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CAFII ALERTS WEEKLY DIGEST: November 11-15, 2024

November 15, 2024

The CAFII Alerts Weekly Digest is intended to provide a curated compendium of news on insurance, regulatory, and industry/business/societal topics of relevance to CAFII Members – drawn from domestic and international industry trade press and mainstream media – to aid in Members' awareness of recently published media content in those areas.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

Provincial Update Calls For Distribution Licensing

By Kate McCaffery, Insurance Portal, October 31, 2024

October 30, Ontario's Minister of Finance, Peter Bethlenfalvy released the province's 2024 fall economic update, the 2024 Ontario Economic Outlook and Fiscal Review: Building Ontario for you. In it, the province repeats its plans for a proposed licensing framework for certain distributors under the Insurance Act.

"Ontario recognizes the important role that the life and health insurance sector plays in our economy. Increasingly, insurers have been selling products and services through distributors such as managing general agents (MGAs)," the document states. "To align with sector development and better protect consumers, the government is proposing to create a licensing framework for distributors under the Insurance Act, and clarify the roles and responsibilities of insurers, distributors and agents.

Read full article (subscription required): https://insurance-portal.ca/life/provincial-update-calls-for-distribution-licensing/

OTHER CAFII MEMBER-RELEVANT NEWS

Accessing Legacy Systems Becomes Easier With Technological Advances

By Kate McCaffery, Insurance Portal, November 04, 2024

Legacy systems are costly but artificial intelligence (AI) is reportedly opening up new possibilities to efficiently migrate closed books to new platforms. This, according to a new Capgemini report which also says the effort can increase profits and help insurers provide a more seamless experience for all involved.

Entitled AI can accelerate life closed-block migration, the report advocates for AI's use in managing and migrating legacy systems, saying the use of AI can cut 20 to 40 per cent of the time and costs out of legacy closed-block migrations.

Read full article (subscription required): https://insurance-portal.ca/life/accessing-legacy-systems-becomes-easier-with-technological-advances/

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Women Welcome On Boards, Scarce In C-Suites

Review Highlights Improved Board Diversity, Lack of Female CEOs, CFOs

By James Langton, Investment Executive, October 30, 2024

https://www.investmentexecutive.com/news/from-the-regulators/women-welcome-on-boards-scarce-in-c-suites/

Women continue to gain ground in the boardrooms of Canadian companies, but their progress in top executive positions remains stalled, according to new data from securities regulators.

The share of board seats occupied by female directors climbed to 29% in the regulators' latest review of issuers' disclosures, up from 27% last year. Additionally, the vast majority of companies now have at least one female director, at 90% in the past year, up from 89% in the previous year.

Both metrics reflect significant progress since the regulators began mandating these disclosures 10 years ago.

Back then, just 11% of board seats were held by women, and less than half (49%) had at least one woman director.

At the same time, there's been almost no movement in the proportion of female CEOs and CFOs, the report indicated.

Just 5% of companies have a female CEO, unchanged over the past five years. And the share of female CFOs is down slightly to 16% this year, from 17% in the previous year, and 19% the year before that.

Despite the lack of progress in the top roles, regulators also reported that 72% of companies now have at least one female among their top five executives — up from 71% last year, and 60% when the disclosure was first mandated.

"We have seen an increase in representation of women on boards and in executive positions over the last 10 years," said Stan Magidson, chair of the Canadian Securities Administrators (CSA) and chair and CEO of the Alberta Securities Commission (ASC).

"Investors have advised that they value disclosure about an organization's diversity and we continue to work toward a harmonized national diversity disclosure framework that goes beyond the representation of women," he added.

Indeed, the regulators have completed a consultation on proposed changes to diversity disclosure requirements that could expand reporting beyond gender to other under-represented groups.

"We continue to work towards a harmonized national disclosure framework that considers comments received during our consultation period," the regulators said.

Capgemini: How Life Insurers Can Improve Customer Experience

By Grace Crane, Digital Insurance, October 30, 2024

Only 5% of carriers across the world are "best-in-class" for customer satisfaction, according to research from the Capgemini World Life Insurance Report 2025. The report, which uses data from the Global Voice of the Customer Survey and the Global Insurance Executive Survey conducted between May and June 2024, offers insights and strategies to help life insurers modernize their legacy tech systems and infrastructure. Capgemini identified carriers with advanced core processes, technologies and talent strategies as the top insurers, highlighting tech and talent as key areas that enhance customer experience.

For high-quality customer service, the report emphasizes the modernization of the onboarding, self-service and claims processes. Combining AI-enabled processes with human interactions to provide an efficient onboarding process and customer experience is crucial, according to the report.

Samantha Chow, Capgemini's global leader for life insurance, annuities and benefits sector, wrote to Digital Insurance about how carriers can find the balance between implementing advanced technology and maintaining an adequate level of human interaction.

Read full article (subscription required): https://www.dig-in.com/news/capgemini-how-life-insurers-can-improve-customer-experience?utm_campaign=NL_DIG_Morning_Briefing_10312024&position=1&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_10312024&oly_enc_id=1794I9343067F0V

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1 in 5 Small Businesses See A Temporary Shut Down As Their Biggest Liability, Yet Many Don't Have Insurance To Protect Themselves: TD Insurance Survey

By The Globe and Mail, October 28, 2024

https://www.theglobeandmail.com/investing/markets/stocks/TD/pressreleases/29248960/1-in-5-small-businesses-see-a-temporary-shut-down-as-their-biggest-liability-yet-many-dont-have-insurance-to-protect-themselves-td-insurance-survey/

New survey finds that 40% of small business owners surveyed don't have insurance, putting themselves at risk

TORONTO , Oct. 28, 2024 /CNW/ - Small businesses are the backbone of the Canadian economy, with 98 per cent of businesses being classified as small businesses. Despite this critical role, many are exposing themselves to unnecessary risks. A recent TD Insurance survey conducted by Maru Public Opinion uncovered that while nearly one in five small business owners say their biggest liability is having their business interrupted, almost 40 per cent of them do not have business insurance - a key tool in keeping their business operating and protected against financial loss should the unexpected happen.

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The survey also revealed a potential knowledge gap among business owners when it comes to the importance of business insurance: While many disclosed real concerns around liabilities to their business, of those small businesses who do not have insurance, almost 40 percent said they don't think they need it and 30 percent said it's not worth having since they don't have any employees - undervaluing the importance of insurance as a protection against those liabilities.

Top liability concerns among small businesses surveyed include:

- Business interruption (19%) – could include a fire at a restaurant leading to a suspension of business;
- Damage to property and contents (10%) - particularly among Prairie businesses (18%) – could include a flood in a basement home office or car collision from a florist on a delivery; and,
- Employee safety (7%) – could include a contractor employee injury on the jobsite.

"With over 2 million small businesses in Canada ranging in size, profits and industry, there is no one size fits all approach to business insurance," said Tang Trang, Vice President, Product and Pricing, Small Business Insurance, TD Insurance. "The unthinkable can happen and no business wants to close their doors to their customers. It's essential business owners find the right insurance policy that meets their unique needs and gets them back to serving their customers as quickly as possible."

Further, with costs of doing business continuing to rise, it's not surprising that 36 percent of small businesses surveyed mentioned cost as a reason for not having insurance. "It can be tempting to forego insurance to cope with economic pressures, but for a small grocery store whose customer slips and falls on its property or a bakery who has to shut down due to significant fire damage, the financial loss could greatly outweigh the cost of protecting your business from the unexpected," added Trang.

As the economic landscape continues to evolve, so do the needs of business owners. From moving to a new retail location, buying new equipment, or launching a new service offering, it is important business owners review their insurance policy regularly and speak with a licenced insurance advisor if they have questions. While it's encouraging that 60 per cent of small businesses surveyed have consulted with a licensed insurance advisor about their business, there remains 21 per cent who have no intention of doing so, and only 32 per cent who review their existing policy regularly. In addition to seeking advice from a licensed insurance advisor, businesses also want a digital experience: two-thirds (67%) of high revenue and over half of mid-revenue producing businesses (57%) would be more inclined to pick an insurance provider that offers digital capabilities.

Meeting this digital demand, TD Insurance offers a Digital Quoter tool that provides easy, online access to customized quotes for business owners, allowing them to better understand their insurance needs in just a few clicks.

In addition to proactively understanding the insurance needs of your business, there are a number of ways businesses can prevent having to temporarily close their doors. "Establishing safety and emergency protocols and training employees on them regularly, conducting safety inspections and addressing any issues identified, and installing anti-theft devices for their vehicle, are just a few steps small businesses can take to protect what they've worked so hard to build. When all else fails, whether you're a solo accountant, own your own law firm, are a contractor or a professional photographer, having the right insurance in place could help safeguard your business and let you focus on what you do best," added Trang.

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Maybe It's Not All Bad That Canada Still Doesn't Have Open Banking

By John Turley-Ewart, The Globe and Mail, October 27, 2024

https://www.theglobeandmail.com/business/commentary/article-maybe-its-not-all-bad-that-canada-still-doesnt-have-open-banking/

The contrast between the Canadian and U.S. banking systems was again brought into sharp relief recently. The sudden closure of the Oklahoma-based First National Bank of Lindsay on Oct. 18 and the announcement of the U.S.'s Open Banking rules last week showcase how history sets countries on different paths, even in banking.

For those who wonder "what's the holdup" for open banking in Canada, in which customers can more easily switch financial institutions, therein is the answer.

This month, the U.S. Office of the Comptroller of the Currency (OCC) identified "deceptive bank records and other information suggesting fraud," that First National was in an "unsafe and unsound condition" with its debt to creditors and others exceeding its reported total assets of US$108-million. This was the second bank failure this year in the U.S. and some financial observers anticipate more to follow.

Amidst the growing questions about this bank failure came the Consumer Financial Protection Bureau's (CFPB) long-awaited Open Banking rules that affect how bank customers access their financial information, a change that will ripple through the entire U.S. banking system.

These new rules will compel banks and other financial institutions to share personal financial data of individuals at their request and to transfer that data to another provider without charge.

Rohit Chopra, the CFPB's director, said the change "will give people more power to get better rates and service on bank accounts, credit cards, and more."

In Canada the advocates for open banking have been calling for similar rules, encouraged by the Liberal government who promised to implement it as of January, 2023 – a promise that has not been kept.

Many reasons have been given as to why Canada is an open banking laggard, trailing countries such as Australia, Britain and now the United States. Change is slow in Canada's financial sector. The pandemic, the rapid decrease in interest rates that came with it to keep the economy on life-support, and the equally expedited rate increases to tackle inflation are among the reasons that have been cited.

Yet the overriding explanation can be found in the fact that a century has passed since Canada had a bank failure such as First National Bank of Lindsay, where some depositors are out-of-pocket. Indeed, the last time Canada witnessed the failure of two small banks in 1985 (the Northland Bank and Canadian Commercial Bank) it led to a federal commission and an overhaul of Canadian bank inspection, leading to the creation of the Office of the Superintendent of Financial Institutions.

There will be no federal inquiry on bank supervision in the United States because of the Lindsay insolvency.

One of the very first and most divisive debates Canada had after Confederation in 1867 was on the nature of the banking system. It was one that pitted encouraging competition and what it was envisioned to entail (faster economic growth, better access to more and cheaper loans and banking services) against stability, prudence and sustainable growth.

Prime Minister Sir John A. Macdonald gave speeches and debated the subject in Parliament, he lost a finance minister in a disagreement over which way the country should go, but in the end, a compromise was reached. The compromise was to concede the debate to competition and faster economic growth, hidden by the veneer of a Bank Act in 1871 that promised safety and prudence yet offered nothing of the kind.

The outcome was a bank failure rate of roughly 40 per cent over the next half-century that culminated in the storied collapse of the Home Bank of Canada in 1923. It brought street protests in Toronto and small towns across parts of the country. At least one suicide was attributed to the bank's downfall. Public calls were made for transparency: What did the Canadian government know about the Home Bank's condition and when?

In truth it knew almost a decade before that the Home Bank was insolvent, but Canada was at war and closing it might have shaken confidence in the country's banks more generally, so nothing was done. With the Home Bank failure came the end of an era in Canadian banking where competition trumped stability.

Change would come slowly to banking as the 20th century progressed, and at any sign of trouble, larger, better-managed banks were encouraged by Ottawa to take over smaller rivals. This history explains why Canada doesn't have bank failures such as those in the U.S. It also explains why Canadians are still waiting for open banking, and why they are likely to wait a long time before they see rules such as those introduced last week in the U.S.

AI In Underwriting: Revolutionizing Risk With Smarter Insights

By Mikhail Grishin, Digital Insurance, October 27, 2024

https://www.dig-in.com/opinion/ai-in-underwriting?utm_campaign=NL_DIG_Morning_Briefing_10292024&position=3&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_10292024&oly_enc_id=1794I9343067F0V

Design made of outline of human head and symbolic elements to serve as backdrop for projects related to knowledge, science, technology and educationAndrew Ostrovsky/agsandrew - Fotolia
The rise of artificial intelligence (AI) has been nothing short of revolutionary. Within underwriting, AI is reshaping how underwriters assess risks and make decisions. The traditional underwriting process as we know it, is hands-on, labor-intensive and plagued with inefficiencies. What's more unsettling, Accenture reported that underwriters spend around 70% of their time on non-core activities.

Since a significant portion of their time is tied up to administrative tasks and sales support, underwriters are seen as not doing much underwriting work. However, when they do, 40% of the decisions made are based on either outdated or

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incomplete data. Translated into financial loss, the impact is staggering. These inefficiencies are estimated to cost the insurance industry to the tune of $85 billion to $160 billion over the next 3 years.

Underwriting challenges
The biggest challenge to underwriters is how to utilize and access structured and unstructured data collected through various sources such as financial reports, social media, telematics, IoT and third-party databases. Despite the vast amount of data available, underwriters are often than not overwhelmed by the sheer volume and complexity of information, which could lead to analysis paralysis.

AI technologies such as machine learning and natural language processing (NLP) empower underwriters by streamlining data access and enhancing data capabilities. This ultimately equips them with smarter insights to make more informed decisions and at the same time enhance the accuracy of risk assessments.

Machine learning algorithms, for instance, analyze large volumes of historical and real-time data to identify patterns, trends and correlations that may not be apparent to the naked eye. This provides underwriters with smarter actionable insights on risk scoring and pricing.

Capturing unstructured data
In today's digital age, about 90% of data generated daily is unstructured. This includes emails, social media comments, images, audio recordings and chatbot conversations. However, the explosion of digital content creation on platforms such as TikTok and Instagram adds to the growing volume of unstructured data generated, as more people share videos, live streams and stories as part of their need for social validation, self-expression and instant gratification.

This unstructured data offers rich insights that traditional structured data may overlook. The ability of NLP to extract meaningful, smarter insights from unstructured data offers underwriters a deeper understanding of customer preferences and market dynamics, which effectively enriches risk assessment and aids in identifying emerging risks.

As AI technologies evolve, the future of underwriting centers around the harmonious union of AI and human judgment, which promises a more nuanced approach to underwriting. While all the routine and repetitive tasks in underwriting are automated by AI, human underwriters complement AI underwriting in terms of handling complex decision-making that extends beyond data-driven decision-making. This includes the contextual understanding of unique cultural differences and social norms that AI will likely never be able to fully replicate or recreate but is crucial when making informed underwriting decisions. Despite AI's advanced capabilities, applying professional judgment and intuition in risk assessment are human attributes that are not easily computed or simulated by technology.