=

Canada's life insurance sector has grown significantly, with assets surging from $4.8 trillion to $5.5 trillion between 2018 and 2022.

A new report by financial comparison company HelloSafe noted that the 14.6% growth underscores Canadians' confidence in life insurance as an investment product.

In the report, HelloSafe found that Canadians paid $27 billion in life insurance premiums last year, a 21.6% increase from 2018.

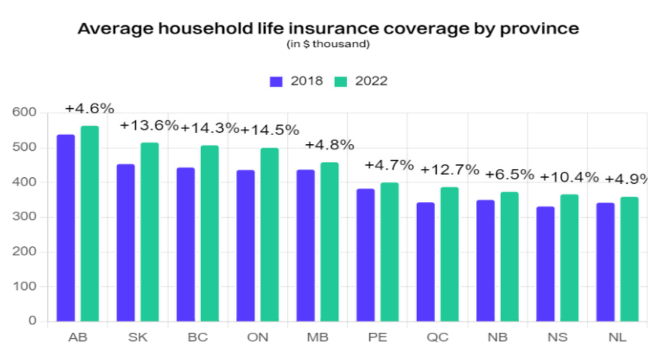
Furthermore, the average life insurance coverage for Canadian households jumped 12.1% between 2018 and 2022, climbing from $423,000 to $474,000.

Ontario experienced the most significant increase in average coverage, rising from $440,000 in 2018 to $504,000 in 2022, marking a 15.5% growth. British Columbia closely followed with a 14.3% increase.

Meanwhile, Quebec saw a 12.1% increase, with average coverage going from $347,000 in 2018 to $391,000 in 2022.

Provincial Trends – Coverage Per Household, Median Age

More provincial trends were observed in last year's average life insurance coverage per household.



Source : Canadian Life and Health Insurance Facts (CHLIA, 2019, 2020, 2021, 2022 and 2023)

In 2022, Alberta came out as the province with the highest average coverage at $567,000, followed by Saskatchewan at $519,000. By contrast, Brunswick and Nova Scotia had the lowest average coverage at $377,000 and $370,000, respectively.

The HelloSafe report also delved into data on the median age of life insurance policyholders. While the national median age is 43, policyholders in Alberta, Saskatchewan, and Manitoba trended younger, with a median age of 38.

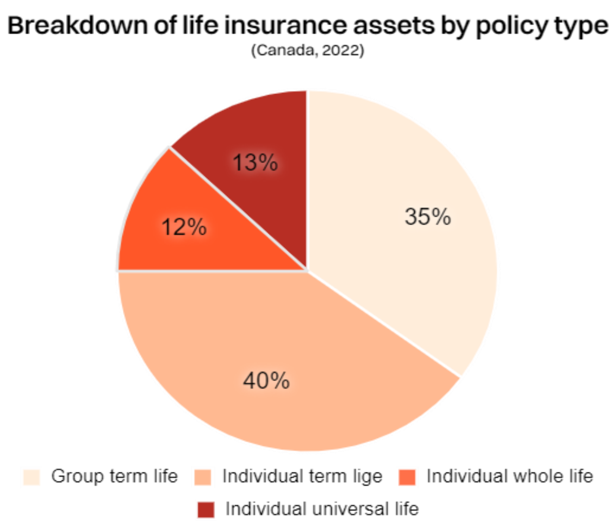
On the other hand, Newfoundland and Labrador and New Brunswick have higher median ages of 48 and 46, respectively.

Diverse Policy Types But Individual Policies Preferred

Breaking down life insurance assets by policy type, the report found a relatively diverse landscape.

Individual term life insurance accounted for 40% ($2.2 trillion) of total policies held in 2022. Group-term life policies also represented a significant portion, constituting 35% ($1.9 trillion) of the total.

Additionally, individual universal life insurance and individual whole life insurance policies contributed 13% ($715 billion) and 12% ($660 billion), respectively.



Source : Canadian Life and Health Insurance Facts (CHLIA, 2019, 2020, 2021, 2022 and 2023)

"This variety of policy types highlights the diversity of needs and preferences of life insurance policyholders in Canada, each opting for the solution that best suits their financial situation and long-term protection objectives," the HelloSafe report noted.

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Still, in terms of preference, HelloSafe's data highlighted the predominance of individual policies, representing 83% of the total policies taken out in 2022. By comparison, group plans accounted for only 17%

"This illustrates Canadians' preference for personalized life insurance policies tailored to their specific needs, financial situation, and objectives," the report added. "Individual policies offer greater flexibility and allow policyholders to design tailor-made insurance plans."

Canadians Wish They Knew More About Their Finances

CIBC Poll Finds That Canadians Are Confident Teaching Their Kids Financial Literacy, But Lack Confidence In Their Own Knowledge

By David Kita, Wealth Professional, November 14, 2023

https://www.wealthprofessional.ca/news/industry-news/canadians-wish-they-knew-more-about-their-finances/381362?hsmemberId={{contact.hs_object_id}}&utm_source=GA&e=cm9ieW4uamVubmluZ3NAY2FmaWkuY29t&utm_medium=20231114&utm_campaign=WPCW-Newsletter-20231114&utm_content=&tu=

Canadians are confident on the basics of financial literacy, and comfortable teaching their kids about topics like budgeting, saving, and debt repayment. However, when the subjects grow more complex a few gaps are emerging in Canadians' financial literacy.

That's according to a new survey by CIBC, which found 78% of Canadians will say they are confident teaching their children financial literacy. Those respondents reported strong knowledge of the basics. 86% said they were knowledgeable about day-to-day budgeting and saving money, while 79% said they were knowledgeable about paying off their debts.

Confidence began to drop, however, on more complex topics. Only 53% of respondents said they were knowledgeable about topics like investing, wills, or estate planning. 49% said they wish they knew more about the financial literacy tools and resources available to them.

"Having early and on-going conversations is important for parents who want their kids to develop high levels of financial literacy. Continuing your own education and expanding your own knowledge base is equally important to help make informed financial decisions for the future," said Carissa Lucreziano, Vice-President, Financial and Investment Advice, CIBC.

The survey also identified a few areas where Canadians feel they could use more advice and guidance. 23% reported feeling they could use advice on investments, with 19% reporting they need more help to prepare for retirement. 19% also said they need advice on strategies to offset inflation, while 15% said they need additional help managing the cost of living.

Inflation and the cost of living were found to be pushing Canadians to pay more attention to their finances. 83% of respondents said they were paying closer attention to their own finances on a regular basis, while 55% said they need to get a better handle on their finances this year.

On the whole, the survey found more than 60% of Canadians wish they had a stronger level of financial literacy.

"November's Financial Wellbeing Month is an excellent time for Canadians to familiarize themselves with the many resources available to them," said Lucreziano. "Whether it's speaking with a trusted financial professional or accessing your bank's online tools, articles, podcasts and events, there's many ways to expand and improve your financial knowledge."