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CAFII ALERTS WEEKLY DIGEST: September 16-20, 2024

September 20, 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

TD Bank CEO Bharat Masrani To Retire, Head Of Canadian Personal Banking Raymond Chun To Take Over

By Tim Kiladze, James Bradshaw, and Rita Trichur, The Globe and Mail, September 19, 2024

Toronto-Dominion Bank named Raymond Chun as its next chief executive officer, leaning on a relatively unknown insider to pull Canada's second-largest financial institution out of its U.S. regulatory crisis.

Currently the head of Canadian personal banking, TD's most profitable division, Mr. Chun will become chief operating officer effective Nov. 1 and then take over as CEO at the bank's next annual general meeting in April.

Mr. Chun's ascent caps a period of executive change at the bank. Over the past three years a growing number of executives have departed TD, and the changes have complicated the bank's succession plans. This time last year, Mr. Chun was not a top contender to be CEO, but former Canadian banking head Michael Rhodes left last December and that created an opening that Mr. Chun filled.

Canadian bank CEOs tend to retire after a decade and current chief executive Bharat Masrani has been in the role for 10 years. However, TD has been embroiled in a major money laundering scandal in the United States and recently set aside US$3-billion to cover financial penalties.

Three separate U.S. regulators and the U.S. Department of Justice are investigating the bank. TD has said it also expects non-financial penalties, the details of which should be announced by the end of 2024.

Read full article (subscription required): https://www.theglobeandmail.com/business/article-td-bank-ceo-bharat-masrani-to-retire-april-10/

RBC Appoints New Chief Financial Officer

Katherine Gibson Takes Helm As RBC's CFO After Nadine Ahn's Dismissal Over Alleged Conflicts Of Interest

By Freschia Gonzales, Wealth Professional, September 13, 2024

https://www.wealthprofessional.ca/news/industry-news/rbc-appoints-new-chief-financial-officer/386988?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20240913&_hsenc=p2ANqtz-8juOZGcX9facT8SQWE0pL9tU0_GL8gBMgN2nzvop0AhS75-ZfF4c3DKRb0siJPg808z5TYuwxS0G5EoDL-iRONAXVoSQ&_hsmi=324529713&utm_content=&utm_source=

Royal Bank of Canada has announced the appointment of Katherine Gibson as chief financial officer, effective immediately.

Gibson had been serving as interim CFO since April 2024 and previously held the role of senior vice president, Enterprise Finance and Controller. In her prior role, she oversaw global finance operations, including external reporting, accounting policies, and financial management systems.

RBC president and CEO Dave McKay praised Gibson's expertise in global enterprise finance and her strategic leadership during her interim tenure. He emphasized that she was selected as the top candidate after an international search, which highlighted the depth of internal talent within RBC.

With over two decades at RBC, Gibson has significant experience leading global teams and spearheading key strategic initiatives. Her earlier roles include senior vice president of Wealth Management, Investor and Treasury Services, and Insurance Finance, as well as vice president of Enterprise Optimization.

Gibson also served on the boards of RBC's subsidiaries, chaired the ESG Disclosure Committee, and was part of the Enterprise Diversity Leadership Council.

Before joining RBC, Gibson worked for six years at an international accounting firm in Canada and Australia.

Her appointment followed the departure of former CFO Nadine Ahn, whose dismissal was tied to allegations of an undisclosed relationship that led to conflicts of interest.

OTHER CAFII MEMBER-RELEVANT NEWS

IG Wealth Management Aims To Make Its Mark In Life And Health Insurance

By Alain Thériault, Insurance Portal, September 18, 2024

https://insurance-portal.ca/life/ig-wealth-management-aims-to-make-its-mark-in-life-and-health-insurance/?utm_source=sendinblue&utm_campaign=daily_complete_202409-18&utm_medium=email

IG Wealth Management, a subsidiary of IGM, a member of the Power Corporation group of companies, wants to break into the individual life and health insurance segment. This is one of the reasons why Claude Paquin, President of IGM Financial Quebec, recruited Stéphane Dulude on December 18, 2023, as Vice-President of Business Development for Quebec and the Maritimes. Dulude will be responsible for carrying out this mission.

In an exclusive interview with Insurance Portal, Dulude explains how IG will succeed in a network dominated by managing general agencies. Dulude knows this environment well. From 2018 to 2020, he was Vice President, Business Development, at Peak Financial Group. Prior to that, he spent 11 years in executive positions at SFL Wealth Management and SFL Investments, including President and General Manager of both Desjardins Group subsidiaries.

To illustrate the importance of life and health insurance to his organization, Stéphane Dulude reveals that IG Wealth Management has set itself the five-year goal of “doubling the share of revenues from our other sources, of which life and health insurance is a part, compared with those from our investment-related activities.”

Asked what proportion of IG Wealth Management's total business comes from life and health insurance, Dulude would not disclose this information. He replied that it is “extremely difficult to compare insurance and investment business lines.”

As for insurance revenue growth, Dulude says that the second quarter of 2024 “was our best, based on first-year commissions since the first quarter of 2017.” He recalls that Q1 2017 had reached a possibly unparalleled peak in the industry due to the tax changes affecting business owners at the time. “Consequently, the results for the second quarter of 2024 are our second best in the last 20 years. What's more, our average premium has never been higher.”

Demand for multidisciplinarity

IG Wealth Management wants to expand its sales force. “We want to attract established industry talent advisors to IG. Unfortunately, we're not always on the radar of advisors thinking of changing firms,” confides Dulude. “We want to be open to what's going on elsewhere, and raise the profile of the brand by showing what we can offer across Canada,” he adds.

In his role, Stéphane Dulude will focus on Quebec and the Maritimes. He underlines that “Quebec represents an extremely important component of IG's growth in Canada”.

Almost all of our advisors are dual-licensed. It has become a corporate requirement. - Stéphane Dulude

His organization insists on the multidisciplinarity of its advisors. IG Wealth Management requires a recruit to have more than one license. Almost all of our advisors are dual-licensed,” says Dulude. It's become a corporate requirement: the advisor who comes to us must be a financial planner, registered in life and health insurance, and in one of the savings disciplines, either securities or group savings.”

IG Wealth Management currently has 3131 advisors, including 756 in Quebec, reveals Dulude. Among them are 1,915 senior advisors, whom IG refers to as consultants, assisted by 1,216 associate advisors. “The definition of “consultants” corresponds to that of a senior advisor who may be joined by one or more associate advisors. This means that a team of advisors may have just one consultant, but several associate advisors,” he explains.

IG Wealth Management counts 1,680 advisors with either the Certified Financial Planner (CFP) designation outside Quebec, or the Financial Planner (Pl. Fin.) designation in Quebec. Stéphane Dulude says his organization stands out in this respect. “We position ourselves first and foremost as a financial planning firm,” he adds.

Active insurance consultants and associate advisors are attached to the IG insurance firm and cannot deal with another managing general agency. Dulude welcomes this arrangement, which makes it easier to supervise advisors. “The advisor who spreads himself thin by placing policies with different MGAs, who supervises him? That's an issue!”

A need to be filled

Why intensify insurance business now? Dulude answers that IG Wealth Management has always offered insurance, but that this offering has taken on even greater importance since the organization turned more towards high-net-worth clients in 2017, making them its primary market.

"These people have insurance needs too," he says. Indeed, Insurance Portal reported the results of an IG Wealth Management study published in December 2023, which found that only 54% of high-net-worth Canadians have insurance. "That's 46% of (HNW) Canadians who don't have insurance," says Dulude. What we don't know is how well the 54% are covered. That's what led IG to put more emphasis on insurance, and to take certain steps that promote the amount of time an advisor can devote to life and health insurance."

He sees opportunities in both percentages. "For example, if we lower the 46% segment of the high net worth market without insurance to 42%, there will be more premiums, and also more policies sold. In the 54% segment, if an entrepreneur is insured, but his partners are not, there's potential for cross-selling."

Investing in high net worth clients
Among IG's various distribution channels, Dulude is working to develop the entrepreneurial channel, i.e. that of consultants, self-employed business owners. This is the channel that serves the high net worth clientele. In the organizational channel, salaried advisors serve the mass market, i.e. clients with between $100,000 and $250,000 in investable assets.

"We serve this clientele and will continue to do so, but it's not the one we want to develop. We want to invest in high net worth clients. Of course, the average premium will increase, but so will the number of policies. More insurance will be sold than was sold in the past," says Dulude.

Since its 2017 turnaround, IG Wealth Management has invested significantly in technology to free up advisors' time. Dulude points out that these efforts are aimed at helping the advisor focus on the client relationship and advice, "rather than filling out paperwork." High-net-worth cases are complex," says Dulude. "IG advisors use the Conquest digital financial planning application. In April, IG signed a partnership with Life Design Analysis, to facilitate insurance quotes and presentations," he mentions as examples.

Dulude adds that IG supports its consultants in complex files with a financial concierge service (family office). "We have added insurance specialists across Canada," he says, adding that an advanced financial planning team will support consultants with insurance tax strategies.

Limited number of suppliers
To establish itself in an independent distribution network dominated by managing general agents, IG Wealth Management acts as one, relying on its partnerships with life and health insurance manufacturers.

IG Wealth Management has long-standing partnerships with Canada Life, Sun Life, Manulife and RBC Insurance. On August 27, 2024, the firm signed a new partnership with iA Financial Group. At the time of the announcement, IG said that this partnership enables it to access more insurance products and meet more life, critical illness and disability insurance needs.

In the same announcement, Pierre Vincent, Senior Vice-President, Distribution, Individual Insurance, Savings and Retirement, iA Financial Group, stated that its new distribution agreement with IG will enable iA to offer its insurance

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products to even more Canadians. "Through this partnership, iA is adding IG advisors and associates who can distribute our products," Vincent added.

"We are adding insurance manufacturers to ensure that the advisor has everything necessary to cover the widest possible range of his clients' insurance needs," explained Stéphane Dulude during the interview.

IG Wealth Management is satisfied with having partnerships with these five suppliers. "Some organizations have agreements with all distributors. With the volume we have, we could sign them all tomorrow morning. IG has instead chosen to have a spectrum of strategic partners that covers all needs," underlines Dulude.

According to him, even managing general agencies who have access to all suppliers concentrate their production with a handful of them. He believes this is also the case for advisors. "How can the advisor know the features of 15 different products? It's impossible," he says.

Great-West Lifeco's 2023 annual report reveals that 1,452 IG Wealth Management advisors actively sell Canada Life products, based on their new business as of November 30, 2023.

Pineapple Financial Inc. Launches Pineapple Insurance

By Central Charts, September 19, 2024

https://www.centralcharts.com/en/5081697-pineapple-financial-inc/news/4831897-pineapple-financial-inc-launches-pineapple-insurance

Toronto, Ontario--(Newsfile Corp. - September 19, 2024) - Pineapple Financial Inc. (NYSE American: PAPL), a leading Canadian fintech platform, is thrilled to announce the official launch of Pineapple Insurance, a transformative new business vertical that is designed to unlock significant growth potential for the company. This development not only allows Pineapple to tap into Canada's multi-billion dollar insurance market but also offers clients a more personalized, comprehensive financial solution that integrates seamlessly with their mortgage needs. Pineapple Insurance is expected to become a cornerstone of the company's future revenue streams by delivering enhanced customer value and protection.

The launch of Pineapple Insurance marks a pivotal moment in the company's evolution, fueled by strategic capital deployment from the proceeds of Pineapple's IPO in November 2023. This initiative has been in development for over a year, and now, investors can see their capital being directed toward long-term, high-impact growth. The introduction of life, creditor, and disability insurance is not only a natural extension of Pineapple's integrated financial services platform but also a critical move to capture a share of Canada's growing insurance market, which generated $122 billion CAD in premiums in 2022 alone.

A Multi-Billion Dollar Opportunity:
The Canadian life and health insurance sector is forecasted to grow at an annualized rate of 4.5% through 2027, with increasing demand driven by economic uncertainty, rising personal debt, and consumer desire for financial security. By integrating insurance solutions into the mortgage process, Pineapple stands to benefit from a market where over 700,000 new mortgages are issued annually in Canada, alongside the 47% of mortgages expected to renew in the next

three years. This creates an immense opportunity to cross-sell insurance products and expand revenue with every mortgage transaction.

Pineapple Insurance offers a more comprehensive and personalized solution to its mortgage clients, allowing them to choose coverage that fits their unique financial and personal needs, whether it's life, creditor, or disability insurance. By integrating this offering into the mortgage process, Pineapple provides clients with a seamless, all-in-one solution, simplifying their financial decision-making and ensuring they are fully protected. This initiative enables the company to capture premium revenue from its existing client base of thousands of mortgage holders and prospects, positioning Pineapple to drive both retention and new sales. Moreover, by offering tailored solutions, Pineapple strengthens the client relationship, ensuring that each individual receives the most relevant and valuable coverage.

"We've been building towards this launch for over a year, and we're beyond excited to finally share it with our investors and clients," said Kendall Marin, President and COO of Pineapple Financial. "We believe Pineapple Insurance is a game-changer. By offering in-house life, creditor, and disability insurance, we're not only meeting a regulatory requirement but enhancing the value we provide to clients-while adding a potential highly lucrative revenue stream for our business."

The Strategic Impact for Investors:

- **Revenue Growth & Profitability:** Pineapple Insurance is set to significantly enhance overall revenue while improving the customer experience by offering a comprehensive suite of mortgage and insurance solutions. By integrating personalized insurance coverage with mortgage services, Pineapple is poised to capture substantial value from its extensive client base. The Canadian insurance market is vast, with strong demand for financial security driving growth. Pineapple's ability to offer tailored insurance products, such as life, creditor, and disability coverage, presents a significant opportunity to boost revenue and deepen client relationships.

- With the potential to integrate insurance offerings into existing mortgage transactions, Pineapple is well-positioned to create a sustainable revenue stream. The synergy between mortgage origination and insurance sales is expected to generate substantial recurring revenue, reflecting the company's strategic approach to leveraging its platform for long-term growth. This integration not only enhances the value provided to clients but also supports Pineapple's objective of expanding its market presence and financial impact.

- **Strong Client Retention through Multi-Product Strategy:** Cross-selling insurance products alongside mortgages delivers more than revenue growth-it deepens the value proposition for clients, building a stronger and more lasting relationship. By offering customized, relevant insurance coverage alongside mortgage renewals and new loans, Pineapple helps clients make well-informed decisions that provide long-term financial security. Research shows that financial institutions offering multi-product solutions experience a 30% increase in retention compared to single-product providers. Pineapple's ability to bundle mortgage solutions with life and disability insurance creates a 'stickier' client relationship, ensuring that clients are more likely to stay loyal for years to come.

- As a result, Pineapple anticipates a rise in its already impressive retention rates, which currently hover above 70% across its mortgage portfolio. By offering insurance alongside renewals, Pineapple creates an additional touchpoint with clients, further deepening the relationship and boosting lifetime customer value.

- **Capital Deployment and Long-Term Value Creation:** Pineapple Insurance is a clear example of the strategic use of proceeds from the company's IPO last November. A portion of the $3.5 million USD raised has been allocated to build this division, reinforcing Pineapple's commitment to leveraging investor capital to create scalable, revenue-generating assets. The deployment of capital toward this initiative reflects Pineapple's long-term vision of becoming a fully integrated financial services platform that maximizes client value and revenue potential.

- "We promised our investors that the proceeds from our IPO would be deployed thoughtfully to accelerate growth and enhance shareholder value," said Shubha Dasgupta, CEO of Pineapple Financial. "With Pineapple Insurance, we believe we've done exactly that. This division has been in development for a long time, and its launch signifies the beginning of a new era of profitability and scalability for our company. By focusing on our core principles of customer-centric innovation, we're building a company that's prepared for sustained growth and success."

- **Market Tailwinds**: Recent moves by the Federal Reserve to lower interest rates mark a significant shift in monetary policy that could provide a much-needed boost to the broader mortgage market. As borrowing costs begin to ease, consumer demand for refinancing and new mortgage solutions is expected to rise. These rate cuts, along with Pineapple's comprehensive mortgage and insurance offerings, position the company to capitalize on improving market conditions and deliver enhanced value to clients while driving sustained revenue growth.

A Fully Integrated Financial Ecosystem:
Pineapple Insurance adds a vital layer to Pineapple's tech-enabled financial services platform, allowing the company to offer truly end-to-end solutions to clients. As a licensed Managing General Agent (MGA) operating in Ontario, Manitoba, British Columbia, and Alberta, Pineapple is now positioned to provide mortgage, insurance, and financial advice all through one platform-offering clients convenience and peace of mind.

Weekly Mortgage Digest: Canadians Are Pulling Back On Borrowing

By Steve Huebl, Canadian Mortgage Trends, September 15, 2024

A weekly review of the latest mortgage and real estate news, a recap of key headlines, and a preview of upcoming economic releases.

Canadians continued to rein in borrowing for the second straight quarter, according to recent data from Statistics Canada.

Household credit market borrowing slowed slightly to $25.1 billion. The slowdown was largely driven by a decline in consumer credit lending, which fell from $7.8 billion in the first quarter to $4.0 billion in the second quarter, StatCan noted.

However, mortgage borrowing saw a slight rise in the quarter to $18.3 billion, up from the $17.3 billion recorded in Q1.

“High interest rates are working, as the advance in household consumption is slowing down, which is the intent of restrictive monetary policy,” noted Randall Bartlett, Senior Director of Canadian Economics at Desjardins.

But he cautioned that the Bank of Canada "faces an ambitious task of achieving a soft landing given present vulnerabilities and future headwinds."

One major concern is the additional strain on mortgage holders, with a significant wave of renewals approaching. As of May, the Bank of Canada estimated that around half of mortgage holders had yet to fully experience the effects of higher interest rates.

"Once these households experience a mortgage renewal, they will face significantly greater financial strain because of higher monthly payments," Bartlett wrote.

He also highlighted increased financial stress among non-mortgage holders, who are exhibiting "a growing reliance on credit card debt to fuel their purchases."

Here are some other highlights from the Q2 national balance sheet and financial flow accounts:

- Household net worth edged up to $42.4 billion (+0.2% QoQ).
- The household debt-service ratio, which measures the portion of disposable income used for principal and interest payments on credit market debt, rose to 14.97% from 14.89% in Q1.
- The mortgage-only debt service ratio reached a record high of 8.18% in Q2, up from 8.07% in the first quarter.

The household savings rate rose 7.2% as growth in disposable income outpaced the rise in spending.
Real estate activity in Q2 was the weakest in four years, leading to a slight 0.1% drop in the value of household residential real estate since Q1 and a 0.3% decline year-over-year.
Real estate accounted for nearly 43% of the value of total household assets.

LIMRA: 44% Of Women Need Life Insurance Or More Coverage

By Grace Crane, Digital Insurance, September 15, 2024

https://www.dig-in.com/news/the-great-wealth-transfer-and-global-rise-of-womens-wealth?utm_campaign=NL_DIG_Morning_Briefing_09162024&position=2&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_09162024&oly_enc_id=1794I9343067F0V

Over the next decade, the greatest wealth transfer in history will occur between Baby Boomers and their Gen X, Millennial and Gen Z adult children or grandchildren, according to research from Edward Jones, Next360 Partners and Morning Consult. The study reveals that 48% of Americans plan to leave an inheritance of an estimated $84 trillion in assets through 2045, dubbing this the "Great Wealth Transfer" by many.

The Bank of America Global Research analysis expects $30 trillion of U.S. wealth will transfer to young women in particular, highlighting that women's wealth is rising globally. As this transfer of wealth increases for women, the gender parity of financial health remains.

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The Life Insurance Marketing and Research Association (LIMRA) 2023 Insurance Barometer Study shows that 44% of women, about 54 million people, say that they need life insurance or higher coverage. Nearly half, 47%, are concerned about not having enough money saved for retirement, and 40% are concerned about the ability to save for an emergency fund.

LIMRA data suggests that lower confidence of life insurance knowledge may play a part; 27% of women are not comfortable with their knowledge of personal finance, and only 22% of women say they are "very" or "extremely" knowledgeable about life insurance, compared to 33% of men who said the same. Sixty-one percent of women say they are interested in a life insurance policy that would provide guaranteed income in retirement, but only 46% of respondents say that they are aware of such a policy. Respondents of the Barometer Study reveal insights into how women prefer to shop for life insurance; 44% would research life insurance online but buy from an agent or other professional in person, and the top social media site women use to find financial information is Facebook, followed by YouTube and Instagram.

This gap presents an opportunity for education and engagement with female consumers, according to LIMRA.

Bobby Powell, vice president of wealth management sales at iPipeline, said that marketing in life insurance is typically targeting specific age groups, but could expand to appeal to a wider audience.

"I think life insurance is maybe moving more in that regard, where there is more direct-to-consumer advertising, but it's still focused on specific age groups, like senior-focused or final expense life insurance," Powell said. "That is usually final expense, very specific term life insurance, or what we would consider a simplified issue type of life insurance, which is really easy to set up and underwrite. As that kind of concept matures more, they should begin targeting a broader audience..."

Powell explained that technology and data analytics can help insurers analyze demographic trends and customer behaviors to better inform targeted strategies that address market needs. Machine learning and AI tools have created an additional layer of predictive analytics.

"Over the past several years, the ability at which we can forensically interrogate the life insurance process has drastically increased," said Powell.

Technology and digital solutions may also help in demystifying the process of purchasing life insurance and improving accessibility by accelerating and simplifying the process for consumers.

"There are no [technological] barriers to immediately processing life insurance," stated Powell. "It's really in all of the support processes around it, because a carrier has to be able to underwrite that insurance policy, and how they underwrite it, if it's being sold through an agent."

With tools that can underwrite products at a more accelerated pace, Powell explained, the process becomes easier for all parties involved – the distributor, carrier, agent and consumer.

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AI In Financial Services: Are Consumers Better Protected, Or More At Risk?

By Brigitte Goulard, Nic Wall, and Lauren Nickerson, Torys

https://www.torys.com/our-latest-thinking/resources/forging-your-ai-path/ai-in-financial-services?utm_source=email&utm_medium=email&utm_campaign=Q4_2024

Artificial Intelligence (AI) has the potential to reshape the financial services sector and transform how customers interact with their information, but it also raises important challenges and risks. We weigh the tradeoffs of integrating AI into the financial services space, asking the question: “is it worth the risk?”.

Efficiency and ease: advantages of AI
AI introduces a new suite of tools into the financial sector and more broadly. Used in the right hands, the next generation of AI-powered tools can help financial services and products reap a host of benefits for both their consumers and the company's bottom line.

Enhancing the consumer experience
Ensuring that consumers make the appropriate financial decisions has always been challenging, increasingly so as financial products and services become more complex. Traditionally, consumer protection was achieved by requiring financial institutions (FI) to disclose key product information such as risks, prices, and product features. It was assumed that such disclosures would steer consumers to the right decisions. Legislative frameworks are now increasingly requiring financial institutions to also consider a customer's needs and circumstances when suggesting or selling products. AI has the potential to transform how the industry interacts with its customers, including the amount and type of information that will be disclosed as well as the recommendations FIs may make with respect to products or services.

Because AI is built for automation and scale, even minor risks may accordingly scale up quickly, posing serious risks to the financial sector and consumers.

By analyzing vast amounts of data, including customer behaviors, social media, demographics and transaction histories, AI can enable financial institutions to offer hyper-customized products to meet a customer's needs and preferences. Product disclosures could also be tailored to the customer's particular risk profile or budgetary needs. In addition, the realm of predictive AI may alter how consumers think about and respond to financial risks through its ability to forecast potential future financial issues, suggest preemptive solutions (eg, budget advice) and even predict market trends for portfolio management.

Increasing operational efficiencies
Technology is changing the way companies do business and how they allocate internal resources. By automating repetitive tasks such as data entry, document processing and customer onboarding, AI can improve operational efficiencies, increase productivity and reduce errors. For example, AI chatbot interfaces can revolutionize the new customer onboarding process: “By analyzing patterns and trends in customer behavior, these chatbots can anticipate potential roadblocks or confusion points and offer preemptive solutions” 1 . Additionally, AI can free up human resources by automating decision-making in resource-intensive processes, such as loan origination or insurance underwriting. Accelerating processing time will also improve customer satisfaction.

Improving compliance and risk management

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AI and machine learning (ML) technologies are increasingly being leveraged in risk management to satisfy compliance obligations and improve business, investment and credit decisions. Examples of such applications include:

- AI/ML technologies such as natural language processing and text mining can be used to monitor sales and trader activity for non-compliance with regulatory requirements.
- The implementation of AI technologies not only improves the monitoring of compliance with anti-money laundering (AML) legislative requirements but can also automate the AML process management, thus increasing an institution's compliance abilities as well as its operational efficiencies.

In terms of evaluating potential customer risks, AI can improve an institution's credit decision-making process by expanding the range of considered data from traditional, more statistical and historical data to a much wider range of data points, such as social media activity, financial transactions , behaviors and even mobile phone usage patterns. This development not only allows for a more accurate evaluation of a borrower's creditworthiness but can also expand credit offerings to "unbanked" populations.

Opening the door to bad actors: risks of AI
Alongside its many advantages, AI presents risks to consumers and financial institutions, such as fraudsters leveraging AI tools, misinformation dissemination and use, and security breaches of sensitive banking data.

Fraud
The "self-learning" capabilities of AI systems that constantly improve the system's ability to fool computer-based detection systems magnify both the nature and scope of potential fraud 2 . For example, AI tools can be used to make fictional videos, audio recordings and documents designed to replicate the likeness, voice or writing of an individual. Often referred to as "deepfakes", these falsified clips and documents are sometimes used to target more vulnerable segments of the population, who are more likely to mistake them as authentic. This is occurring with increasing frequency: a recent report by identify verification platform Sumsub reported that deepfake incidents in the fintech sector increased by 700% in 2023 from the previous year 3 .

Misinformation
"Deepfake incidents" not only increase the risk of fraud but can also lead to the dissemination of misleading information, thus posing a significant risk to the integrity of information and decision-making processes. The creation of synthetic data and insights through AI increases the potential dissemination of false or misleading information 4 . As noted above, one of the advantages of AI is the leveraging of a wider scope of information to arrive at a more customized product offering. However, if the data used is incorrect, incomplete or imbued with biases that influence the AI's output, the product offering can lead to inappropriate offerings and, ultimately, bad decisions.

Data protection
AI depends on an immense amount of data. The data used to train and use AI tools with applications in the financial sector includes personal information and other sensitive data (for more on data integrity, read "What are the data governance elements of responsible AI?"). This can engage a number of privacy compliance considerations, such as whether sufficient consent has been obtained to use an individual's personal information for the model's given purpose, questions regarding the ability to retain or delete the data in question, and the extent of control that AI vendors have over data their customers feed into their models. Moreover, AI systems also present a suite of new potential cybersecurity vulnerabilities for threat actors to attempt to exploit, whether by obtaining data meant to be kept

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confidential or compromising the system's functionality (for more on cyberthreats, read " A sword and a shield: AI's dual-natured role in cybersecurity ").

Government initiatives to leverage the benefits of AI while mitigating the risks
Although existing Canadian law equally applies to AI as to other technologies, there are several areas of law, such as human rights, privacy, tort and intellectual property, that directly apply to AI. In addition, there are several new government initiatives that focus specifically on AI:

- Earlier this year, the Office of the Superintendent of Financial Institutions released an updated draft of Guideline E-23 Model Risk Management, which sets out OSFI's expectations with respect to an institution's enterprise-wide AI model risk management. The industry awaits the final release of the Guideline.
- The proposed federal Bill C-27, which includes the Artificial Intelligence and Data Act (AIDA) if passed, would implement Canada's first general artificial intelligence statute. The AIDA creates Canada-wide obligations and prohibitions relating to the design, development and use of artificial intelligence systems in the course of international or interprovincial trade and commerce. This applies, in its current draft, to any "technological system that, autonomously or partly autonomously, processes data related to human activities through the use of a genetic algorithm, a neural network, machine learning or another technique in order to generate content or make decisions, recommendations or predictions". Bill C-27 is currently subject to committee review following its second reading in the House of Commons (for more on this topic, read " What's new with artificial intelligence regulation in Canada and abroad? ").
- More recently, the federal government launched the third phase of its review of the legislative frameworks governing federal financial institutions by publishing the consultation paper, Proposals to Strengthen Canada's Financial Sector . The Paper highlights the Department of Finance's intention to develop a regulatory approach to AI in the financial sector. In collaboration with an AI expert, the Department of Finance plans to consult a broad range of domestic and international stakeholders in its effort to identify and assess the potential risks of AI and to develop a federal strategy for AI in the financial sector.

Conclusion
The future of AI integration with financial services and products presents some tantalizing potential opportunities; however, because AI is built for automation and scale, even minor risks may accordingly scale up quickly, posing serious risks to the financial sector and consumers. As noted in the Federal Government Consultation Paper: Proposals to Strengthen Canada's Financial Sector:

Financial sector adoption of AI could enhance the consumer experience by offering faster, more personalized financial services, while also increasing efficiency, improving risk management, and advancing the ability of financial institutions to detect and prevent fraud in real-time. However, AI could also introduce new or increased risks to consumers and financial institutions, which must be mitigated to ensure the ongoing stability of the financial sector.

Over the coming months, we will publish a series of articles focused on the benefits of AI in the financial services space and the efforts of regulators and policymakers to harness the benefits of AI while mitigating potential risks.

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UPCOMING CAFII RELEVANT WEBINARS & EVENTS; AND RELATED EDUCATION CONTENT

2024 THIA Innovation Summit

https://www.thiaonline.com/cgi/page.cgi/_evtcal.html?evt=116

WHEN: September 26, 2024, 8:45 AM - 5:00 PM
WHERE: Manulife Conference space, Downtown Toronto.

Reserve your spot today for THIA's Innovation Summit, which returns this fall for a day of engagement and insights into the issues, solutions and trends affecting the travel health insurance industry.

This year's Summit will take place on Thursday, September 26th (the day after THIA's AGM) at Manulife's conference space in Downtown Toronto from 8:45 AM – 5:00 PM EST, cocktail reception to follow.* We are pleased to advise that this space is wheelchair accessible.

Space is limited and sure to fill up quickly, and Early Bird pricing is only available until August 9, 2024.

*Event information is subject to change.

This Year's Innovation Summit Highlights
Navigating Disruption: Travel Health Insurance in a Time of Change
At this one-day summit, we will be exploring the impact of emerging technologies, consumer expectations and a shifting global landscape on the travel health insurance industry, while meeting travel health insurance leaders and other industry experts.

The Summit will feature two keynote speakers, provocative panels, technology experts and information about emerging businesses that are helping transform our industry and adjacent industries.

A light breakfast, lunch and a networking cocktail reception at the end of the day are included in your purchase price.

Pricing
THIA Member pricing is valid for active THIA members and non-member colleagues at their company. Non-members must be registered by an active THIA member.

- THIA Members Early Bird ticket (through August 9, 2024): $250 per person
- THIA Members Standard ticket: $300 per person
- Non-Members ticket: $350 per person

Accommodation
THIA has reserved a limited number of hotel rooms for attendees of our AGM on September 25th and the Innovation Summit on the 26th. The rooms are at the Canopy by Hilton Toronto Yorkville (387 Bloor Street East, Toronto ON M4W

1H7), a short walk from the Innovation Summit venue. The price is $359 per night plus applicable taxes. To take advantage of this rate, you must reserve by August 9, 2024. Visit here to reserve your room.

We strongly encourage those attendees who are travelling to Toronto for the event to ensure they have appropriate travel insurance coverage.