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CAFII ALERTS WEEKLY DIGEST: November 25 – December 2, 2022

December 2, 2022

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 2022 & January 2023. Following the December 16/22 edition, the next Weekly Digest will be produced for the week of January 6 to January 13/23.

TABLE OF CONTENTS

Government/Regulatory Developments 2
Canada's Insurance Regulators Release Guidance Targeting Unfair Incentives 2
FSRA Proposes Deferred Sales Charge Ban For Segregated Funds 3
How OSFI Expects Insurers To Respond To Market Volatility 4
Regulators See Threat To Stability In Shadow Banks' Growth 5
U.K.'s Financial Conduct Authority Seeks Industry Code For ESG Ratings, Data 6
Other CAFII Member-Relevant News 7
RBC To Buy HSBC's Canadian Unit For $13.5-Billion In Biggest Domestic Banking Deal On Record 7
Canadian Banks Boost Bonuses In Bid To Retain Talent 10
Travelex Insurance Services Enters Canadian Market 12
Insurance Industry Needs To Begin Preparing Now For Quantum Computing 13
Travel Economy May Recover By 2024, Says Destination Canada; TIAC Calls For Changes 14
Upcoming CAFII Member-Relevant Webinars and Events 16
Second Annual FSRA Exchange Event 16
Videos By Torys LLP: "The Canadian Fintech Review" 17

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GOVERNMENT/REGULATORY DEVELOPMENTS

Canada's Insurance Regulators Release Guidance Targeting Unfair Incentives

The Regulators Concluded That Some Incentive Practices May Present Risks To The Fair Treatment Of Customers

By Investment Executive Staff, November 30, 2022

https://www.investmentexecutive.com/news/from-the-regulators/insurance-regulators-release-guidance-targeting-unfair-incentives/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=6d73923380f292a40dc042b455f0fde3

Canada's insurance regulators released new guidance on Wednesday, November 30 to provide more clarity on incentives and conflicts of interest.

The Canadian Council of Insurance Regulators (CCIR)'s and the Canadian Insurance Services Regulatory Organizations' (CISRO) incentive management guidance is meant to complement the 2018 fair treatment of customers (FTC) guidance.

Since the FTC guidance was released, industry participants have asked for more clarity regarding remuneration and conflicts of interest, a release from the CCIR and CISRO said.

The regulators concluded that some incentive practices may present risks to the fair treatment of customers, leading to the new guidance.

The incentive management guidance states that insurers and intermediaries must "develop policies, procedures and controls which integrate FTC outcomes into incentive arrangements," and identify risks of unfair outcomes to customers.

It also calls on management to "establish appropriate consequences or deterrents to actively discourage behaviours" that could hurt customers.

The guidance lists components of incentive agreements that could harm customers. Those include:

- ongoing commission amounts that underestimate the level of service expected;
- incentive arrangements that can result in fees or penalties (e.g., exit fees) for the customer;
- incentives paid to intermediaries who are not involved in the sale and servicing;
- excessive incentives for cross-selling optional products compared to the incentive for selling only the primary product;
- lifetime vesting of renewal commissions to intermediaries that can result in eventual client orphaning;
- sales contests, sales quotas, bonuses, and non-monetary benefits that are based on sales of specific products over limited periods of time;

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- chargeback mechanisms influencing the intermediary to recommend that the customer maintain a product that is inappropriate or unsuitable, so that the intermediary is not required to repay compensation; and
- agreements with intermediaries that may allow insurers to influence the decisions, operations, and practices of intermediaries and restrict access to markets.

The regulators signalled their intention earlier this year to ban the deferred sales charge structure for segregated funds, a move taken up by the Financial Services Regulatory Authority of Ontario (FSRA) earlier this month.

FSRA has also reviewed sales practices at managing general agents and indicated that it intends to expand regulation in this area in the new year.

Like the FTC guidance, the new incentive management guidance is principles-based and allows insurers and intermediaries "to devise strategies, policies and controls in support of fair customer outcomes based on the nature, size and complexity of their business activities," the release said.

FSRA Proposes Deferred Sales Charge Ban For Segregated Funds

Proposal Would Eliminate Regulatory Arbitrage Between Seg Funds And Mutual Funds

By James Langton, Investment Executive, November 25, 2022

https://www.investmentexecutive.com/news/from-the-regulators/fsra-proposes-dsc-ban-for-seg-funds/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=6d73923380f292a40dc042b455f0fde3

Segregated fund sales under deferred sales charge (DSC) structures would be banned by mid-2023 under proposals from the Financial Services Regulatory Authority of Ontario (FSRA).

The regulator has proposed amendments to its rules that would ban new DSC seg fund sales as of June 1, 2023. The proposed changes would also introduce additional disclosure requirements for existing DSC sales to enhance consumer protection.

FSRA said the proposals, which are out for comment until February 23, 2023, would bring the regulation of seg funds in line with mutual funds. Securities regulators' ban on DSCs with respect to mutual funds took effect in June 2022.

"Insurers and agents in Ontario need to treat customers fairly and provide them with product options that suit their needs," said Huston Loke, executive vice-president, market conduct at FSRA, in a statement.

 Back to Table Of Contents

"These charges raise serious consumer protection concerns for customers who may need to access their own investments. FSRA is moving to stop sales of new individual segregated fund contracts that include DSCs and to ensure fairness for customers who remain in existing contracts," he added.

Back in February, the insurance sector's regulatory umbrella groups — the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) — signalled their intention to ban DSCs for seg funds by June 2023, citing the "high risk of poor consumer outcomes" with these structures.

Earlier this month, the CCIR and CISRO also completed a separate consultation on upfront compensation models involving commission structures other than DSCs, such as advisor chargeback structures, as part of their efforts to enhance consumer protection in the insurance sector.

How OSFI Expects Insurers To Respond To Market Volatility

By Jason Contant, Canadian Underwriter, November 18, 2022

https://www.canadianunderwriter.ca/legislation-regulation/how-osfi-expects-insurers-to-react-to-market-volatility-1004228126/?utm_medium=email&utm_source=newcom&utm_campaign=CanadianUnderwriterWeek&utm_content=20221125151414&hash=6d73923380f292a40dc042b455f0fde3

Canada's solvency regulator is acutely focused on the current macro-economic environment and expects insurers to practice 'capital conservation' due to market volatility, one of its executives said at an industry event on Thursday, November 17.

The Office of the Superintendent of Financial Institutions (OSFI) also wants P&C (and life) insurers to conduct an inflation and interest rate stress test, Darrell Leadbetter, senior director of insurance and pension with OSFI, said during KPMG's 2022 Insurance Issues Conference.

"We have a pretty particular focus right now on financial resilience," Leadbetter said during a regulatory fireside chat. "We expect that insurers will take a very close look at the assumptions that are embedded within their [portfolios]," and conduct an inflation and interest rate stress test.

Moderator Amit Chalam, a partner and national service line leader for governance, risk and compliance services with KPMG in Canada, asked Leadbetter about the state of the insurance industry, current views on risks, what OSFI wants insurers to do, and what is on the regulator's agenda.

Leadbetter pointed out that historical inflation scenarios may no longer be entirely appropriate, "so we have to really look at those and make sure that we're getting appropriate assumptions and stress tests to be able to get a handle on that financial resilience for each institution."

In 2023, OSFI will also re-introduce the standardized stress test for P&C and life insurers as it relates to inflation and interest rates, and provide parameters for insurers, he indicated.

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The current macro-economic environment is creating market volatility with rising interest rates at the same time that there is industry digitization and a worldwide transition to the new IFRS 17 insurance accounting standard. This is in addition to "all the broader risks that have been around for a while," Leadbetter said.

Acknowledging that the message about capital conservation is "probably not going to be that popular," he pointed to the uncertainty surrounding IFRS 17 implementation and rising interest rates and inflation. OSFI is also looking at the reinsurance market on the P&C side to see if there is a withdrawal of capacity and what that means for net retentions.
On the interest rate side, while rising rates are normally good for the industry (particularly life insurers), they're not really helpful when they go up really fast, Leadbetter said. "Gradual increases are really good for [insurers]. We're spending a lot of time making sure that we are ready to deal with the issues."

With rising interest rates, some insurers might think that they're getting a dividend or a bump in their capital ratio, Leadbetter said. "We're encouraging all insurers to be conservative and prudent and think through the risks of the environment; take a look at the capital position and where they need to be in the next number of quarters.

"We don't really know how [IFRS 17] is going to play out, we don't know how the metrics will be read," Leadbetter added. "So, when you're looking at internal targets and things like that, be very conservative in that until you get some history with IFRS 17, and get a better sense of where the positioning of the macro-economic environment [is]."

There's also reason to believe that the macro-economic environment "might have some persistency with supply chains and things like that," Leadbetter said. "We're not as well-positioned from a financial resilience [standpoint] as we were for prior crises. So, we're very focused and concerned about that and the resilience of our institutions."

Regulators See Threat To Stability In Shadow Banks' Growth

Ties to banks and weak risk management raise concern for Basel Committee

By James Langton, Investment Executive, November 24, 2022

https://www.investmentexecutive.com/news/from-the-regulators/regulators-see-threat-to-stability-in-shadow-banks-growth/

The shadow banking sector, long a concern for global regulators, continues to pose a threat to financial stability, the Basel Committee on Banking Supervision is warning.

In a new report, the Basel Committee said that the non-bank financial intermediary sector, also known as the shadow banking sector, represents a concern for global financial stability based on its size, its continued expansion, and its growing connections to the traditional financial sector and the real economy.

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In particular, regulators are most concerned about the banking sector's exposure to highly leveraged firms through derivatives and securities financing.

"These types of exposures raise concerns about opaque concentration risks and potential sudden market stress, stemming from margin calls and fire sales of assets," the report said, noting that regulators are also seeing an increased risk stemming from shadow bank involvement with crypto.

"The Committee is concerned about the growth of these exposures, given the often opaque and quickly evolving nature of the attendant risks," it said, noting that recent episodes of distress in the shadow banking sector — such as the collapse of hedge fund Archegos Capital Management and recent stresses in government bond markets — have "highlighted vulnerabilities and deficiencies in banks' risk management practices."

These failings include weak governance, insufficient due diligence on clients' exposures, and weak margining practices, along with possible efforts to seek regulatory arbitrage.

In response, regulators are putting an increased emphasis on banks' risk management practices, and stressing "rigorous onboarding due diligence and ongoing monitoring, risk-sensitive margining, and the importance of robust information disclosures from investment fund counter-parties."

The Basel Committee is also discussing how to improve oversight, close data gaps, and enhance transparency of the connections between banks and shadow banks.

U.K.'s Financial Conduct Authority Seeks Industry Code For ESG Ratings, Data

Regulator Forms Industry Group To Develop Voluntary Code Of Conduct

By James Langton, Investment Executive, November 22, 2022

https://www.investmentexecutive.com/news/from-the-regulators/fca-seeks-industry-code-for-esg-ratings-data/

As part of the growing effort to combat greenwashing, the U.K.'s Financial Conduct Authority (FCA) is launching an industry group to develop a code of conduct for providers of ESG data and ratings.
The U.K. regulator tapped the International Capital Market Association (ICMA), an industry trade group, along with the International Regulatory Strategy Group (IRSG), to form the secretariat that will lead the work of crafting a voluntary industry code of conduct.

The secretariat will, in turn, form an independent group — including investors, ratings providers and rated issuers — to draft the code.

That group, which will be co-chaired by Moody's Investors Service, London Stock Exchange Group, asset manager M&G, and law firm Slaughter and May, will meet for the first time next month to start its work.

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"As financial services firms integrate ESG into their activities and expand their ESG-focused products, they are increasingly reliant on third party ESG data and ratings services," the FCA said, adding that an industry-led code of conduct will help develop best practices in this area.

"The code will seek to be internationally consistent, by taking into account not only [the International Organization of Securities Commissions]'s recommendations but also developments in jurisdictions such as Japan and the EU. This will help encourage the development of consistent global standards," the FCA said.

"This future code supported by the FCA will be a significant step in the development of consistent global standards for ESG data and ratings providers," said Nicholas Pfaff, deputy CEO of ICMA and head of sustainable finance, in a release.

The regulator also said that it favoured regulatory oversight of certain ESG data and ratings providers. "This would support greater transparency and trust in the market for ESG data and ratings services," it said, adding that it is awaiting a government decision on whether to expand the FCA's mandate to include oversight of ESG data and ratings.

OTHER CAFII MEMBER-RELEVANT NEWS

RBC To Buy HSBC's Canadian Unit For $13.5-Billion In Biggest Domestic Banking Deal On Record

By James Bradshaw, The Globe and Mail, November 29, 2022

Royal Bank of Canada is buying HSBC Bank Canada for $13.5-billion in cash in a landmark deal for the country's banking sector, seeking to bolster its position as the country's largest bank by adding a new stream of customers and its ability to serve them abroad.

The transaction announced on Tuesday, November 29, which needs approvals from regulators and governments, has a hefty price tag equal to 2.5 times HSBC's tangible book value, or 9.4 times HSBC Canada's estimated 2024 earnings. In simple dollar terms, it is the most a Canadian bank has ever paid for a domestic rival. HSBC Canada is the country's seventh-largest bank by assets, a subsidiary of British-based banking giant HSBC Holdings PLC, with strengths in commercial banking and mortgage lending.

RBC expects to reap huge savings by stripping out 55 per cent of HSBC's costs – about $740-million annually – within two years. And the deal includes what RBC chief executive Dave McKay described as a "locked-box" provision whereby HSBC Canada's earnings from June 30, 2022 until the deal closes would accrue to RBC. Over that span, RBC estimates HSBC Canada could earn $1-billion in profits, which would offset some of the purchase price.

Back to Table Of Contents

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The deal has the potential to shape the competitive landscape for Canada's banks for years to come. HSBC is consistently profitable and the last Canadian-based bank with enough scale to meaningfully shift market share in deposits and loans, outside of the Big Six banks that dominate the industry. Rival banks have instead made similarly large acquisitions in the United States of late – Bank of Montreal paid $17.1-billion for California-based Bank of the West last December, and TD struck a US$13.4-billion deal to buy Tennessee-based First Horizon Corp. in February of this year.

Given HSBC's unique position in Canada's banking market, the deal raises competition and concentration questions. The transaction needs three levels of approval, from the Competition Bureau; the banking regulator Office of the Superintendent of Financial Institutions (OSFI0; and the federal Finance Minister, Chrystia Freeland. If allowed, it would push RBC's already leading share of domestic deposits higher – RBC says by about 2 per cent, to roughly 23 per cent. That is comparable to the concentration in deposits that would be created if two of the smaller banks among the Big Six were to merge.

"In the big scheme of things, ... this is still a relatively small bank by market share," Mr. McKay told analysts on Tuesday, November 29. "We are not aware of any areas where the Bureau is likely to have concerns with this type of transaction."

A statement from the Finance Department said Ms. Freeland will be informed by regulatory reviews and must consider "all matters she considers relevant," which could include the rights and interests of customers, the impact on competition, and the consequences for the stability and integrity of the banking sector.

The two banks expect the deal to close late in 2023.

The shares of HSBC Group were up 4.4 per cent on the London Stock Exchange on Tuesday afternoon, November 29. RBC shares were down 0.25 per cent on the Toronto Stock Exchange.

HSBC Canada has $134-billion of assets as of September 30, 2022, $76-billion of which are loans, which skew heavily toward commercial lending to 12,000 companies as well as mortgages. It also has about 130 branches serving 770,000 retail clients, primarily in Vancouver and Toronto and surrounding areas. About 40 per cent of those clients are considered affluent.

First and foremost, it is access to those clients, and a potential pipeline of newcomers to Canada as the country increases its immigration targets, that made the deal attractive to RBC. Though cost cutting will make the deal's math work, it is a chance to cross-sell everything from deposit accounts and credit cards to investment products to HSBC's clients that provides the greatest opportunity. For years, RBC has been making huge investments to get better at acquiring new clients – which is hard to do in Canada's highly consolidated banking market – and getting them to use more of the bank's products and services.
After the deal closes and cost-cutting is finished, RBC estimates it could earn $1.4-billion in additional profit after taxes in 2024 – a projection that doesn't include any cross-selling.

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"What we really like about this transaction is it allows us to leverage all the investment in technology and capabilities that we've made and bring a larger client base onto all this investment," Mr. McKay said on a conference call with analysts on Tuesday, November 29. "It's not an asset strategy. This is a client strategy at the end of the day, and a client growth story."

RBC is also betting that HSBC Canada will give it "connectivity to the next generation of immigrants" coming to Canada, Mr. McKay said. Banks are in fierce competition to win business from newcomers who represent a key source of growth, and RBC said that about 60 per cent of HSBC's Canada's clients are considered "globally-connected." Acquiring HSBC builds on a partnership which RBC announced recently with ICICI Bank Canada, a subsidiary of an Indian bank, and helps improve RBC's chances of getting referrals – what RBC's head of personal and commercial banking Neil McLaughlin called "that first introduction."

But RBC will have to fight hard to keep those clients. The bank built projections for attrition into its financial models for the deal – "a haircut on revenue," chief financial officer Nadine Ahn said – but executives declined to specify how many clients they expect to lose.

Mr. McLaughlin said there is overlap between branches and offices, though he did not say how many RBC might close. An investor presentation ascribed 17 per cent of the projected cost savings to "retail and commercial distribution."

Some jobs will be made redundant, Mr. McLaughlin said, such as in HSBC's brand and marketing unit, which "is no longer needed." He did not say how many jobs might be cut, but said some HSBC employees could be absorbed through vacant jobs and natural attrition.

British-based HSBC Holdings PLC has been exploring a sale of its Canadian arm since at least early October. It has been under pressure from its largest shareholder, the Chinese insurance company Ping An, to refocus its operations on Asia, where HSBC makes the majority of its revenue. All six of Canada's largest banks looked at acquiring HSBC Canada, but after some banks dropped out, the bidding became a competition amongst the very largest of Canada's big banks.

After a strategic review, HSBC "concluded that there was a material value upside from selling the business," said Noel Quinn, CEO of HSBC Group, in a statement. "The deal makes strategic sense for both parties, and RBC will take the business to the next level."

In a letter to clients, HSBC Canada CEO Linda Seymour wrote that, "for now, nothing changes for you," but that she thinks the deal "will allow our combined company to compete even harder."

RBC's ability to pay cash for such a large deal is made possible by its outsized capital reserves, which the bank built up when Canada's banking regulator prohibited dividend increases or share buybacks for most of the first two years of the COVID-19 pandemic.

RBC expects to incur $1-billion of integration costs, as well as credit markdowns on loans of $400-million, and a $1.4-billion pre-tax interest rate markdown. It will also purchase HSBC's preferred shares and subordinated debt for about $2.1-billion.

 Back to Table Of Contents

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After closing, RBC expects its common equity Tier 1 (CET1) ratio – a key measure of its capital reserves and resilience – would be above 11.5 per cent, higher than regulatory minimums.

Read Story (Subscription Required): https://www.theglobeandmail.com/business/article-royal-bank-to-buy-hsbc-canada-for-135-billion-in-biggest-domestic/

Canadian Banks Boost Bonuses In Bid To Retain Talent

Despite Economic Weakness And Slower Investment Activity, The Big Six Banks Are Keen To Retain Their Best People

By Kevin Orland, Bloomberg News, December 2, 2022

Canada's banks are spending 1.9% more on bonuses for fiscal 2022 than they did a year earlier, despite a dramatic slowdown in investment banking activity, as they try to retain talent in the hope of a recovery in the year ahead.

The country's six largest lenders set aside C$19.4 billion ($14.5 billion US) for performance-based compensation in the fiscal year that ended October 31. That marks a sharp slowdown from the 18% increase in bonuses in fiscal 2021 and is far short of the five-year average of 8.2%.

Canada's banks faced a difficult year in their capital markets businesses, with initial public offerings and acquisition volumes plummeting from a record pace in 2021. There hasn't been a single Canadian IPO over C$1 billion this year. Still, top bankers remain hard to replace, so firms are reluctant to grow too stingy with pay.

The record pace of deals and bonuses in 2021 "was a bit of an anomalous event," said Adam Dean, president of Toronto-based Dean Executive Search, which focuses on financial services firms and asset managers. "To replicate that this year, even in the best of scenarios -- let alone one where we're dealing with inflationary pressures and rising interest rates and an uncertain economic environment -- would be very difficult."

Canadian banks pay bonuses based on performance, with most of the variable compensation going to capital markets professionals such as investment bankers, analysts, salespeople, and traders. Variable compensation reflects the amount reserved, not paid out, and doesn't include base salaries. Bonuses are typically distributed in December; the fiscal year ended October 31.

Changes to incentive pay pools range from a 7.9% increase at Toronto-Dominion Bank to a 3.9% decrease at Bank of Nova Scotia. Royal Bank of Canada, which has the largest capital markets business among Canada's banks, also had the largest variable compensation pool at C$7.13 billion.

A good portion of this year's increases likely went to junior bankers, who have a lot of other opportunities, said Bill Vlaad, president of Toronto-based recruitment firm Vlaad & Co.

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"There are so many firms on the buy side, like family offices and alternative products groups in asset management firms, that are buying up this talent at record paces," Vlaad said in an interview. "So firms are paying healthy compensation this year because they need to retain their people."

While the mood on Bay Street currently is "sober," firms are looking ahead to an improved environment in the year ahead, said Lara Zink, chief executive officer of Women in Capital Markets.

"There's definitely some optimism that we'll go into more of a shallow economic downturn and, at some point in 2023, capital markets will be back open again for corporate issuers," Zink said.

Here's a breakdown of bonuses by bank:

Royal Bank
Variable compensation at RBC was down 0.3% to C$7.13 billion. Chief Executive Officer Dave McKay said the bank's success is built on its investments in people and pointed to the 50 managing directors it has hired over the past two years.
"We look to maintain a competitive level of compensation to attract and retain top talent to build on our premium capital markets franchise," Chief Financial Officer Nadine Ahn told analysts on Wednesday, November 30.

Toronto-Dominion Bank
Toronto-Dominion had the largest increase among the Big Six, with a 7.4% boost to C$3.3 billion. Chief Financial Officer Kelvin Tran said the increase reflects a strong performance for the year as well as an increase in its employee base. The bank also paid a special, mid-year salary increase or one-time payment to employees below the vice president level.

Toronto-Dominion is "focused on delivering compensation that is market competitive and performance-based with practices in place to promote fair and consistent outcomes and alignment between executives and employees," Tran said in an interview.

Bank of Nova Scotia
Scotiabank, which has had the largest share price decline of the big six banks this year, reduced performance-based compensation 3.9% to C$2 billion. That was the biggest decrease among Canada's largest banks which reflects "the impact of this year's challenging operating environment," spokesman Clancy Zeifman said in an emailed statement.

Bank of Montreal
Bank of Montreal increased performance-based compensation 1.3% to C$3.19 billion.
"Our compensation framework is designed to deliver long-term shareholder performance, is a reflection of business results, and is competitive with the market," spokesman Jeff Roman said in an emailed statement.

Back to Table Of Contents

CIBC
Canadian Imperial Bank of Commerce boosted performance-based compensation 5.6% to C$2.46 billion. "We're very proud of how our team responded over the full year on many fronts, and our variable compensation reflects that full-year performance," spokesperson Tom Wallis said.

National Bank
National Bank of Canada, which gets a greater percentage of its revenue from capital markets activities than the other five banks, increased variable compensation by 5.2% to C$1.34 billion. "Our variable compensation is mostly correlated with the bank's results but also includes client metrics," spokesperson Jean-Francois Cadieux said.

Travelex Insurance Services Enters Canadian Market

By Bruce Parkinson, Travelpulse, November 22, 2022

Travelex Insurance Services Enters Canadian Market | TravelPulse Canada

U.S.-based travel insurance provider Travelex is now competing in the Canadian market.

A travel insurance provider in the United States for more than 25 years, Travelex Insurance Services has announced an expansion into Canada, with full operations, including claims administration and travel assistance, based in Toronto.

"We're bridging a gap for our current partners that have operations in Canada with more opportunities for Travelex products and services," said Shannon Lofdahl, President and CEO at Travelex, "and we're working to become a premier travel insurance provider for their Canadian travellers."

In 2017, Travelex joined the Zurich family of global brands, which operates in 15 countries, opening the door for the insurance provider to broaden its presence in the global travel market.

"This is an exciting time for Travelex," Lofdahl said. "Our expansion into Canada gives us the opportunity to serve travellers throughout North America, whether they book travel insurance through a travel professional, tour operator, or our website.

"Travelex's customer care is certainly one of our key differentiators," Lofdahl said. "We've won many awards for our customer service and our partnerships are measured in decades. I think Canadian travellers will be impressed with what we have to offer them."

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Insurance Industry Needs To Begin Preparing Now For Quantum Computing

By Susan Yellin, Insurance Portal, November 22, 2022

https://insurance-portal.ca/damage/insurance-industry-needs-to-begin-preparing-now-for-quantum-computing/?utm_source=sendinblue&utm_campaign=daily_complete_202211-24&utm_medium=email

Get ready for super powerful quantum computing, a disruptive technology that holds the potential of cracking as-yet unsolvable problems but also could be the source of danger for privacy, security and human rights, speakers told a November 17 KPMG insurance conference in Toronto.

“The entire [insurance] industry will be disrupted by quantum computing,” said Seamus Blackmore, Partner, Product Lead, GTA Lighthouse, KPMG in Canada. “But those who are prepared are the ones who will come out on top.”

Quantum computing may well be available in about five year’s time, said Blackmore. “If and when it gets to the point where it’s ubiquitous…like smartphones, it will completely change the world. There’s no question about it.”

A long-tail risk
But he said the insurance industry needs to begin preparing for quantum computing now because it’s considered a long-tail risk in which claims may not be settled until a relatively long time after a policy period expires.

Having this technology in our lives is for the greater good, said Sylvia Kingsmill**,** Global Cyber Privacy Leader, Partner, Risk Consulting, KPMG in Canada.

Code-breaking technology
But at the same time, Kingsmill said the high-speed, code-breaking technology deals with massive amounts of data that may also harm years of work spent on security in highly sensitive areas such as the military, defence, and even health care.

“This is really about human rights and the harm that could take place,” said Kingsmill. “It’s about bias, it’s about discrimination, it’s about preventing unfair outcomes…. I think the focus needs to be about good AI governance.”

Proposed legislation
She said that Canada has proposed legislation, called the *Artificial Intelligence Data Act*, that will make AI companies conduct high-impact assessments on the use of data. Kingsmill said both industry and government need to get on side to move this legislation forward.

But Harkaran Singh, Customer Digital Transformation Leader for Financial Services at Microsoft, said the real challenge the industry faces is that it holds mounds of old or obsolete information, data that no other industry holds, such as the life and health insurance industry.

"So we have all of this [new] great data. Now how to use that data and technology – that is going to be the challenge."

Also facing the insurance industry is fraud in both life and health and property and casualty (P&C), said Kas Rehman, Partner, KPMG in Canada.

Everything from theft of premiums, churning, falsified information, fake death claims and corruption, including bribery, kickbacks and collusion are rampant in many industries, especially insurance, said Rehman. Add to that higher inflation, higher interest rates, and loss of jobs and "we're in this perfect storm where the motivations of individuals have gone way up," he said.

"We're coming out of COVID so there's a lot of strain and pressure in the system and the economy is going downhill at least for the next little while…so life is much more unaffordable."

Organized crime
In addition to individuals, organized crime is hard at work in areas such as the P&C industry, life and health insurance, and the ministries of health, said former police officer Bryan Gast, now a Vice President, Investigative Services Division at Équité Association.

Gast noted that while organized crime targets specific communities, it's hard to get evidence unless there's a whistleblower.

He did say though that the P&C industry is working together to help fight organized crime and fraud in general.

Travel Economy May Recover By 2024, Says Destination Canada; TIAC Calls For Changes

By Pax Global Media, November 22, 2022

https://news.paxeditions.com/news/buzz/canadas-travel-economy-may-recover-2024-say-destination-canada-tiac-calls-changes

New research released Tuesday, November 22 by Destination Canada may indicate the full recovery of Canada's travel economy by as early as 2024, led by the continued strength of the domestic market and the quickly rebounding U.S. market.

But in a release also issued today, the Tourism Industry Association of Canada (TIAC) said its "ambitious goals of a full recovery" will take considerable work to achieve.

Speaking on Tuesday, November 22 at the organization's annual Tourism Congress, a two-day event taking place this year at The Westin Ottawa, TIAC's Vice-President, Policy and Government Affairs Marc Seguin emphasized to an audience of over 400 delegates that the sector was still a very long way from a full recovery.

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In its recent submission to the Minister of Tourism and Associate Minister of Finance Randy Boissonnault, TIAC set sector goals to be achieved by 2030; which include total tourism spending in Canada at $134 billion, a total tourism labour workforce of 2.5 million workers, and 30 million total annual international overnight visitors, among other key goals.

"We know that there are four key areas where a host of policy actions are needed," he said, during his Leadership Report that kicked off the Congress' first day. "TIAC and the member-businesses and organizations we represent are confident our proposed goals are achievable by 2030 if adequate financial resources are earmarked in support of the new (federal tourism growth) strategy…but to get us there, a number of other things need to happen."

Specifically, Seguin emphasized that the government of Canada should focus redevelopment of the strategy to include policy changes in four key areas:

1. Attracting and retaining a sustainable tourism workforce,
2. Improving access for visitors to and within Canada,
3. Developing and promoting tourism assets, and
4. Building a regenerative and inclusive tourism industry.

These "pillars of action" undergird the TIAC's submission to the government to guide its redeveloped strategy.

In drafting it, Seguin said TIAC consulted extensively with its members, other industry leaders, and organizations across Canada.

"Our submission is a well-thought-out plan for how best to help us get to our sector goals by 2030," he added.

Among other bold ideas proposed to recover the sector, Seguin recommended the creation of a Tourism Policy Council of Ministers, led by the Minister of Tourism himself.

"The strategy's success rests in all tourism partners rowing in the same direction and never losing sight of our destination," said Seguin. "But all of the 24 federal departments and agencies now playing a role in tourism must place (these) tourism goals as a top priority. We all need to embrace and reimagine Canada's tourism industry."

"The future looks very promising"
Destination Canada's Fall Tourism Outlook forecasts that despite ongoing challenges, the recovery trajectory for Canada's tourism sector is strengthening.

Leisure travel is now expected to recover to 2019 levels by 2024, considered a remarkable feat, one year earlier than previously forecasted in Spring 2022.

Domestic tourism will continue to lead the sector's recovery, says Destination Canada's research, which indicates that domestic travel market spending is expected to reach 92 per cent of 2019 levels by the end of 2022 and fully recover in 2023.

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The recovery of the U.S. market is poised to accelerate in 2023, with spending reaching 91 per cent of 2019 levels as the removal of border restrictions and a strong US dollar encourage recovery.

In 2024, spending by U.S. travellers in Canada is expected to reach 112 per cent of 2019 levels. Visits from the U.S. are also projected to reach 82 per cent of 2019 levels in 2023 and fully recover in 2024.

International overnight arrivals reached 61 per cent of 2019 levels over the summer months of 2022. Tourist expenditures and international arrivals are also set to return to a long-term growth trend by 2026.

"This accelerated forecast is the recovery signal we have all been working to achieve. Restarting our industry has been hard on everyone and we still have a long way to go. Over the summer months of 2022, overnight international arrivals reached only 61 per cent of 2019 levels. But the future looks very promising, if we are able to fully capitalize on it," said Marsha Walden, president and CEO of Destination Canada.

"Globally, pent-up demand for travel remains very strong, but we know travellers have many, many choices for places to go. We must ensure that Canada becomes a more competitive destination, while also rethinking our approach to tourism to maximize the socio-cultural, economic, and environmental benefits the industry can bring to all of Canada."

UPCOMING CAFII MEMBER-RELEVANT WEBINARS AND EVENTS

Second Annual FSRA Exchange Event

Dates: Thursday, January 19, 2023
Time: 8:30 a.m. – 1:45 p.m. EST

Please join The Financial Services Regulatory Authority of Ontario (FSRA) and a great line up of guest speakers and panelists for the second annual cross-sectoral FSRA Exchange event. This year you have a choice to attend **in-person** or **virtually**.

Special speakers include:
- The Honorable Peter Bethlenfalvy, Minister of Finance
- FSRA's Board Chair, Joanne De Laurentiis;
- FSRA's CEO, Mark White.

The general morning session for all FSRA regulated sectors includes a chat with FSRA CEO Mark White, a Consumer Protection Panel and a Principles Based Regulation Panel. You have a choice of afternoon sessions focused on specific sectors: Property and Casualty Insurance; Credit Unions and Insurance Prudential; Mortgage Broker; Life and Health; or Pensions.
Register Here

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Videos By Torys LLP: "The Canadian Fintech Review"

By Torys LLP, November 24, 2022

With constant changes in fintech, industry leaders can be left looking for the most current state of play and legislative responses.

Watch the latest videos in our series "The Canadian Fintech Review" to stay updated on three ever-evolving areas: data privacy, contracting considerations, and technology's impact on the insurance industry.

1. **Insurtech**
   By Jill E. McCutcheon and Brigitte Goulard

The marriage of insurance and technology presents a way for intermediaries and insurers to reinvent how they do business. With the industry now perched on the cusp of an insurtech revolution, the market is experiencing the next wave of efficient products and transparent processes.

Jill McCutcheon and Brigitte Goulard discuss the current state of play for the insurance industry in Canada, including:

- How insurance is regulated
- The adoption of insurtech in Canada
- How technologies impact FTC plans

Watch here

2. **Privacy, cybersecurity, data and AI**
   By Molly Reynolds and Konata T. Lake

Privacy is a leading issue in fintech, with startups, FIs and regulators alike placing it at the forefront of innovation and negotiation discussions.

Molly Reynolds and Konata Lake discuss the Canadian privacy landscape, including:

- What's next for data and AI regulation
- Litigation considerations
- How to craft privacy policies for both Canada and the U.S

Watch here

 Back to Table Of Contents

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3. **Fintech contracting considerations**
By Joel Ramsey and Brigitte Goulard

Navigating the creation and execution of fintech contracts requires exhaustive attention to detail. To limit friction, startups and financial institutions should understand the expectations from both sides of the deal table, and the regulatory oversight they will fall under across their products' lifecycle.

Joel Ramsey and Brigitte Goulard discuss key contract restrictions and regulatory changes impacting the fintech industry, including:

- Updates to the B10 guideline
- Negotiations between startups and financial institutions
- Why contractual issues aren't just about outsourcing

Watch here