The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

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CAFII ALERTS WEEKLY DIGEST: October 6-11, 2024

October 11, 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

OSC Appoints New Executives To Lead Enforcement And Operations

Josée Turcotte Joins As EVP, COO And Chief Of Staff, And Bonnie Lysyk As EVP Of Enforcement At The OSC

By Freschia Gonzales, Wealth Professional, October 08, 2024

https://www.wealthprofessional.ca/news/industry-news/osc-appoints-new-executives-to-lead-enforcement-and-operations/387217

The Ontario Securities Commission (OSC) has announced the addition of two executives to its leadership team.

Josée Turcotte will assume the roles of executive vice president, chief operating officer (COO), and chief of staff as of October 15.

In her new role, Turcotte will manage the OSC's operations, ensuring resource allocation, corporate programs, and infrastructure support its strategic goals.

Turcotte has extensive experience in regulatory and executive management, having previously served as executive director of Emerging Risk Operations at the Office of the Superintendent of Financial Institutions and chief legal officer at the Alcohol and Gaming Commission of Ontario.

Vingoe noted that "[Turcotte's] strategic regulatory, legal, and organizational advice will be critical as we embark on our ambitious plan to make Ontario's capital markets inviting, thriving and secure."

Bonnie Lysyk will join as executive vice president, Enforcement starting October 7. Lysyk, former Auditor General of Ontario, will lead enforcement efforts at the OSC.

With over 35 years of experience in both public and private sectors, she brings extensive knowledge in audit, finance, risk management, and governance.

"As EVP, Enforcement, [Lysyk] is well-positioned to take decisive action against those seeking to harm Ontario's investors," said OSC CEO, Grant Vingoe. He highlighted her leadership in the Enforcement Division as vital to the OSC's mandate and Strategic Plan.

In addition to Lysyk and Turcotte, the OSC's executive team includes Sonny Randhawa (EVP, Regulatory Operations), Leslie Byberg (EVP, Strategic Regulation), Naizam Kanji (general counsel, EVP Legal), and CEO Grant Vingoe.

Byberg had temporarily overseen the Enforcement Division during the search for a new EVP, and will now return to her role as EVP, Strategic Regulation. Vingoe thanked Byberg for her leadership during this transition period.

Lysyk and Turcotte will report to Vingoe, as the OSC focuses on implementing its new Strategic Plan.

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BMO Appoints New Chief AI And Data Officer

Kristin Milchanowski Brings Over Two Decades Of AI And Data Expertise To Her New Role

By Freschia Gonzales, Wealth Professional, October 03, 2024

https://www.wealthprofessional.ca/news/industry-news/bmo-appoints-new-chief-ai-and-data-officer/387176?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20241003&_hsenc=p2ANqtz-_tum_PbpRTMyeN-Qbp-J6iYeaFPw1jKny31kzD9ZnV48f5lfcP-zrJcfDZvPHOdv85ccZnzNwoaXQZSwSVFDVLzW-47g&_hsmi=327516131&utm_content=&utm_source=

BMO has appointed Kristin Milchanowski as its new chief artificial intelligence and data officer, effective October 15.

Milchanowski, who has over two decades of AI experience, was previously a global innovation partner/principal at EY, where she led the Global Lab on AI, High Process Computing, and Quantum technologies.

According to her LinkedIn profile, she also holds the position of Associate Fellow at the University of Oxford, Saïd Business School, specializing in AI and bio-facial recognition.

Milchanowski has significant experience in combating illicit networks, such as money laundering and fraud, through advanced analytics.

Additionally, she supported the National Security Commission on Artificial Intelligence (NSCAI) in publishing their final report in 2021.

Her background includes leadership roles at Morgan Stanley and JP Morgan, where she managed global programs and model risk in over 20 countries.

Milchanowski's board memberships include her current role with the Children's National Hospital Foundation Auxiliary Board, as well as previous positions with Automobili Lamborghini, Blackguard Inc., and the ACAMS New York Chapter.

According to her LinkedIn profile, she has also taught as an Adjunct Professor of Law at Case Western Reserve University.

Milchanowski will lead BMO's AI, data, analytics, and robotics strategies, focusing on driving business value and enhancing data management and governance.

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OTHER CAFII MEMBER-RELEVANT NEWS

Life Insurance Application Activity Rises In Canada

By Kate McCaffery, Insurance Portal, October 8, 2024

The latest MIB Group report on the Canadian MIB Life Index shows life insurance application activity ended the third quarter of 2024 up six per cent, year-to-date and up 6.3 per cent year-over-year in September when comparing the month to September 2023.

Quarterly, activity in the third quarter of 2024 was down 4.4 per cent when compared to the second quarter of 2024, but on a quarterly basis, Q3 2024 was up 4.8 per cent when compared to the same quarter in 2023.

Read full article (Subscription required):https://insurance-portal.ca/life/life-insurance-application-activity-rises-in-canada/?utm_source=sendinblue&utm_campaign=daily_complete_202410-08&utm_medium=email

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'AI Isn't Going To Replace Companies, But Companies That Use AI Will Replace The Ones That Don't'

Can AI Allow Employees to Focus On More Human-Led Tasks? This CEO Thinks It's A Fine Balancing Act

By Chris Davis, Insurance Business, October 04, 2024

https://www.insurancebusinessmag.com/ca/news/technology/ai-isnt-going-to-replace-companies-but-companies-that-use-ai-will-replace-the-ones-that-dont-508410.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20241004&_hsenc=p2ANqtz-969c13-mNDXsJ6seEQBc3DUkSIh6w3ACb2bBQdw9q6lEisYL3i0ccspHTEbQSoMDeVi24Osi8gIZYiacH-KqGJuLNqwg&_hsmi=327662211&utm_content=&utm_source=

AI in insurance is expected to save the industry $390 billion by 2030, according to research from WorldMetrics, with 84% of insurance executives adding that they believe that AI will revolutionize the industry in the next three years. And while tech is most definitely redefining how we work in insurance, some employees are nervous about what the robotic revolution will mean for their jobs.

Lance Miller, CEO at Surex, believes that tech is coming to the insurance sector – but it's irrelevant without that all-important human partnership.

"Everyone's afraid they're going to lose their jobs," Miller tells IB. "In reality, AI has actually allowed people to focus more on the areas they need to focus on, and let the algorithms handle what doesn't require the time."

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'RPA breaks when it doesn't fit the mold'
Surex's strategic investment in AI, which Miller notes began about 10 years ago, has allowed the company to streamline its back-end processes. According to Miller, AI's primary advantage over robotic process automation (RPA) is its ability to adapt and improve over time.

"RPA breaks when it doesn't fit the mold," he says. "Whereas AI tends to learn and get better over time." This adaptability has been key in handling Surex's growing data needs, making operations more efficient and freeing up staff to focus on more complex issues.

One of the most exciting areas of AI development for Surex is risk selection and marketing. As Miller shares, Surex uses AI to analyze and learn from "closing rates" and other data to determine what types of risks insurance carriers want to underwrite. For example, in Alberta's volatile market, this is particularly important. AI helps Surex refine its approach to align with the needs of carriers, ensuring that the company targets the right customers.

"It's really important to have our risk selection and our marketing targeting the type of business that carriers are price-adequate on," Miller says.

Google algorithms in marketing processes
On the marketing front, the integration of Surex's algorithms with Google's AI has allowed the company to create more precise targeting strategies. With over 100 different pieces of information coming from personal insurance data like home and auto, the challenge lies in sifting through that data and identifying quality leads. Miller emphasizes how Surex's system communicates with Google's algorithms to ensure they are getting the "right business" rather than engaging in mass marketing.

This process can be done by combining data analysis, machine learning, and targeted marketing. Here's how it would typically work:

1. Data Collection: First, the company collects a large amount of data on past insurance applications, including which risks (types of businesses, customers, or situations) were accepted or rejected by carriers, and the closing rates (how often the application led to a completed deal).
2. Machine Learning Algorithms: Algorithms are trained on this data to recognize patterns. These algorithms learn from past outcomes to predict which types of risks (customers, industries, or locations) carriers are more likely to accept and offer favorable pricing for.
3. Risk Selection: The algorithm helps identify and classify risks that are more likely to be approved by carriers. This might include analyzing the business type, claims history, geographical factors, and other risk factors that impact pricing.
4. Marketing Targeting: With this information, marketing efforts can be more precisely targeted. The company can focus its outreach and advertising on businesses or customers that match the profiles that carriers prefer, ensuring that their marketing dollars are spent effectively.
5. Refinement Over Time: As more data is gathered, the algorithms continuously improve by learning from new deals, rejections, and market changes. This helps adjust marketing and risk selection strategies in real-time, especially in rapidly changing environments like Alberta.

Yet, despite these advancements, Miller understands the importance of balancing innovation with personalization. He recognizes that while consumers may be comfortable banking online, many are still hesitant to purchase insurance the same way.

Balancing robotics with humanity

"I think you have to match your level of personalization to the level of expectation of your consumers right now," Miller says. "There's still a high level of expectation by consumers that they'll be able to talk to a broker."

This balancing act between technology and human interaction is, as Miller admits, an ongoing challenge. The key, he says, is not pushing automation too far too fast, but also not leaving opportunities on the table.

"It's a fine balance, and I think a lot of companies try and do automation as a way of saving costs and increasing the bottom line without giving the proper thought to what the consumer is actually ready for."

Looking to the future, Miller sees the role of AI expanding throughout the entire insurance process, from purchasing policies to processing claims.

"AI isn't going to replace companies, but companies that use AI will replace the ones that don't," he says.

The real excitement for Miller lies in using AI for risk selection, which will further refine how Surex matches the right risks to the right insurance carriers. He also sees the potential for AI to indirectly improve customer service by automating back-end processes, thus giving employees more time to engage with clients.

"The more back-end processes we can take out of the hands of our frontline staff, the more time they have for customer service," he says.

However, Miller remains skeptical about the role of AI in directly improving customer service, believing that AI is better suited to freeing up time for employees rather than replacing them in customer interactions.

"I get frustrated with bots," he says. "Customer service, in my opinion, will always be a bit of a human task."

Debt Rises But Insurance Protection Fails To Keep Pace

By Kate McCaffery, Insurance Portal, September 25, 2024

Insurance comparison platform, My Choice Financial Inc. , has conducted a study to analyze the adequacy of life insurance coverage among consumers in provinces across the country. They found that Canadians' insurance coverage is not keeping pace with debts in at least five provinces, including, Alberta, British Columbia, Newfoundland and Labrador, Ontario and Quebec.

"Canada now has the highest household debt-to-income ratio among G7 countries, reaching over 180 per cent. This debt burden is particularly alarming in the context of rising costs of living and high interest rates, with nearly half of all mortgages in Canada due for renewal in 2024 and 2025," they write. "The average household life insurance protection in Canada is $474,000." The question, they add, is whether this is enough to cover debts and obligations.

Read full article (subscription required): https://insurance-portal.ca/life/debt-rises-but-insurance-protection-fails-to-keep-pace/?utm_source=sendinblue&utm_campaign=daily_complete_202409-30&utm_medium=email

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New 30-Year Mortgage, Down Payment Rules Stoke Fears Of Rising Home Prices

Ottawa Announced Longer Mortgages For First-Time And New-Build Buyers And A Higher Threshold For Homes Requiring 20 Percent Down In A Move That Won Praise From Homebuilders But Fears Among Some Housing Observers.

By Victoria-Gibson, The Toronto Star, September 16, 2024

https://www.thestar.com/real-estate/new-30-year-mortgage-down-payment-rules-stoke-fears-of-rising-home-prices/article_4d0ac346-7434-11ef-88ac-5b92ccbc1005.html

First-time buyers across Canada and any purchasers of newly built homes will soon be able to stretch their mortgages out an extra five years, the federal government announced Monday — along with other changes builders hope will spur more home construction, but that observers fear could push prices up.

The ability to offer 30-year amortizations for insured mortgages was announced by deputy prime minister Chrystia Freeland in Ottawa on Monday, along with a reduction in the down payment required for homes between $1 million and $1.5 million.

"It is going to put the dream of home ownership in reach for more young Canadians," Freeland said Monday.

Finance Minister Chrystia Freeland says the government is making some changes to mortgage rules to help more Canadians to purchase their first home. The changes are set to take effect this December, and are meant to help people take advantage of homes that are gradually being built through other policy changes. (Sept. 16, 2024 / The Canadian Press)

The moves expand on a decision this year to allow 30-year amortizations for first-time buyers purchasing new builds, which took effect Aug. 1.

With Monday's announcement, a first-time buyer of a resale home who takes out an insured mortgage, which happens when a homebuyer provides less than a 20 per cent as a down payment, could also be offered a 30-year loan repayment instead of a 25-year term. The same would apply for any buyer, first time or not, who buys a newly built home.

The expansion to any new-build buyer was aimed at "creating more demand" for those homes, Freeland said, with hopes that in turn would lead to increasing supply. Despite a housing shortage in areas like the GTA, higher interest

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rates and construction costs have collided in recent months and caused developers to struggle in launching new projects or getting existing ones to the finish line.

The decision to no longer require 20 per cent down payments on homes over $1 million — with that threshold bumping up to $1.5 million instead — was made to better reflect today's "economic reality," Freeland explained.

"The one million level was set in 2012 … it was time to look at that number," she said.

The new rule changes are set to take effect Dec. 15.

While the news was met with some enthusiasm, with industry players expressing hope sidelined buyers could now enter the market and deliver a needed jolt for homebuilders, the policy changes were also seen by many observers as a spark to demand that could push home prices even higher.

"This is something that's going to have a direct impact on the buying public as soon as it takes effect," predicted mortgage broker Mary Sialtsis, who said the changes could make a difference for some of her clients who'd been waiting to see if interest rates ease before buying.

Sialtsis sees the increased threshold for requiring 20 per cent down payments as especially important in major urban centres like Toronto, where the average home is above the million-dollar mark.

"On a $1.2 million purchase, theoretically you would have needed $240,000 to put down. Now, if you can do that with 10 per cent down, that's $120,000. That's a big, big difference," Sialtsis said.

But any kick to an undersupplied market could come with a cost, she said. "Is that going to end up driving up home prices with multiple offers? Sure, there's a risk of that, because we're in a chronic housing shortage in the GTA."

John Pasalis, president of the brokerage Realosophy, sees home price inflation as the biggest risk when increasing household borrowing power.

While some households on the cusp of being able to afford a home would undoubtedly benefit from the changes, Pasalis said, he sees the announcement as a "stimulative policy" aimed at spurring a sluggish housing market, rather than one with a chance of bringing home prices down.

"This is really just a short-term policy fix that's going to drive home prices higher," he argued. "Allowing people to take on debt doesn't improve affordability."

Mortgage broker Ron Butler added that the down payment threshold change only affected those who could qualify for a mortgage over $1 million. That was limited, he said, to a household with an annual income in the hundreds of thousands — far from the average earner in the Greater Toronto Area — or those able to have a parent or other person co-sign their loan.

David Hulchanski, a housing policy expert with the University of Toronto, sees the goal of increasing housing supply as important. But he, too, has concerns around price inflation if demand is stoked, as well as the impact of allowing people

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to take on bigger loans. "In Canada, we're already putting a lot of our financial effort into the housing sector, whereas it could be more productively used elsewhere," he said. "It's putting more people in some greater debt."

The Canadian Home Builders' Association, in a statement shortly after the announcement, acknowledged the fear about an "inflationary effect" when boosting household borrowing power. But it argued that real estate costs were being driven up faster by a market where demand outstrips available supply.

"If we don't quickly start building more houses, falling interest rates will create more demand on the limited number of homes available, further driving up prices," the association warned.

"We need to come at the housing shortage from every angle, and adjusting mortgages rules is a big part of that."

Advancing AI Across Insurance

Artificial Intelligence Is Becoming A Key Priority As Insurance Organizations Navigate Complexity In A Fast-Paced World.

By KPMB

https://kpmg.com/xx/en/our-insights/ai-and-technology/advancing-ai-across-insurance.html?utm_medium=Email&utm_source=SFMC&utm_campaign=24Sept_EXT_FS_Quarterly_Newsletter_FY24_Q4

The evolution of artificial intelligence (AI), including the new wave of generative AI (Gen AI), is transforming numerous industries. Whether it's automated claims, assessing risk, personalization of products and services, or fighting cybercrime, insurance organizations are increasingly looking towards AI to help tackle complex and time-intensive tasks, and to streamline processes. However, there is an urgent need to pick up the pace in adoption of the technology. Despite the use of AI in a handful of areas and pilots taking place elsewhere, insurance organizations are not gaining an advantage on competitors by using this technology more widely. Doing so could enable businesses to work faster, more flexibly and develop more sophisticated models in response to the evolving market.

So, how can insurers adopt AI effectively and unlock its full potential?

This report is intended to support insurance leadership teams in using AI to transform their organizations. It also brings together insights from KPMG professionals and industry leaders from Generali Italia, PassportCard, Prudential and Zurich Australia who share their perspectives on how to unlock the technology's full potential.

Advancing AI across insurance
Artificial intelligence is becoming a key priority as insurance organizations navigate complexity in a fast-paced world.

Key findings
Insurance organizations are increasingly investing in this space, but projects are taking too long to get into production:

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- Despite the natural risk-adverse approach, insurance businesses are ahead of the global average when it comes to investing in AI use cases across the business. However, the slow pace of implementation is creating significant delays in progress compared to other industries.

A careful balance of innovation and navigating risks are expected to be crucial:
AI offers untapped potential for those that are willing to embrace change, but it also brings new and concerning risks that should be considered as organizations further develop their AI strategy. By undergoing an internal maturity assessment, organizations can have better clarity on current capabilities and identify areas to prioritize. KPMG firms' tested maturity assessment framework enables organizations to do this effectively.

Successful organizations will likely still be data-driven and people-led:
Before starting on AI transformation, business leaders should have a clear and robust transformation plan in place, and focus on having a solid digital foundation and clean data to help improve the output. Upskilling and empowering colleagues and teams to better understand the bridge between AI and data can support longer-term success, and provide additional value by leveraging AI as an assistant.

- 57%of insurance organizations see AI as the most important technology for achieving their ambitions over the next over the next three years.1
- 58% of insurance CEOs interviewed said it would take three to five years for generative AI to provide a return on investment with increased profitability, fraud detection and cyber-attack listed as the top benefits.2

How are insurers approaching AI?
AI offers huge potential benefits for insurers, with the AI market size estimated to grow to US$79 billion by 2032.3

Leadership teams acknowledge that AI could completely transform their operating models and ultimately, the customer experience. However, insurance organizations appear to be approaching the technology strategically and with cautious optimism.

Many insurers have already started introducing machine learning (ML) or other AI technologies to help improve specific business processes, such actuarial models and fraud prevention processes. In customer service, AI is being leveraged to confirm identity through voice recognition, to provide a timely response to online queries through use of chatbots, and to generate more sophisticated 'next best actions' for customer service agents.

With enough training data, algorithms can better analyze risk and predict outcomes, adding accuracy to risk models and pricing structures. Both traditional and Gen AI could empower organizations to enhance actuarial models, deliver personalized insurance cover, or even increase the pace of insurance claims. But the process of doing so appears to be slow, with testing and implementation processes often taking several months to complete.

There is also growing recognition among insurers that a successful AI journey will likely be intrinsically linked to the maturity of their digital transformation. AI thrives on quality data and is best supported by cloud-based infrastructure and agile operating models; firms that are yet to fully embrace this are becoming aware of the urgency to do so.

It's important that insurance leaders understand what foundations are in place before they accelerate plans. By undertaking a maturity assessment, the business can identify clear areas of focus to help progress at pace.

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Navigating AI's risks
While the opportunities aligned with AI are significant, the associated risks are also increasing. Eighty-five percent of insurance CEOs believe that generative AI is a double-edge sword, in that it may not only aid in the detection of cyber-attacks but also provide new attack strategies for adversaries4. Organizations should be mindful of this when developing and integrating AI solutions:

- Confidentiality risks
- Generative AI services 'hallucinating' or creating inaccurate outputs
- Data poisoning
- ESG regulatory and reputational risks, given AI's power demands
- Cultural risks over whether staff are happy to work alongside AI systems

However, avoiding AI altogether may also expose insurers to the risk of missing out on potential opportunities and benefits, and losing competitive advantage. Doing so presents opportunity risks through reducing organizational knowledge, cutting abilities to develop new products and processes, and the risk of being overtaken by more technologically confident peers.

UPCOMING CAFII RELEVANT WEBINARS & EVENTS; AND RELATED EDUCATION CONTENT

Insurance Council Of BC 2024 Regulatory Update

https://us06web.zoom.us/webinar/register/WN_z3kCcqj8QbqqFftduWmG2Q#/registration

When: October 28, 2024
Time: 12pm-1pm PDT
Where: Zoom

Please join us for the Insurance Council of BC 2024 Regulatory Update. During this event our recent Chair Donna Thorne (2023-2024) and CEO Janet Sinclair will provide an update on our regulatory activities, priorities for our organization, key initiatives of interest to our licensees, and what we are planning for the future. Stay informed about important topics, such as:

An overview of regulatory activities and trends from 2023/2024; such as updates to Council Rules, new Insurance Council courses and more;

- Updates on major initiatives such as the Restricted Insurance Agency Licensing for sales of incidental insurance, general insurance competency and qualification standards framework, and our research on emerging technology in the insurance industry;
- Trends and analysis from our audit program and how we are using this information to develop effective regulation and support licensees.

Please note this informational session is not eligible for CE credit.

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Space is limited, so secure your spot now!

Reminder emails, including the link to join the webinar, will be sent prior to the event. If you are unable to attend, please cancel your registration to allow others to use the space.

If you have any questions about the event or registration, please contact events@insurancecouncilofbc.com.