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# CAFII ALERTS WEEKLY DIGEST: October 14 – October 21, 2022

October 21, 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.*

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# GOVERNMENT/REGULATORY DEVELOPMENTS

## CLHIA Responds To BC Consultation On Restricted Insurance Agent Licensing Regime

*By Kate McCaffery, Insurance Portal, October 18, 2022*

The Canadian Life and Health Insurance Association (CLHIA) has commented on British Columbia's plans to introduce a new restricted insurance licensing regime in the province. Commenting on behalf of the life and health insurance industry only – including those who sell travel insurance, but not property and casualty insurance – the CLHIA recommends repeatedly that the government of British Columbia harmonize their approach as much as possible with other provinces that already have restricted licensing regimes (RIA regimes).

In general, the Association commends the government for taking steps to introduce a restricted insurance agent license in that province, saying it can provide consumers with economical and easily accessible insurance solutions that may not otherwise be available.

The British Columbia Ministry of Finance, in its public consultation document on restricted insurance agent licenses, says "restricted insurance agent licenses are corporate-level licenses, in that they will authorize a corporate licensee (e.g., businesses that are sole proprietors, corporations, partnerships, etc.), through its employees and agents in B.C., to sell insurance. They will generally authorize the sale of insurance where it is sold incidentally to the licensee's ordinary business."

The introduction of restricted licenses is part of Bill 37 in the province, the *Financial Institutions Amendment Act, 2019*, which was passed by the British Columbia legislature in 2019. "Bill 37 is being brought into force in stages and consideration is now being given to bringing into force sections that will implement the framework for a restricted insurance agent license in BC," the consultation document states. "The scope of this consultation is limited to the regulations required to introduce a restricted insurance agent license in BC."

Brent Mizzen, assistant vice president of market conduct policy and regulation at the CLHIA, citing statistics from LIMRA (formerly the Life Insurance and Market Research Association), says the "adequacy of insurance coverage is decreasing for all Canadians" in the Association's covering letter accompanying its suggestions related to the restricted licensing consultation.

"The industry supports restricted licensing regimes as one way of promoting access to insurance which can help Canadians protect themselves from unexpected events and financial burden," CLHIA adds in its submission.

In addition to calling for an approach that is harmonized with other jurisdictions, the Association also calls for the proposed rules to be written in clearer language, pointing out instances where language can be subject to interpretation.

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**"Post-claim underwriting"**

CLHIA also points out in the submission where BC is making use of phrasing and terminology which doesn't exist in the industry. The use of the phrase "post-claim underwriting" in particular raises concerns with the Association.

"The term post-claim underwriting is a new concept to our industry and does not accurately describe the process by which insurers assess claims for material misrepresentations during the application process," the CLHIA writes, adding that it has raised concerns with the Ministry of Finance about the use of that term in the past. "The industry strongly recommends that this term be removed from any proposed rules or regulations. As well, the industry strongly wishes to be consulted if any regulations related to 'post-claim underwriting' are planned to be introduced."

CLHIA adds: "Post-claim underwriting is not a term used by the industry. Post-claim underwriting suggests that insurers are not assessing the risk of providing coverage at the time the insurance is applied for. This is not correct."

It further calls out issues related to the use of the word "incidental" to describe insurance purchases related to the consumer's primary purchase, saying the term could imply that the insurance is not important, deterring some customers from properly considering their coverage options.

**Insurance agent's responsibilities**

The CLHIA submission also discusses the requirements and responsibilities of insurance agents at the time of purchase and within 20 business days of the insurance coverage coming into force. It considers the right of rescission, discusses compensation structures, and value limits.

"Any additional value limits on types of insurance that restricted insurance agents can sell would be an additional regulatory burden that does not exist in any other Canadian jurisdiction with a restricted licensing framework," the Association writes. "Insurers would have to develop specific policies and procedures in British Columbia to adhere to any additional value limits, which would increase the costs associated with providing these coverages in British Columbia, which would ultimately be passed on to customers."

**Deferred sales model**

CLHIA also discourages BC from adopting a deferred sales model where insurance products could not be marketed for a set number of days after the primary purchase is made. They say this could lead to further under-insurance in Canada and leave customers without important coverages during the deferred sales period. They add that the model is also an ineffective safeguard against sales misconduct.

In its submission, CLHIA also discusses the inclusion of provisions and clauses which give the Superintendent of Insurance discretion to insert clauses, add categories, and make certain decisions without the need to redraft the regulations.

It also points to existing BC Bulletins which will require revision in order for new RIA regime-related regulations and prior regulations to be harmonized within the province itself. Without such revisions, CLHIA says the proposed RIA regime could increase regulatory burden and create a patchwork of expectations which put the regime at risk of not being effectively implemented.

Read Story (Subscription Required): *British Columbia consults on implementation of restricted licensing framework - Insurance Portal (insurance-portal.ca)*

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## FSRA CEO Mark White Appointed Chair Of IAIS Market Conduct Working Group

*By Kate McCaffery, Insurance Portal, October 14, 2022*

The Financial Services Regulatory Authority of Ontario (FSRA) has announced that its CEO Mark White has been appointed as chair of the market conduct working group of the International Association of Insurance Supervisors (IAIS).

FSRA's CEO since 2018, White has served as vice-chair of that IAIS working group since March 2022. The working group operates under the Association's policy development committee. FSRA says the appointment "enhances FSRA's active partnership with insurance supervisors and regulators from more than 200 jurisdictions to share best practices and develop appropriate regulatory policies."

IAIS is a global standards body responsible for developing and assisting in the implementation of principles, standards, and guidance with respect to supervision of insurers. The voluntary membership organization says its members regulate which generate 97 per cent of the world's insurance premiums.

Established in 1994, the IAIS is also a forum for members to share their experiences and understanding of insurance supervision and insurance markets. Currently, it says technological innovation; cyber risk; climate risk; conduct and culture; financial inclusion; sustainable economic development; and diversity, equity and inclusion are the emerging issues that the Associations' committees are focused on.

Read Story (Subscription Required): *https://insurance-portal.ca/society/international-regulators-association-taps-canadian-executive/?utm_source=sendinblue&utm_campaign=daily_complete_202210-20&utm_medium=email*

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## Consumer Groups Call For Action On Canadian Banking Ombudservice

### *Binding Authority, Single Banking Complaint Body Demanded*

*By James Langton, Investment Executive, October 20, 2022*

https://www.investmentexecutive.com/news/from-the-regulators/consumer-groups-call-for-action-on-ombudservice/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-All-afternoon&hash=6d73923380f292a40dc042b455f0fde3

It's time to walk the talk on beefing up financial industry dispute resolution, says a collection of consumer and investor advocacy groups.

Speaking on behalf of a coalition of advocates, FAIR Canada called on policy-makers, both governments and regulators, to strengthen complaint handling and dispute resolution in the financial sector.

Last year, in the wake of a review of the current system for resolving consumers' complaints in the banking industry, the federal government called for the creation of a single ombudservice with binding authority, the groups noted.

And earlier this month, the Canadian Securities Administrators (CSA) said they're working on a proposal to introduce binding authority for investment complaints at the Ombudsman for Banking Services and Investments (OBSI).

Now, consumer groups — including CARP, CanAge, Prosper Canada, Option consommateurs, the Public Interest Advocacy Centre, Kenmar Associates, and CFA Societies Canada — are calling on policy-makers to follow through on those pledges.

"We fully support binding decisions and, given OBSI's long track record of serving the public interest, it should be selected as the sole complaint-handling service for banking and investment complaints," said Jean-Paul Bureaud, executive director of FAIR Canada, in a release.

"It's time for governments and regulators to act on these recommendations and address the serious shortcomings in the current system," he said.

Among other things, FAIR said introducing binding authority at OBSI will help combat the issue of harmed investors accepting low-ball settlement offers, for fear of being left with nothing, given that OBSI has no real way to enforce its compensation recommendations.

"We're pleased that the CSA will finally be publishing a proposal next year," Bureaud said. "But this issue has dragged on for too many years and concrete action is urgently required."

Bureaud called on the federal government to take action to address the issue of competition between external complaints handling bodies — OBSI and ADR Chambers Banking Ombudsman Office — in the banking sector.

FAIR noted that an independent review by professor Poonam Puri that was released earlier this year found that "having two different bodies handle banking complaints … creates inefficiencies and increases complexities."

And "allowing banks to choose their external ombudsman negatively affects customers' perceptions of the system's fairness," it said.

OBSI is the "obvious choice" to serve as the single ombudservice with binding authority, Bureaud said. "We should not entertain further delays in making the complaint system fair for consumers," he said.

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## AMF Fines Auto Dealer And An Employee

*By Alain Castonguay, Insurance Portal, October 19, 2022*

[Auto Insurance: Fines for Dealer and Employee - Insurance Portal (portail-assurance.ca)]

The Autorité des marchés financiers was able to reach an agreement with a Mont-Joli auto dealership and one of its employees before having it ratified by the court.

On October 12, Justice Anne-Marie Sincennes, from the Rimouski district of the Court of Québec, accepted the agreement reached between the regulator and 9147-1227 Québec inc., which does business as Mont-Joli Chrysler Jeep Dodge, and its employee Cédric Rougeau, as part of a penal proceeding initiated in September 2021 by the AMF.

The dealer pleaded guilty to one count of failing to provide a customer with information required under section 440 of *the Act respecting the distribution of financial products and services*. The customer was not informed that she could cancel the insurance contract purchased through the dealership within 10 days of signing.

Mont-Joli Chrysler Jeep Dodge was fined $8,000 for this breach. The court pronounced a conditional stay of proceedings in respect of the other three charges against the dealership.

**The other respondent**

For his part, Cédric Rougeau pleaded guilty to both counts under the complaint. He was fined $2,000 for exerting undue pressure or using fraudulent tactics to induce a customer to purchase a financial product or service.

Rougeau is liable for another fine of $7,500 for obstructing the duties of a representative of the AMF, performed in the course of or for the purpose of an investigation.

During a transaction involving a used vehicle, Cédric Rougeau told the client that the terms of the proposed financing included mandatory life insurance. In addition, none of the legally required insurance product documents were provided to the client.

Subsequently, when the AMF had begun its investigation, Cédric Rougeau took steps to have the client retroactively sign a document certifying that she had received all these documents before concluding this sale, in order to avoid being sanctioned by the AMF.

**On appeal**

The same auto dealer was targeted for similar breaches in another case involving the company's sales manager. But in that case, on March 11, Justice Julie Dionne of the Court of Québec, also in the district of Rimouski, dismissed the penal proceedings instituted by the AMF.
According to AMF spokesman Sylvain Théberge, the regulator has appealed that decision, but the matter has not yet been decided in court.

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## OSFI Head Says Financial Institutions Can Expect More Oversight As Risks Increase

*By Mark Rendell, The Globe and Mail, October 17, 2022*

*https://www.theglobeandmail.com/business/article-carolyn-rogers-speech/*

Canada's top banking regulator said that financial institutions can expect heightened oversight as the country heads into a period of increasing risks to financial stability.

Speaking at an event on Monday, October 17, Peter Routledge, Superintendent of Office of the Superintendent of Financial Institutions, said Canadian banks are well-equipped to weather any fallout from rising interest rates or liquidity shocks, thanks to capital buffers built up after the global financial crisis.
But he said that regulators need to be more proactive in assessing pockets of risk.

"As we go into more difficult times with higher debt service costs, as well as higher inflation, does my team have a will to act early, and accept the risks that come from acting early?" Mr. Routledge asked at an event hosted by Toronto Centre. He said the answer was yes.

"What does that mean for the institutions we regulate? It means that if we're worried, we'll be knocking on your door and you'll be spending more time than you might have anticipated with us."

Financial stability risks have been on prominent display in Britain in recent weeks, after the announcement by its government of a package of tax cuts caused a sharp sell-off in government bonds. This rapid move of bond prices and yields ended up squeezing pension funds, and prompted the Bank of England to step in to prevent a fire sale of government bonds.

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Canada has so far avoided any significant market disruptions as the Bank of Canada has raised interest rates by three percentage points since March, one of the sharpest monetary policy tightening episodes on record. But regulators need to be vigilant, Bank of Canada senior deputy governor Carolyn Rogers said at the same event.

"A shock like the one that we saw in the U.K., the response you'd probably get out of industry participants is that was a pretty extreme tail-risk event. To see sovereign spreads move that much in that short period of a time is pretty extreme," Ms. Rogers said.

"But if there's one thing that we've learned over the past two years, it is that those tail events, those one-in-a-thousand-year events, seem to be happening every three years. So we have to take a bit more of a proactive and defensive stance in this environment to be a little bit more alive to these issues."

Ms. Rogers said that the vulnerabilities in the financial system today are fairly similar to those before the COVID-19 pandemic: namely, high levels of household, corporate, and government debt. Many household balance sheets actually improved over the course of the pandemic, as people paid down debts and saved money, she said. But people who stretched and took on large amounts of variable rate debt to get into the overheated housing market may be at risk.

"High levels of debt are easier to sustain at lower interest rates. So as interest rates go up to combat inflation, certainly those levels of debt can manifest into financial instability," she said.

When it comes to financial oversight, Mr. Routledge said that financial institutions can expect a "cultural shift" at OSFI. "That means their supervisors will be more inquisitive, more forward-looking, and more likely to collaborate in understanding the risks to the institutions."

Not everyone, however, will have to spend more time responding to regulators, he said.

"As we build on our supervisory framework, or how we classify or rate the relative safety of the institutions we oversee, those institutions that are on the safer end of the scale are going to see a lot less of us, and those on the less safe end of that scale are going to see a lot more of us," he said.

## OTHER CAFII MEMBER-RELEVANT NEWS

### Why Selling HSBC Canada, The Country's Most Lucrative Bank Deal In Decades, Is Unusually Challenging

*HSBC's Canadian Bank Has Been Very Profitable, Churning Out $717-Million In Net Income Last Year And Its 13.3-Per-Cent Return On Equity Makes It Globally Competitive.*

*By Tim Kiladze, James Bradshaw, and Andrew Willis, The Globe and Mail, October 20, 2022*

The dream scenario which Big Six bank chiefs used to salivate over has come true: HSBC Bank Canada, the country's seventh-largest lender, is up for sale. Yet with the auction already in motion, pulling off the country's most expensive bank deal in decades is shaping up to be a challenging exercise.

HSBC's Canadian bank is, by all accounts, a lucrative business. Unlike other global divisions that parent company HSBC Holdings PLC has sold off in recent years, including its American and French retail banking arms in 2021, the Canadian business is very profitable, churning out $717-million in net income last year. Its 13.3-per-cent return on equity, a crucial banking metric, makes it globally competitive.

Yet the timing of the deal, coupled with a fraught political landscape, is making any sale much trickier than it otherwise might have been, according to 10 banking industry sources familiar with the business and the auction. The Globe and Mail is not identifying the sources because they were not authorized to speak publicly on the matter.

A sale of HSBC Canada could be the largest deal for a domestic bank in more than two decades, with a price tag that could reach $10-billion. In simple terms, that would be the highest price ever paid for a Canadian bank, though Toronto-Dominion Bank's $8-billion deal for Canada Trust in 2000 would be worth more after adjusting for inflation.

Although Canadian banks have made many big-ticket acquisitions abroad – most of them in the United States – the last major domestic deal was Bank of Nova Scotia's purchase of ING Direct, since renamed Tangerine, for $3.1-billion in 2012. In Canada's highly consolidated market, major banking assets rarely come up for sale, especially since the federal government blocked proposed mergers of the largest banks in 1999. Acquiring HSBC Canada, then, presents a generational opportunity for its rivals, but one that is laden with strategic complexities.

Highly coveted banks tend to sell for 1.5 times to two times their book value, and HSBC Bank Canada's book amounted to $5.7-billion as of August 31. Earlier this month, when HSBC first revealed it was seeking buyers, analysts estimated that a price tag could surpass $10-billion. But that valuation may prove to be overly ambitious, because uncertainty over federal competition concerns and limits on the potential to cut costs could dent the amount bidders are ultimately willing to pay.

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As it stands, each of the Big Six banks has expressed interest in bidding, and each has separately had a preliminary meeting with HSBC, according to two sources with knowledge of the process.

The auction is expected to last two rounds, with first-round bids expected in short order, according to two sources familiar with the process. Banks that are invited to the final round will get in-depth detail on HSBC's books and customer accounts. HSBC Canada publicly reports its results as a standalone unit, which is rare for a foreign division of a global bank. But what is available for the public to read only scratches the surface of what a final-round bidder would need to see.

Hurdles are expected to materialize as the process proceeds. To start, the timing of the attempted sale, as well as the sheer size of any deal, has already given some Canadian banks an advantage – and put others in precarious positions.

Royal Bank of Canada, the country's largest bank by profit, is widely seen as a leading contender for several reasons. Crucially, it has the highest pro-forma capital ratio of all the banks, which means it has excess cash to spend on an acquisition.

Since the 2008-09 global financial crisis, the country's largest lenders have been required to hold higher capital buffers – effectively, more cash – to serve as a shock absorber against severe losses in an economic downturn. And, in the acute phase of the COVID-19 pandemic, Canada's banking regulator, the Office of the Superintendent of Financial Institutions (OSFI), prohibited those banks from raising dividends or buying back shares, forcing them to conserve cash and stockpile capital even as they remained highly profitable. Unlike some rivals, RBC has yet to spend the war chest it accumulated.

By contrast, Toronto-Dominion Bank is spending US$14.7-billion this year on takeovers of two American institutions: retail bank First Horizon Corp. and investment bank Cowen Inc. And BMO agreed to pay $17.1-billion for California-based Bank of the West in December, the largest U.S. deal in Canadian banking history.

Both banks are still working to close those deals, and both will have to spend years afterward integrating the new acquisitions with their existing operations. But it is too soon to rule out the possibility that they could come up with more money to buy HSBC Canada. TD, in particular, could sell some of its stake in Charles Schwab Corp., worth US$15-billion – a resource which the bank already tapped to buy Cowen.

The auction timing is also difficult for Bank of Nova Scotia. The Canadian arm of HSBC looks like a natural fit, because Scotiabank has expressed a desire to get stronger in British Columbia and Quebec, where HSBC is well-established. Such an acquisition would also balance out the bank's significant exposure to international markets – most notably in Latin America – which tend to be more volatile than Canada's.

But Scotiabank has the lowest capital ratio among its peers, which limits the extra cash it has to spend.

And the bank just named a new chief executive, Scott Thomson – an unconventional choice who has yet to formally join the company. His appointment has put some investors on edge.

Canadian Imperial Bank of Commerce has the opposite challenge: it is already highly exposed to the Canadian market, especially in mortgages, which has attracted scrutiny and pressure from investors. They have pressed the bank to diversify more outside of Canada and to focus on investing in its existing business – two things CEO Victor Dodig has clearly signalled are his priorities.

Montreal-based National Bank of Canada is thought to be in an advantageous position – at least in theory. National Bank has long wanted to bolster its presence outside of Quebec, especially in retail and commercial banking, and its shares have outperformed rival Big Six banks over the past five years. A strong stock price makes it easier for National Bank to sell new shares to help fund a deal.

The problem is that National Bank is the smallest of the Big Six, with a market value around $30-billion, making it hard for it to pay the price on its own. The solution, some sources suggested, could include teaming up with a few pension funds or other institutional investors, similar to how Intact Financial Corp. raised $3.2-billion to fund its joint takeover of RSA Insurance Group PLC in 2020.

Foreign bidders for HSBC Canada still can't be counted out, but the banking landscape has changed in recent years: for most banks, the days of global empire building are over. Citibank, which has some operations in Canada, has been in retreat around the world, as have many European banks, including ING and BNP Paribas, which sold Bank of the West to BMO last year. Other major U.S. banks have minimal retail banking presence in Canada. JP Morgan is out of contention, as it is running the sale process.

While HSBC is profitable in Canada, there are limited opportunities for a foreign owner to grow the business. Scale matters, and with six larger rivals already established it likely isn't worth it for a foreign bank to pay a premium for the seventh-largest player.

Because the Big Six banks are expected to dominate the bidding, competition issues loom large. In a speech last October, Matthew Boswell, Canada's competition commissioner, called out a common defence used to justify contentious mergers: the prospect of efficiencies. If a bidder can prove that its deal will generate lower total costs for the combined entity, a merger is often allowed to proceed. "The consequences of increased concentration, higher prices, and lower competition across sectors of the economy – all in the name of merger efficiencies – are very real for consumers and our economic performance as a country," he said.

One way to avoid that issue, sources say, could be to split HSBC up – for instance, by selling its operations in Eastern Canada and Western Canada to different buyers. That's what HSBC did with its U.S. retail banking business last year. But one source said HSBC is aiming to sell the bank as a single entity.

Another option: HSBC could keep some of the business, such as its capital markets division. It could also carve out accounts belonging to wealth management customers and keep them, particularly if they have ties to its core business in Asia, which is likely to become the bank's main focus. It did just that in the U.S., where it kept 20 to 25 locations and turned them into international wealth centres.

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Competition concerns aside, there are geopolitical factors that might cause Ottawa to favour a sale. HSBC is headquartered in London, but has deep roots in Hong Kong and makes most of its revenue in Asia. Its largest shareholder is Chinese insurer Ping An, which is pressing HSBC to concentrate on Asia. If China's government continues to exert tighter control over Hong Kong, it could put HSBC's Western operations in a sticky position.

There is one thing that seems clear: should a Canadian rival buy the business, much of the value and the ability to earn back the takeover premium paid will come from slashing expenses on people and technology – which could result in deep cuts.

Historically, acquirers have sought to strip out 20 per cent to 40 per cent of a target bank's costs by merging back offices, closing bank branches and streamlining technology spending. Though more of those cost savings now come from technology, as banking is increasingly done digitally, integrating digital systems isn't simple. Straightforward tasks such as merging clients between banks can be painful, and different IT platforms may not be compatible. Something as simple as giving a client a new bank account number can become a lengthy chore, giving people reasons to move to other lenders.

Because of those difficulties, what bank executives must weigh is just how badly they want this business. Once HSBC Bank Canada is gone, domestic expansion is likely to be a slow grind. When TD bought Canada Trust, the price tag looked hefty. In retrospect, it allowed TD to leapfrog competitors and transformed its prospects in ways that were hard to predict using Excel spreadsheets.

Read Story (Subscription Required): *https://www.theglobeandmail.com/business/article-hsbc-canada-sale-deal-challenges/?utm_medium=email&utm_source=Market%20Update&utm_content=2022-10-20_5&utm_term=Why%20selling%20HSBC%20Canada%2C%20the%20country%E2%80%99s%20most%20lucrative%20bank%20deal%20in%20decades%2C%20is%20unusually%20challenging&utm_campaign=newsletter&cu_id=Ts6FwhWx6n2rSHC0x7MiReEeeFJOJkTb*

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## Walnut Insurance Forms Strategic Partnership With Neo Financial

*By Lyle Adriano, Insurance Business Canada, October 17, 2022*

*Walnut Insurance forms strategic partnership with Neo Financial | Insurance Business Canada (insurancebusinessmag.com)*

Digital insurance company Walnut Insurance has entered a partnership with the Canadian fintech Neo Financial to support the latter's latest subscription-based credit card reward bundles.

Neo Financial's Neo Card bundles offer the fintech's over one million customers the ability to subscribe to specific insurance and reward plans based on their needs and lifestyle. Walnut will provide its platform to power Neo Financial's life insurance and mobile protection offerings, as well as premium subscription memberships to Dashlane, Headspace, and FitOn PRO.

"Neo Financial is a leading example of how we work with partners to create embedded insurance offerings that support consumers' daily lives, make insurance more accessible to the underinsured, and drive revenue for partners, " said Walnut Insurance co-founder and CEO Derek Szeto. "Our focus has been on making insurance more accessible and more beneficial to people, and Neo's Bundles do exactly that".

"We're excited to partner with the Walnut team, bringing insurance into the digital age and creating greater access to protection for all Canadians" added Neo Financial co-founder and CEO Andrew Chau. "Just as we have disrupted the financial industry, Walnut has done the same for insurance, and we've been impressed with how their infrastructure has been able to support us in growing our product offering."

Founded in 2020, Walnut is a Canadian and US insurtech that has created technology infrastructure that can power embedded insurance for retailers, financial services, and consumer platforms. The tech can be used to set up branded home, auto, renters, and life insurance portals.

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## Why The Rise Of Insurtech Should Matter To Actuaries

*By Carrie Kelley, Digital Insurance, October 10, 2022*

*https://www.dig-in.com/opinion/why-the-rise-of-insurtech-should-matter-to-actuaries?position=editorial_3&campaignname=DIG%20Weekend%20update-10152022&utm_source=newsletter&utm_medium=email&utm_campaign=V2_DIG_Weekend_Update_20210410%2B%E2%80%98-%E2%80%99%2B10%2F15%2F2022&bt_ee=um8jO%2BLHaWtDwYUH0vs%2FJpe7iawMmSp0Os8JlXR4%2BYv4eeGFjoZ1JNghH5q%2FFuRg&bt_ts=1665838923948*

We define insurtech as the use of emerging hardware, software, and user interfaces to address inefficiencies or opportunities in the insurance value chain. Further, we think of the intersection of two dimensions as the focus of our discussion: industry specificity solutions and more recently established market players or solutions.

Annual insurtech startup funding volumes have grown substantially since 2015. Global funding broke the $2.5 billion mark in 2015, up from an average of approximately a half-billion over the prior three years. Insurtech startup funding continued strong reaching a record $7 billion in 2020 despite the pandemic and exceeded $15 billion in 2021. But what's causing this rapid growth in insurtech? Various factors are contributing to growth: customer, distribution, regulation, and technology.

**Customer experience**

Consumers are becoming pickier. They want faster service and they want the applications and claims processes to be streamlined. With the goal of improving customer experience, many insurers are forecasting a continuing shift from traditional distribution channels to digital and direct distribution.

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Another trend is around more customer-centric products. Some companies are developing simpler ways for consumers to have all their insurance in one place. Surround Insurance, for example, is a startup MGA that provides subscription insurance for city dwellers that covers common needs – renting, driving, biking, freelancing, and more. Blink, backed by century-old insurer Chubb, is focused on customizable coverage options and plans to provide a list of protection options which can be both P&C and Life and Health so customers can pick and choose what matters to them without trying to buy separate policies. Many carriers provide additional services free or at a discount to their customers to further strengthen their brand providing value outside traditional insurance services.

**Distribution**

There is also a direct-to-consumer approach that includes digitalization. Insurtech not only helps with the shift to digital and direct channels, but also provides ways that traditional distribution channels can compete in a digital customer experience. Zelros, for example, is a startup that brings AI-powered digital platforms to insurers and agents. It recently came up with a standard that documents model performance over sub-populations, providing transparency on how AI models are performing over populations that are more vulnerable to potential bias.

**Anti-rebate laws**

Anti-rebate regulation laws introduced by U.S. regulators are a potential barrier to insurtech that focuses on additional benefits to customers beyond what a typical insurance policy covers. Many states have considered exceptions in order to strike the right balance between protecting consumers and fostering innovation. Many regulators are willing to interact and have open conversations with the industry such as the *insurtech: Bridge the Gap* event hosted by Plug and Play to connect regulators with insurtech startups and corporate partners. In addition, the NAIC also created an innovation and technology task force to discuss and explore the implications of insurtech on regulations.

**Technology advancement fuels insurtech growth**

Legacy systems and IT challenges are entrenched in most companies making them the biggest barriers to innovation. As the cost of technology lessens and the benefits of adopting new technology become more apparent through other successful adopters, striking a balance between benefit and cost becomes an easier decision.

While a full system transition can be enormous, expensive, and disruptive, there are companies that provide application programming interfaces for integration between legacy systems and modern solutions, which can serve as a stepping stone to automation.

**Opportunities within insurtech**

Insurtech can play a role in several areas along the insurance value chain including underwriting; quote, bind and issue; policy administration; claims; and settlement – with many opportunities for actuaries to be involved.

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Startups are not the only ones in the ecosystem, large carriers and entrenched players are also part of the insurtech space by choosing to focus on innovation and in some cases creating innovation labs within their companies. Though the insurtech industry focuses on innovation and disruption, that does not always mean competition, as many insurtech solutions focus on ways to partner with insurance incumbents by providing relevant technology and the ease of adoption.

Additionally, the insurtech landscape is geographically diverse. Silicon Valley is not the only place with startups and innovation – we see startups and incubators/accelerators flourishing all over the U.S. and in different countries.

**The Actuary's role in insurtech**

Insurtech adds value across a broad spectrum of the insurance industry. Actuaries, as broad insurance experts and quantifiers of risk, can add value to many of these spaces. There used to be a narrow view of actuaries' expertise—that they were only needed if issuing a product or setting reserves. As insurtech disrupts the current insurance industry, companies need to leverage actuaries' strong skill set and broader insurance knowledge base to innovate and integrate new ideas.

Actuaries are the bridge between insurtech and the insurance industry. They have a subject matter expertise, a broad business expertise which is applicable to many roles and they understand and can quantify the risks. In the next five to 10 years, we need to think about what kind of training actuaries need in order to be critical players in insurtech and in the insurance industry.

There is no doubt that we are seeing a change in the insurance industry, being driven in large part by the new types of solutions that insurtech is creating. The need for technology as well as actuaries who can use and understand that technology for implementing analytics is imperative. Indeed, actuaries' broad business acumen allows them to serve effectively in technical and non-technical roles. Insurtech's influence on the insurance industry will only continue to grow. Actuaries who embrace these changes can be the bridge between insurtech and traditional insurance, providing more effective contributions to insurtech innovation.

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## Do Flight Delays Boost Travel Insurance Purchases?

*By Canadian Underwriter Staff, August 11, 2022*

*https://www.canadianunderwriter.ca/insurance/do-flight-delays-boost-travel-insurance-purchases-1004224368/?utm_medium=email&utm_source=newcom&utm_campaign=CanadianUnderwriterDaily&utm_content=20220811155624&hash=6d73923380f292a40dc042b455f0fde3*

With travel demand on the rise in the wake of easing COVID-19 restrictions, a larger percentage of Canadians are opting for overseas journeys.

The number of Canadian residents returning by air from abroad at kiosk-equipped airports totalled 901,300 in June 2022, 15 times greater than the same period last year, according to a StatsCan report.

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That sudden spike in flyers has led to flight cancellations, lost luggage, and choking delays at airports, which are still experiencing staff shortages and other impacts from COVID-19.

And those flight cancellations, delays, and lost bags have affected the travel insurance market.

Among Canadians responding to a RatesDotCa and BNN Bloomberg survey who said they've had to alter travel plans due to an airline issue, 78% survey said they plan to purchase travel insurance for their next trip.

What's more, the survey found that 57% of those planning to travel by plane said they'll purchase additional travel insurance coverage, such as trip cancellation or trip interruption. By contrast, only 34% of Canadians planning to travel by car said they'd do the same.

Travel insurance most often covers trip cancellation, trip interruption, travel delay, baggage or damage loss, medical evacuation and repatriation, rental car collision damage, and legal expenses, according to several industry sources.

Overall, 46% of all trip planners (plane or car) are considering travel insurance. But intent to purchase insurance is higher for those who have postponed or redirected travel plans due to a likelihood of flight cancellations and delays.

The survey found that 24% of those whose travel was interrupted said that while they normally don't buy travel insurance, recent events have them thinking about the option.

Income levels also don't factor into the decision to purchase travel insurance policies, the survey noted, possibly because of the product's relative affordability.

What this uptake in travel insurance business may mean for insurers remains somewhat up in the air, a recent commentary from credit-rating agency DBRS Morningstar noted.

"With many airlines and airports around the world facing extremely high levels of flight cancellations and delays in recent months, we expect that the travel insurance industry will experience combined ratios over 100% due to the increase in insurance losses, making this business line unprofitable for most insurance companies in 2022," said Marcos Alvarez, senior vice president and global head of insurance at DBRS Morningstar.

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## Inflation, Strong US Dollar Will Weigh On Canadian Snowbirds' Plans, Experts Say

*By Caitlin Yardley, The Canadian Press, September 29, 2022*

*https://www.ctvnews.ca/lifestyle/inflation-strong-u-s-dollar-will-weigh-on-snowbirds-plans-experts-say-1.6087546*

High inflation and a strong US dollar will weigh heavily on Canadian snowbirds this winter, experts say.

As the cold months approach, Snowbird Advisor president Stephen Fine said some snowbirds are opting for a shorter travel period or eyeing different destinations due to the rising cost of everything combined with a weak Canadian dollar.

Snowbirds will have a lot more to consider this coming winter as the price of accommodation, groceries, and dining out have all risen, Fine said.

He also said that snowbirds may opt for more cost-effective destinations outside of the U.S., including Mexico, Costa Rica, and Belize and do a four-month stay rather than the typical six.

Martin Firestone, president of insurance provider Travel Secure Inc., said that the low performing Canadian dollar will impact those who typically fly south for the winter the most out of all travellers.

However, not all experts agree as Evan Rachkovsky, the Canadian Snowbird Association's director of research and communications, said that he expects a near-full post-pandemic recovery in the number of snowbirds who travel south this winter.

"If we look back to the late 1990s and early 2000s, the Canadian dollar was trading at 62 to 63 cents against the US dollar, and Canadian snowbirds at that time continued to travel south, and we expect more of the same this season," said Rachkovsky.

While domestic flights remain strong, there has been a slight decline in the number of Canadian flights to the U.S. that is expected to continue this season, in part, due to the strong U.S. dollar, said Helane Becker, an analyst for banking firm Cowen.

It is not only travel to the U.S. that will be impacted, however, as Firestone said that Canadian travellers will likely notice the effects of inflation wherever they go.

"If anything is going to be impacted, it is going to be the discretionary spending of snowbirds when they're state-side," said Rachkovsky.

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## UPCOMING CAFII MEMBER-RELEVANT WEBINARS AND EVENTS

### In-Person/Web Seminar by McCarthy Tétrault: Major Competition Act Amendments Will Affect All Employers in Canada: What You Need to Know

**Dates:** Monday, October 24, 2022
**Time:** 11:30 a.m. – 1:15 p.m. EDT

Following similar developments in the United States, Canada's federal Parliament has adopted new criminal offences making ***per se* illegal** agreements between employers to fix salaries, wages or terms or conditions of employment, or to refrain from soliciting or hiring another firm's employees. These amendments to the *Competition Act*, which will enter into force in 2023, carry severe criminal penalties, and may also trigger civil class actions for damages.

Join our market-leading Competition/Antitrust and Labour & Employment groups for a luncheon seminar to learn more about these important developments, and how to achieve compliance in your workplace.

Register Here

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### Web Seminar by Torys LLP: Fintech In Canada: Emerging Trends And New Opportunities

**Dates:** Wednesday, October 26, 2022
**Time:** 12:00 p.m. – 1:00 p.m. EDT

Blockchain has secured its spot as an important innovation in delivering fintech services. However, it remains an intriguing but mystifying technology for many.

In this session, we will walk you through the technology of blockchain. Our panel will discuss blocks, the chain, distributed ledger technology, and different types of blockchains and tokens—and answer any questions you may have

Register Here

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## Web Seminar by Torys LLP: The Next Generation Of Digital Commerce

**Dates:** Wednesday, November 2, 2022
**Time:** 12:00 p.m. – 1:00 p.m. EDT

Businesses have had to pivot quickly during the pandemic to reinforce their online platforms, with wide-ranging implications for company liability, privacy, data governance and cybersecurity, consumer protection and more. Join us for this interdisciplinary session covering the latest legal and business issues in e-commerce as well as an exploration of relevant legislation and common law principles.

Register Here

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## Web Seminar by McMillan LLP: Can They Really Do That? Understanding The Limits Of Governmental Permitting And Compliance Powers

**Dates:** Wednesday, November 9, 2022
**Time:** 1:00 p.m. – 3:00 p.m. EDT

While every company strives to achieve constructive relations with regulators, sometimes this is not enough. In such cases, understanding the rules that apply to regulators and the limits of their powers can be essential to levelling the playing field.

This two hour webinar will address questions such as:

- What are the different types of government actions and what are the limits of each? (e.g. legislation, regulations, statutory decision-making and compliance actions)
- What are the "principles of procedural fairness" and do they apply even when government is pursuing important public policy goals and indigenous reconciliation?
- What can we do if government is treating us badly, without burning bridges?

Register Here