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$10 Vol. 28 No. 03 July 2024

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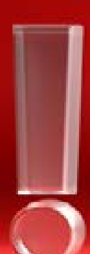

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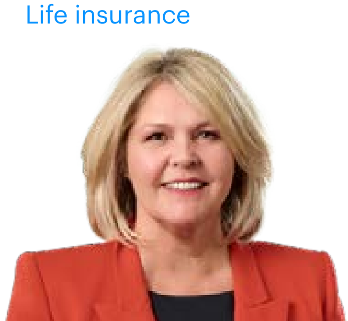

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INSURANCE Journal

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Something to think about...

> We looked at how carriers are now owning MGAs. We looked at how carriers have gotten out of recruitment, training, and development of new advisors. We looked at the impact of technology and what the advisors need to serve their clients.

– Cathy Hiscott, President and CEO of PPI

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Cathy Hiscott aims to make PPI indispensable

Since her recruitment in 2021, PPI's new President and CEO has gathered feedback from the field that has led her to rethink what a managing general agency needs to offer to be successful in 2024.

BY ALAIN THÉRIAULT

Cathy Hiscott became President and CEO of PPI in March 2024. This announcement followed **Jim Virtue**'s retirement from the CEO role in December 2023. Hiscott had been President of PPI since February 2023.

After joining the MGA in January 2021 as Executive Vice President, Innovation & Strategy, Hiscott saw her position expanded to include Finance in July 2022. She has 33 years' experience in the insurance and investment industry. Prior to PPI, she was Senior Vice President of Executive Distribution at **Financial Horizons** and President of **Excel Private Management**, which belonged to Financial Horizons before being merged with **Quadrus Investment Services** on January 1, 2022.

From the moment she joined PPI, Hiscott played an active role in the organization's strategic review. "We called that strategic review '*Blue Ocean*', based on the book *Blue Ocean Strategy*[1]. We had 60 employees from across the whole company and we asked them the question: 'If we were building a brand-new MGA today, what would we do?' We looked to all our business areas, whether it was the mid-market or high net-worth market, investments, operations, IT," she recalls.

PPI created small working groups of four to six people each. "Over 12 weeks, we asked them: What do we do well? What do we need to do differently for the future? We came up with our 6 strategic imperatives and our vision. We based them all on drivers of change that are happening within our industry."

PPI, itself owned by **iA Financial Group**, looked at manufacturers owning distribution. "We looked at how carriers are now owning MGAs. We looked at how carriers have gotten out of recruitment, training, and development of new advisors. We looked at the impact of technology and what the advisors need to serve their clients."

Hiscott explains that getting input from the people "who do the job" is how PPI developed its vision of becoming indispensable to its advisors. "Being indispensable means to us that advisors just can't imagine working with any other MGA", says Hiscott.

In her appointment announcement, PPI said that understanding advisors is critical to its success. "Over the past year, we have engaged a number of you across Canada to deepen our understanding of your needs and have aligned our core business areas and service offerings to reflect our goal of being indispensable," says the announcement.

Crucial skills

Hiscott stresses the importance of having people in every community to support advisors. She applauds the evolution of digital technologies. They now make it possible to recruit and attract the best talent without those individuals having to sit in the same office, she points out. "At the same time, we're preserving the regional teams. We make sure that we have business development teams locally," she adds.

Why would an advisor deal with PPI rather than another MGA? She says the MGA believes in providing "really knowledgeable people to the advisors". As an example, she mentions the large case market aimed at high-net-worth Canadians, which is the niche occupied by **PPI Advisory**'s side of the MGA. "We've invested in tax and estate planning experts, in our advanced underwriting and advanced case specialists that can help advisors when they get into more complex insurance requirements."

Among PPI's recent hires, **Jim Brownlee** has, like Hiscott, worked for **Canada Life** in the past. When Hiscott was appointed President and CEO of PPI in March 2024, Brownlee was named Executive Vice President, Distribution. Brownlee joined PPI in January 2023 as leader of strategic growth initiatives.

"Jim is responsible for the development and execution of strategic plans across all sales areas to ensure growth, working closely with PPI sales leaders to coordinate efforts, leverage PPI's collective expertise and meet the needs of you, our independent Advisors," Hiscott posted on **LinkedIn**, at the time of Brownlee appointment.

Declining number of policies

Figures from 2023 provided to the *Insurance Journal* by **LIMRA** reveal that the number of policies sold in Canada has been on a downward trend since 2010, while premium amounts and the average premium per policy have been steadily increasing (see the feature on term insurance in this issue, pages 10 to 21). Hiscott is aware of this trend, and that many advisors have

1. In this book published in 2005, authors **W. Chan Kim** and **Renée Mauborgne** suggest that a company will achieve lasting success by creating new, untapped market spaces ripe for growth (blue oceans), rather than by fighting competitors.

> The more involved prospects or clients are in the process, the more they take ownership of doing something.
>
> — Cathy Hiscott

moved into the high-net-worth market. "We refer to our high-net-worth large case insurance market as the wants' market. They want to leave a legacy; they want tax efficiency; they want their assets to transfer as smoothly as possible."

"Then we have our needs market, which is the middle market," she continues. They need protection to pay off debts like mortgages, replace income during working years, and protect dependents.

Hiscott reveals that the company's large case business grew significantly in 2023. "We have a lot of advisors doing an amazing amount of work in the high net-worth insurance market," she says. Of the 5,300 advisors active with PPI, Hiscott estimates that the top 500 are more focused on insurance solutions for high-net-worth and ultra-high-net-worth clients. To be considered part of this segment at PPI, an insurance case must represent at least $75,000 in annual premiums or $5 million in death benefit coverage.

Most PPI advisors, however, serve the family mid-market, she adds. "It's more like $2,000 in annual premiums. It's still a lot of money for the average Canadian family. We're seeing that the number of Canadians in the family market buying life insurance is not going up," she underlines.

Hiscott recalls that in 2023, 31% of Canadians told LIMRA in its 2024 Insurance Barometer Study that they had no insurance or were under-insured. "Part of the challenge is making it easy for them to buy insurance and making it easy for the advisor to offer them insurance".

Supporting prospecting

At the time of the interview, PPI had just held its annual symposium. The event brings together growth-focused advisors together to talk about concepts and opportunities in different markets. "We also introduced *AmpLiFi*," she says.

AmpLiFi is a policy management system that helps advisors identify sales opportunities within their existing policies, such as term policy conversions, rewrites and switches, as well as policy anniversaries and client birthdays. PPI launched this proprietary tool in November 2022, in partnership with **Life Design Analysis**, a software developer headed by **Charlie Conron**.

"Advisors that qualify have all their opportunities within this platform," says Hiscott. She explains they can market to their clients, who can then click a button to say they want to buy. "As an example, we can

➜

Cathy Hiscott

help advisors set up their marketing to a client that has a term insurance policy that's going to renew in the next 12 months, way before the term renews. Maybe the client wants to convert it, re-write it or change it. Hiscott says that the advisor thus avoids reacting at the last minute, and can give the customer time to think and respond to a new needs analysis.

The process works by sending the customer communications via *AmpLiFi*'s secure messaging, including an updated needs analysis "that even the client can play around with…We know that the more involved the prospect or client is in the process, the more they take ownership about doing something," notes Hiscott.

"It's a beautiful way of prospecting because, as we saw in the LIMRA research, 21% of Canadians don't have insurance and 10% want more. Part of it is for advisors to go back to their existing clients and market to them. They can reach out to their clients to say: 'Hey, maybe it's time to do a check-up!'"

Isn't that the very essence of the profession? "It is, but it can become tedious," observes Hiscott. "We're all busy," she points out. She says PPI has been looking at how to make it easier for advisors with, say, 500 or more customers to call back.

No fees

Hiscott says of *AmpLiFi* that active insurance advisors with PPI are eligible. "They need to do a certain amount of new life insurance premiums first-year commissions per year," says Hiscott, who declines to disclose the exact level. "It's a realistic amount. Somebody active in the life industry will qualify for it."

However, an advisor focused on investment business with no more than 100 insurance policies in force could also qualify. "We would look to their overall business with us. We take a holistic approach. They might still want it because it would help them to manage their in-force policies."

Eligible advisors get the full platform at no cost to them, including the lead generation tool for their website, adds Hiscott. "We provide training and support from our team of digital enablement specialists. "That's why we have a minimum amount of production."

She says that data feeds flow freely in *AmpLiFi* between most insurers and advisors. "There's only two or three very small companies that don't pop the feeds into *AmpLiFi*, but all the major insurance companies in Canada do." Life Design Analysis can take insurer data and allow the advisor to see that the customer has insurance with iA Financial Group, **Canada Life**, **Manulife** and **Sun Life**, for example.

Another way to grow

With a strong presence in the insurance market, PPI also has a few investment-focused advisors. "They do a lot more of the segregated fund and annuity business. They are not as much into insurance actual planning," explains Hiscott. She believes they can fuel PPI's growth.

Hiscott says that mutual fund and securities broker reps don't generally focus on insurance. To reverse this trend, PPI has created a team that works with investment advisors to help them integrate insurance solutions into their practices.

PPI has a number of brokers "that do their insurance business through us, because we match them up with an independent PPI insurance advisor," says Hiscott. **iA Private Wealth Management** is one of them. "The investment advisor enters into an agreement with the insurance advisor. They are partnering so that they can holistically take care of the client."

ONE IA FINANCIAL GROUP ADVISOR OUT OF SIX PLACES THEIR BUSINESS THROUGH PPI

According to the 2023 annual report of their parent company, **iA Financial Group**, **PPI Management** is the point of business for 5,300 independent advisors across Canada. iA's MGA network totals 30,000 advisors (referred to as "representatives" in the document). The insurer also distributes its products through its career network (2,400 captive advisors) and national account network (400 representatives). National accounts are the MGA arms of securities dealers.

Operating since 1978, PPI is known for providing services for advanced life insurance case services through **PPI Advisory**, dedicated to the high-net-worth market. PPI also targets the family and mid-market through **PPI Solutions**.

To focus on its core business, PPI has let go of its group insurance operations. In October 2021, **AGA Benefit Solutions** acquired **PPI Benefits**, including its subsidiaries **Agile Benefits** and **BenefitsMyWay**.

A national MGA, PPI has offices from coast to coast:

- Vancouver (Downtown) – British Columbia
- Vancouver (Burnaby) – British Columbia
- Vancouver (Surrey) – British Columbia
- Calgary – Alberta
- Edmonton – Alberta
- Winnipeg – Manitoba
- Toronto (Mississauga) – Ontario
- Toronto (Sheppard) – Ontario
- Ottawa – Ontario
- Montreal (Brossard) – Quebec
- Quebec City – Quebec
- Halifax – Nova Scotia
- St. John's – Newfoundland

Number of independent advisors working with the four largest MGAs in Canada

- **Hub Financial**: 6,000 (information shared with *Insurance Journal* on June 12, 2024).
- **PPI**: 5,300 (iA Financial Group annual report 2023)
- Financial Horizons: 5,166 (according to Great-West Lifeco's 2023 annual report)
- **IDC Worldsource Insurance Network**: over 5,000 (according to **Desjardins Insurance** at the time of acquisition in the first quarter of 2023).

President of Hub Financial, **Andrew Fink**, clarified that the number of active advisors with his MGA includes the mutual fund representatives who do business with mutual fund dealer **Hub Capital** and the active independent advisors of **BridgeForce**, the MGA acquired by Hub in February 2023. *(Alain Thériault)*

Protection gap and new markets

PPI says it has acquisition opportunities that would enable it to enter some new markets. "We need to pay more attention to new markets in Canada that we may not be in today," she says. To demonstrate this, she cites one of **Statistics Canada**'s demographic projections for Canada from 2021 to 2068. Among the figures published in August 2022, Hiscott mentions that Canada's population is expected to reach nearly 48 million by 2043. This is one of the medium growth scenarios projected by Statistics Canada.

Much of this growth will be fuelled by immigration, if the trend continues. On January 1, 2024, Canada's population reached 40.8 million, an increase of 1,271,872 compared to January 1, 2023. This increase was reported by Statistics Canada in its March 27 edition of *The Daily*. It represents an annual population growth rate of 3.2%, the highest since 1957. According to Statistics Canada, temporary immigration in 2023 accounts for most of this growth.

"We're expected to be 48 million Canadians by 2043. If we apply that same 31% protection gap, there will be close to 15 million Canadians needing life insurance." Hiscott says PPI's working on "new innovative approaches so that we might be able to have a new marketplace for mid and mass-market Canadians." She would not elaborate, but says she expects PPI to work on it behind the scenes for a period of time. "We are hoping it can help close that gap."

Underinsured Canadians: Can term insurance fill the gaps?

Insurers are betting on price and flexibility to reach segments of the population more likely to lack protection.

BY ALAIN THÉRIAULT

In its annual survey on life insurance needs in the United States, **LIMRA** observed several insurance gaps in the population. The survey reveals that the need for life insurance is greater among Millennials and Generation Z, households with an annual income of less than $50,000, Black and Hispanic communities, and women. This survey is entitled *2024 Insurance Barometer Study Report 1: The Generational Shift Has Arrived*.

At the time of writing, LIMRA's barometer data on responses from some 2,000 Canadians were not available. However, LIMRA estimates that this sample allows for a comparison between the United States and Canada. In an article published on March 29, 2024, on the *Insurance Portal*, **Stephen Wood**, Research Director, Consumer Markets at LIMRA and LOMA, noted that the insurance gap is smaller in Canada than in the United States.

He released preliminary data showing that 31% of Canadian adults are underinsured, compared to 41% of Americans. In Canada, 21% of people do not have insurance and say they need it; 10% of the Canadian population says they need more insurance.

Could term life insurance be the answer to the gaps observed in Canada? This category of individual life insurance products consistently garners the highest number of policies sold each year, compared to whole life insurance and universal life insurance policies, two permanent products.

To explain the higher number of term policies sold each year, our sources praised its affordability compared to more expensive permanent life insurance. Term insurance providers target, among others, young families, students, and self-employed individuals at the start of their careers.

According to data prepared exclusively for *Insurance Journal* by LIMRA, in 2023 in Canada, 377,060 term life insurance policies were sold, more than half of the 667,752 life insurance policies sold in the country. They accounted for 56.5% of the total contracts sold.

In contrast, whole life insurance dominates sales in terms of premiums, with $1.271 billion (B) in new annualized premiums. It accounts for 67.1% of the total premiums sold.

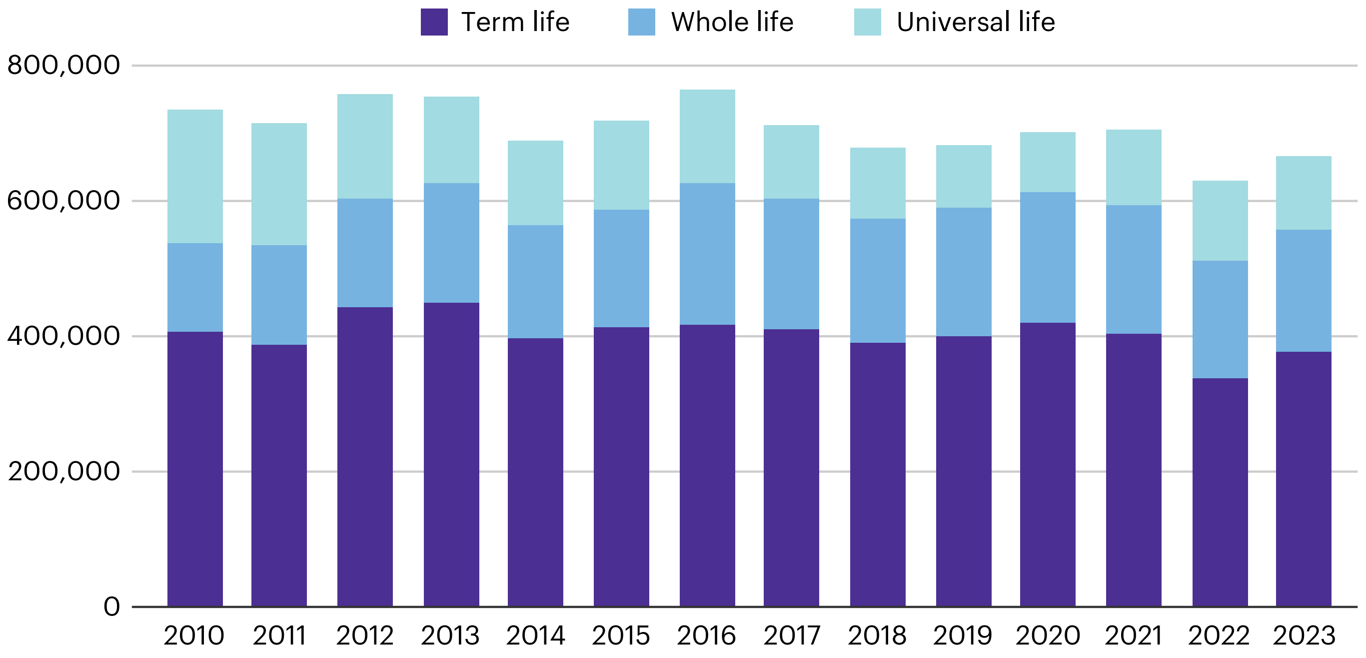
To prepare this data, LIMRA estimated the total sales of the Canadian industry. These estimates include both the results of insurers who regularly participate in its quarterly surveys on individual life insurance sales and insurers who do not.

LIMRA's estimates include the 15 insurers who participated in LIMRA's Canadian Individual Life Insurance Sales Survey for the fourth quarter of

Stephen Wood

Matthew Rubino

NUMBER OF LIFE INSURANCE POLICIES SOLD ANNUALLY IN CANADA BY TYPE OF PRODUCT



Data based on industry estimates includes sales from companies that don't participate in the LIMRA quarterly survey
Source: LIMRA.

Vanessa Charbonneau

> *Term insurance is for everyone: families, business people, companies... It's my entry point.*
>
> — Vanessa Charbonneau

2023: **Assumption Life**, **Beneva**, **BMO Insurance**, **Canada Life**, **Knights of Columbus**, **Co-operators**, **Desjardins Financial Security**, **Empire Life**, **Equitable Life**, **Foresters Financial**, **iA Financial Group**, **ivari**, **Manulife**, **RBC Insurance**, and **Sun Life**.

Responsible for LIMRA's life insurance sales reports, **Matthew Rubino** states that the insurers participating in the survey represent 93% of the total life insurance market in Canada, measured in terms of new annualized premiums.

A charitable organization, Knights of Columbus participates in LIMRA's survey but is not included in *InsuranceINTEL*'s comparative tables. The charitable organization offers its members life insurance through the exclusive agency network **La Fraternelle d'Assurances** in Quebec and **Knights of Columbus Insurance** elsewhere in Canada.

Five insurers were absent from LIMRA's fourth-quarter 2023 survey: **Combined Canada**, **CUMIS Life**, **Humania Assurance**, **UV Assurance**, and **Primerica of Canada**.

According to LIMRA's estimates of sales for the entire Canadian industry, the number of term life insurance policies sold in 2023 increased by 11.8% compared to 2022. Matthew Rubino attributes most of this increase to the fact that 2023 is compared to the exceptionally low figures of 2022. There was a significant return to normal after 2020 and 2021 disrupted the usual sales trends in the industry, explained Rubino.

When the COVID-19 pandemic spread to Canada, as of March 2020 insurers could not use paramedical services to analyze their clients' insurance applications until these services reopened in June 2020. Sales then exploded as insurers caught up on the backlog. Apart from the pandemic, the growth in term policy sales has remained in the 2% to 4% range over the past decade, stated Rubino. The pandemic created unusual demand, leading to the sales variations seen in recent years, he added.

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Chantal Mackenzie

The following information about existing products and their characteristics described in this research is drawn from the *InsuranceINTEL*, product and market intelligence centre for the life insurance industry. This centre is owned by the **Insurance Journal Publishing Group**.

Seventeen insurers offer 10-year (T10) and 20-year (T20) term insurance products. Their offering totals 20 ten-year term insurance products and 20 twenty-year term insurance products. **iA Financial Group**, **Manulife**, and **Sun Life** are the only ones to offer two products, both in T10 and T20.

Among the most recent changes, Sun Life launched Sun Life Evolve Term Life Insurance on May 13. This product is available in T10 and T20 versions (with terms ranging from 5 to 40 years) and replaces Sun Life 10 and Sun Life 20 Term Life Insurance, which will no longer be sold.

10-YEAR AND 20-YEAR TERM INSURANCE: 17 PROVIDERS FOR EACH CATEGORY*

Company	Product name
Assumption Life	*FlexTerm***
Beneva	*Term Plus 10 - Term Plus 20*
BMO Insurance	*Term 10 - Term 20*
Canada Life	*Canada Life My Term***
Co-operators	*Versatile Term 10 - Versatile Term 20*
CUMIS Life	*Versatile Term 10 - Versatile Term 20*
Desjardins Insurance	*Term 10 - Term 20*
Empire Life	*Solution 10 - Solution 20*
Equitable	*10 Year Renewable & Convertible Plans - 20 Year Renewable & Convertible Plans*
Foresters Financial	*Term 10 - Term 20*
Humania Assurance	*HuGO Life***
iA Financial Group	*Traditional Insurance (T10 R&C) - Traditional Insurance (T20 R&C)* *Traditional Insurance Pick-A-Term (T10 R&C) - Traditional Insurance Pick-A-Term (T20 R&C)*
ivari	*TERMSelect10 - TERMSelect20*
Manulife	*Family Term*** *Family Term with Vitality Plus***
RBC Insurance	*RBC YourTerm***
Sun Life	*Sun Life Evolve Term Insurance*** *Sun Life Go Term Life Insurance***
UV Insurance	*T-10 Superior+ - T-20 Superior+*

* Each insurer listed in the table offers at least one 10-year term product and one 20-year term product.
** The product name is the same for both the 10-year and 20-year term products.
Table: Insurance Journal Source: InsuranceINTEL, 2024

Some advisors make a living from term insurance. This is the case of **Vanessa Charbonneau**, who has been a financial security advisor with iA Financial Group's career network for 14 years. This network, exclusive to iA, allows advisors to also offer products from other insurers. "I believe a lot in term insurance. In terms of the proportion of my life insurance business, I sell 70% term insurance and 30% permanent insurance," revealed Vanessa Charbonneau in an interview with the *Insurance Journal*.

She says that her term insurance sales slightly increased in 2023 compared to 2022. Why this inclination towards term insurance? "The first word that comes to mind is accessibility to insurance. People sometimes have preconceived notions that life insurance is hard to understand and expensive. Term insurance is for everyone: families, business people, companies... It's my entry point," answers Charbonneau.

Insurers have understood this. **Chantal Mackenzie**, Regional Vice President, Alberta South, Northwest Territories, and Yukon at **Canada Protection Plan** (a **Foresters Financial** company), praises the affordability of insurance products such as 10-year (T10), 20-year (T20), and 30-year (T30) term insurance. This is one of the factors that advisors consider when recommending a term insurance product, whether it is a T10, T20, or T30. Term insurance is a good entry point, she says.

But it's not just the price, adds Mackenzie. She believes that when facing a temporary need, clients will place great importance on the flexibility of term insurance. The right to later convert term insurance into permanent insurance weighs in the balance. Being able to guarantee their insurability today at an affordable cost becomes a very important element of the discussion, says Mackenzie.

According to information provided by *InsuranceINTEL*, all 17 providers offer the right to convert. Out of 20 products, only Sun Life Go Term Life Insurance does not offer this right. Sun Life does, however, offer it with its Evolve Term Life Insurance product. Sun Life is among the four insurers that offer this right to the insured up to the age of 75, the highest limit, along with **Assumption Life**, **Manulife**, and **Empire Life**.

Chantal Mackenzie believes that the right to convert a term insurance policy for another with a longer term further adds to the product's flexibility. These rights allow for adapting the client's insurance planning to future changes in their situation, Mackenzie believes.

The ability to convert a term insurance policy into a longer term within the first five years of the contract is a feature valued by Vanessa Charbonneau of iA Financial Group. Several insurers offer it, she says. "You can, for example, switch from a 10-year term to a 20-year term," she adds.

Mackenzie states that the flexibility of the conversion right varies significantly from one insurer to another and even from one product to another. For example, her company offers a conversion right for its traditionally underwritten term insurance products but not for its simplified issue products.

This is the case for almost all insurers. According to *InsuranceINTEL* information, only UV Insurance offers the conversion right for simplified issue term insurance. The Drummondville, Quebec-based mutual insurer offers it for all its simplified issue term products (T10, T15, T20, and T25) except for T30.

UV Insurance specifies that these products can be converted wholly or partially for a new term program with a longer premium payment period than the originally chosen program. The conversion is done without providing proof of insurability. The insurer also notes that this right can be exercised only once, on one of the contract's anniversaries, until the fifth anniversary.

Traditional 10-year and 20-year term products present many differences. Most insurers offer the conversion right from the 1st to the 5th policy anniversary. Others extend it beyond the first 5 policy anniversaries. Some products do not offer the conversion right. They are more numerous in 20-year term insurance, with eight products, compared to three in 10-year term insurance. The conversion right can only be exercised for another term product with a longer duration.

InsuranceINTEL has gathered many details on conversion rights, revealing that it is a highly complex feature. For example, **BMO Insurance** allows for the full conversion of a 10-year term policy from the first policy anniversary or partially from the second anniversary.

The age limit at which the insured can exercise their conversion right will differ depending on the destination product:

- 70 years for conversion to 15-year term insurance
- 65 years for conversion to 20-year term insurance
- 60 years for conversion to 25-year term insurance
- 55 years for conversion to 30-year term insurance

Price matters

Regarding the fact that it is lower priced than permanent products, Chantal Mackenzie states that the term product is very popular among younger people. Clients want to ensure that their family members are safe, even if they have to juggle with the budget, mortgage, childcare costs, and various other household expenses, explains Mackenzie.

Adrien Legault, Vice President and General Manager of the Quebec Region for **IDC Worldsource Insurance Network**, considers the term product as one of the most important in the family and middle-class market. "Term insurance is a product very close to the basic concept of insurance, which is to insure a risk without being sure it will materialize. It is often the first product that families with significant insurance needs will take, but they must choose based on their budget," he says.

However, the popularity of this choice is no longer solely due to price, adds Legault. He notes that this market has evolved since the time when competition in term insurance was based on the lowest price. "More and more advisors have realized that there will be a $1 difference per month between the first and the fifth place. It is not a premium of $24 or $25 per month that will make the difference. Instead, (what will matter) will be certain product features," says Legault.

David Benamron, Executive Vice President, Insurance, for the managing general agency **Botica Financial Group**, observes that it suffices for the insurer to have one of the five most competitive prices in a given product to attract the attention of advisors. "This question comes first. Advisors want to ensure they arrive at the client's place with a competitive price. There is no need to be the cheapest," he says.

Secondly, advisors will ask how long it takes for the insurer to issue a policy. Benamron adds that thirdly, advisors inquire about the service offered by the insurer. According to him, advisors finally want to know the product's flexibility regarding future events: the possibility and choice of converting term insurance to a permanent product or exchanging a 10-year term for a 20-year term, for example.

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Adrien Legault

David Benamron

CONVERSION RIGHTS FOR 10-YEAR AND 20-YEAR TERM INSURANCE

Ranked by the age limit for converting term insurance to permanent insurance

Company	Product name
Age 75	
Assumption Life	*FlexTerm*
Empire Life	*Solution 10 - Solution 20*
Manulife	*Family Term*
Manulife	*Family Term with Vitality Plus*
Sun Life	*Sun Life Evolve Term Insurance*
Age 71	
BMO Insurance	*Term 10 - Term 20*
Equitable	*10 Year Renewable & Convertible Plans - 20 Year Renewable & Convertible Plans*
Foresters Financial	*Term 10*
iA Financial Group	*Traditional Insurance (T10 R&C) - Traditional Insurance (T20 R&C)*
iA Financial Group	*Traditional Insurance Pick-A-Term (T10 R&C) - Traditional Insurance Pick-A-Term (T20 R&C)*
ivari	*TERMSelect10 - TERMSelect20*
RBC Insurance	*RBC YourTerm*
Age 70	
Beneva	*Term Plus 10 - Term Plus 20*
Canada Life	*Canada Life My Term**
Co-operators	*Versatile Term 10 - Versatile Term 20*
CUMIS Life	*Versatile Term 10 - Versatile Term 20*
Desjardins Insurance	*Term 10 - Term 20*
UV Insurance	*T-10 Superior+ - T-20 Superior+*
Age 65	
Humania Assurance	*HuGO Life*
Age 64	
Foresters Financial	*Term 20*
Not convertible	
Sun Life	*Sun Life Go Term Life Insurance*

* To age 70, or for the first two years from the policy contract date for policies issued at age 69 or older.

Table: Insurance Journal Source: InsuranceINTEL, 2024

Making life easier for advisors

Adrien Legault emphasizes that the ease of doing business with the insurer will be a determining advantage in the eyes of the advisor, who will concentrate most of their business with an insurer that meets this concern. They will only call on other insurers for specific risks.

"Advisors are increasingly looking for the possibility of obtaining a decision at the point of sale, whether in person or virtually," he says. According to him, some insurers have very advanced platforms that allow the client to know if the insurer accepts the risk and issues the policy by email or on Teams. Others do not offer the decision at the point of sale. It is a significant differentiator in term insurance," he says.

Legault observes another trend: many insureds are willing to pay a little more to get insurance faster. This trend is also driven by the simplified issue insurance niche, which allows for quickly completing the underwriting process by answering a handful of standardized questions.

Which product to choose?

Vanessa Charbonneau often uses a combination of term insurance and whole life insurance for the insurance portion of her clients' overall financial planning. The iA advisor talks a lot about the emotional aspect with her clients. "Trust is earned," she says.

Charbonneau will regularly propose 10-year term insurance to a client who has a "budget issue" or for a very short-term project. For a longer-term project, she has the flexibility to use, for example, T10 or T20. She mentions that iA Financial Group offers a traditional multi-term insurance product that offers terms from 10 years to 40 years.

Besides iA's multi-term product, Sun Life's new Evolve Term Life Insurance offers terms ranging from 5 to 40 years. Canada Life My Term life insurance offers insurance terms from 5 to 50 years.

Charbonneau, an iA Financial Group advisor, says she works with products from several insurers. Service will make a big difference for her. She says she has most of her portfolio with iA for this reason. "I like having internal resources: iA is fast in claims processing. That is my number one point." In choosing a product, she also prioritizes certain features, such as the renewal premium. "Renewal rates are important, especially if you think the client will need to renew their term insurance," she says.

For his part, David Benamron observes in his network that term insurance is issued for increasingly higher coverage amounts. He believes that the arrival of term products with an extended duration choice has refocused on the need, "whether it is, for example, term insurance for mortgage needs, protection between shareholders or key persons."

"There are several entrepreneurs for whom term insurance is increasingly integrated into long-term tax strategies," observes Benamron. He explains that clients whose tax planning covers a very long period are "really at risk during the first 10 to 15 years, the time it takes for the planning to unfold."

CONVERSION RIGHT FOR 10-YEAR TERM INSURANCE TO LONGER-TERM INSURANCE

Key details of the limitations for exercising this right

Company	Product name	Period based on policy anniversary	Maximum insured age
Assumption Life	*FlexTerm*	After the 1st month and before the 5th anniversary	Based on the eligible age for the selected new term*
Beneva	*Term Plus 10*	Between the 1st and the 5th anniversary	Based on the eligible age for the selected new term*
BMO Insurance	*Term 10*	On the 1st anniversary (or the 2nd if partial conversion) and before the 5th anniversary	Age 55 to 70, Based on the eligible age for the selected new term**
Canada Life	*Canada Life My Term*	Between the 1st anniversary and 7th anniversary (or the end of the original term duration)	Based on the eligible age for the selected new term*
Desjardins Insurance	*Term 10*	The first 5 years	Age 60
Empire Life	*Solution 10*	Within 7 years of coming into effect	Based on the eligible age for the selected new term*
Equitable Life	*10 Year Renewable & Convertible Plans*	From the 1st anniversary until the 5th anniversary	Age 65
Foresters Financial	*Term 10*	Before the 5th anniversary	Based on the eligible age for the selected new term*
Humania Assurance	*HuGO Life*	From the 1st anniversary and before the 5th anniversary	Age 65
iA Financial Group	*Traditional Insurance (T10 R&C)* *Traditional Insurance Pick-A-Term (T10 R&C)*	Before the 5th anniversary	Based on the eligible age for the selected new term*
ivari	*TERMSelect10*	From the 1st anniversary until the 5th anniversary	Based on the eligible age for the selected new term*
Manulife	*Family Term* *Family Term with Vitality Plus*	Until the 5th anniversary	Eligible age for T20: 60 years Eligible age for T65: 45 years
RBC Insurance	*RBC YourTerm*	Before the 5th anniversary	Age 70
Sun Life	*Sun Life Evolve Term Insurance*	Before the 7th anniversary	Based on the eligible age for the selected new term*
UV Insurance	*T-10 Superior+*	Until the 5th anniversary	Based on the eligible age for the selected new term*

The maximum age for exercising the conversion right may be lower than indicated in the table, depending on the eligibility age for the new term chosen by the insured: the longer the term, the lower the maximum age for exercising the conversion right. Co-operators and Cumis Life do not offer a conversion right.

* The maximum age is 85 years minus the duration of the new policy. For example, the age limit at which an insured can convert a T10 to a T20 is 65 years (i.e., 85 years minus 20 years); the conversion coverage must be at least 10 years longer than the original term.

** See the main article for details regarding BMO Insurance.

Table: Insurance Journal Source: InsuranceINTEL, 2024

Women remain disadvantaged

Whether in Canada or the United States, market analyses show that women, in general, remain disadvantaged in terms of their life insurance coverage needs.

BY ALAIN THÉRIAULT

Katrina Lee-Kwen

In the June 2023 edition of *Insurance Journal*, **Chantal Mackenzie** highlighted women's underinsurance, citing Canadian data collected by **LIMRA** in its *2023 Insurance Barometer Study*. According to this data, 58% of women had life insurance in Canada, compared to 69% of men. Mackenzie, who is a Regional Vice President with **Canada Protection Plan**, added that women more often choose term insurance products.

LIMRA once again observed women's underinsurance in its *2024 Insurance Barometer*. In the United States, 46% of women have life insurance, compared to 57% of men. At the time of writing, Canadian data were not available. This gender gap has persisted over the 14 years of the study, says LIMRA. At 11 points, the difference corresponds to the largest ever reached, the report adds. The constant gap in (insurance) ownership between men and women is a trend that the industry wants to address, state the study's authors.

58%

Proportion of Canadian women having life insurance, compared to 69% for men.

Meanwhile, LIMRA estimates that women have a greater need for life insurance than men, with 45% of women compared to 39% of men. The gap is even larger between women and men among those without insurance. Women represent a significant opportunity for the industry, can be read in the LIMRA study.

Katrina Lee-Kwen, Senior Vice President, Performance Management, at **Canada Life** says they are aware of the gender gap in insurance. She explains that there is an insurance need that does not go away. Term insurance offers the possibility to meet this need more affordably than with a permanent insurance solution, she adds.

Lee-Kwen recommends that clients sit down with an advisor to really understand their needs and the best way to meet them. Maybe it won't be term insurance or permanent insurance, but rather a combination of both, she suggests. Clients should consider both affordability and the financial risks they face, she adds.

Additionally, nearly half of each of the three younger generations have unmet life insurance needs, according to LIMRA's study. According to **Statistics Canada**, these generations are:

- Generation Y or Millennials (people born between 1981 and 1996)
- Generation Z (people born between 1997 and 2012)
- Generation Alpha (people born between 2013 and 2021)

It seems that the movement for diversity, equity, and inclusion (DEI) has not sufficiently penetrated the life insurance distribution network. LIMRA sees this as an opportunity to prospect new clientele.

LIMRA indeed believes that by recognizing the needs and concerns specific to different demographic groups, advisors can build trust with potential clients. As traditional families are redefined, all marketing and sales efforts must adapt or be abandoned, comment the authors of the *2023 Insurance Barometer Study*.

They underline that the number of LGBTQ+ families increases each year and that more and more women are heads of households. Among the families grouped under this acronym are same-sex parenting families, that is, a family consisting of at least one parent who identifies as gay or lesbian, and trans-parenting families, that is, a family consisting of at least one parent who identifies as trans.

MAGAZINE SUPPLEMENTS

- **Term life insurance policies see the highest increase in 2023** For **PRO** Level members **EXECUTIVE** file
- **Age makes all the difference for 20-year term insurance** For **PRO** Level members

These articles will be available in the next few weeks on insurance-portal.ca

A DISCREET PRODUCT

Elynn Wareham, Director of Communications at **RBC Insurance**, provided details about the *RBC Simplified Term Life Insurance* product, launched in March 2011.

She explains that while the insurer has a simplified issue product, it is not available in the brokerage network. She emphasizes that the product is offered through RBC's exclusive channels or directly online on its site, rbcinsurance.com.

Why not open the offering to brokerage? Wareham says that the pricing of the simplified term product is identical to that of the *RBC YourTerm* product offered in the brokerage network.

RBC Insurance specifies that sales of its Simplified Term Life Insurance go through its exclusive distribution channel, which has a nationwide reach.

Multiple terms

Wareham mentions that since 2016, RBC Insurance's simplified issue product has been available in different terms, ranging from 10 to 40 years. The insurance is then renewable at an annual premium rate. It is also convertible to a permanent product before the insured's 71st birthday.

Wareham adds that the insurance application process includes 10 questions about health and lifestyle. She lists other features:

- The application can be approved at the point of sale
- Issuance limits by insurance amount:
  - 18 to 55 years: $50,000 – $1,000,000
  - 56 years and older: $50,000 – $499,999
- Additional benefit of $10,000 in case of accidental death
- Possibility to convert a 10-year term for a longer term within the first 5 years
- After the initial term, the insured pays an annually renewable rate
- The insurance is fully paid up at age 100, and coverage remains in effect until death
- Additional term and child term riders available

(Alain Thériault)

CYBERINSURANCE

The market is more stable thanks to better discipline and improved controls

The improvement of IT security within organizations and better risk exposure assessment by insurers are establishing a degree of stability in the cybercrime insurance market.

BY ALAIN CASTONGUAY

Improved controls reduce the threat of ransomware

Paying ransom is not always necessary if the targeted organization does its homework, say two cyber insurance experts.

BY ALAIN CASTONGUAY

According to a bulletin published by **Coveware** in mid-April, there was a decrease in the severity of cyberattacks where a ransom is demanded in the first quarter of 2024 compared to the last quarter of 2023. The average amount paid was $381,980, a decrease of 32% compared to the previous quarter. The median amount paid was $250,000, a decrease of 25%.

As fewer companies succumb to paying ransoms, there is a cumulative effect on the average payment amount, explains Coveware. Instead of aiming for an extremely high initial demand, many ransomware attackers opt for the opposite tactic and demand more reasonable amounts. This tactic keeps more victims negotiating with a reasonable demand rather than scaring them off with an outrageous initial request, add the bulletin's authors.

Broker **Brigitte Patenaude** confirms the decrease in the proportion of attacked firms that agree to pay a ransom. According to Coveware, this proportion dropped to 28% in the first quarter of 2024, a historically low percentage, according to the technology monitoring firm.

Patenaude, Senior Vice President, National Practice Cyber group at **Aon Risk Services**, explains the situation with a simple observation: Clients have improved their controls. By doing so, they have access to their backup. Thus, they feel they do not need to pay the ransom as much, she says.

The weakest link

On the same day of her interview with the *Insurance Journal*, Aon published its *2024 Client Trends Report* on clients' risk management perceptions.

Among the highlights in the technology section, the report stated that Artificial intelligence has the potential to significantly accelerate the growth and development of an organization, but leaders must also be aware of the severity and pace of risks associated with its use.

Brigitte Patenaude emphasizes that attacks by criminals are becoming more sophisticated and target the weakest link in companies, the human capital, the employees. On the other hand, it is also expected that companies will increasingly use artificial intelligence to better protect their network. It's like a balance between the two, she says.

Companies must continue to provide training, awareness campaigns, and phishing tests. Emails should be sent to see who takes the bait within the company, recommends Patenaude.

Her group's client companies have revenues of $500 million and above. The level of concern of business leaders regarding cybersecurity is very high, as proven by an Aon survey conducted in 2023.

"When we ask major companies' executives what keeps them awake at night, the first element most often mentioned is cyberattacks and data loss. Number 2 is business interruption," she specifies.

Many of her clients are risk managers or insurance buyers. They must report to the board of directors, and governance rules now require directors to ensure that cybersecurity controls are in place, explains Patenaude.

This awareness also affects mid-sized companies with revenues of $100 million to $500 million, she indicates. In various associations where she is invited to speak about cybersecurity and which bring together smaller companies, Brigitte Patenaude observes the same concern. "Most companies have understood that good controls and cybersecurity are necessary to obtain insurance. We have different conversations now than we did two or three years ago, that's for sure," she says.

"We also have more discussions about the importance of having a cyber attack response plan. Every time I work on a renewal, I reiterate the importance of the client being ready for a potential cyber attack," she adds.

Some stability

After experiencing very poor results in the cyber segment, insurers increased premiums, tightened conditions, changed limits, etc. "In 2024, we see a much softer market, even one that we could currently describe as soft. There are new entrants, capacity has increased. Insurers who previously had no interest in certain risks are now interested. It is not the same market," explains Patenaude.

Companies now also have a better assessment of their business interruption risk caused by a cyber breach, and they are more prepared to purchase insurance coverage accordingly. She notes a caveat: a client

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Brigitte Patenaude

Paige Cheasley

who has not made changes to their controls and has not invested in their cybersecurity will not really benefit from this easing of underwriting conditions.

She adds, "With some insurers here in the country, I won't name them, there was much less appetite. It is very complicated to place a risk with them."

Improvements are notable in terms of limits and retentions, she continues. "We can now negotiate lower retentions, which we could not do two years ago or even last year."

The more favorable state of the market leads Brigitte Patenaude to believe that clients will eventually more easily embrace the product. "We hope that clients continue to invest in cybersecurity because that is the key," she says. If the response to the attack is swift, the cost and severity of the attack can be more easily reduced.

Aon is among the new entrants in the cyber insurance market after creating a specialized general agent. The announcement of the new wholesaler, named **Cedar**, took place on May 2. Under the direction of a team of Aon underwriters, it is backed by **Lloyd's of London** insurers with an excellent credit rating. The program is designed for intermediate companies with revenues ranging from $100 million to $2 billion.

The Meta Pixel case

For larger accounts, work on policy renewal is always done several months in advance. "Our role is really to continue guiding clients towards what the market expects in terms of good cybersecurity hygiene."

For smaller accounts, insurers like **Coalition**, **Beazley**, or **CFC** use technology to conduct their own assessment of the business environment to determine if the company has easily identifiable vulnerabilities. "If the insurer sees them, so will the malicious actor," she says.

The wording of cyber insurance policies is not related to technology, specifies Patenaude. The insurer aims to properly assess the risk it covers concerning the impact of a security breach or personal information violation. The questions asked by insurers before underwriting the risk are intended to assess the quality of the controls implemented by the organization and the measures for protecting personal information.

Brigitte Patenaude cites the example of **Meta Pixel**. In the United States, numerous class actions have been filed against firms using the Meta Pixel tool to better profile internet users. If the application is not properly configured, it can collect personal information without obtaining user consent.

Meta Pixel is similar to **Google**'s analytics tool. It allows a website operator to collect and transmit information provided by the user to better segment their advertising campaign. These tools can collect very sensitive data without the knowledge of internet users.

Insurers want to know how companies use this tool, and if they are not satisfied with the response provided, they strongly suggest their clients stop using it. There may be a refusal of coverage or a limitation in the contract.

Fraud

Electronic Funds Transfer (EFT) fraud mainly targets SMEs, which is not her area of expertise. Brigitte Patenaude recalls that cybercrime insurance was created precisely to meet this need: "The client wants to protect themselves from financial loss and manage an incident."

The advances in artificial intelligence also help improve the quality of phishing. "For French speakers, it was easier to see that an email was fraudulent because the quality of the French was poor. With ChatGPT, the translation is significantly better. We will have to get used to receiving increasingly sophisticated phishing emails in Quebec," says Ms. Patenaude.

Public organizations that have suffered from underfunding in their IT infrastructure, such as educational institutions and hospitals, are very prone to data breaches. "There are still sectors experiencing difficult times, but I have clients from all industries and sizes who are experiencing cyberattacks," she says.

"There are no borders for hackers. Phishing is a very lucrative and widespread activity. No sector is immune," she adds.

According to **Paige Cheasley**, a broker at **Gallagher GPL Insurance** in Montreal, the improvement in cyber insurance underwriting conditions is also observable for smaller companies. The cyber insurance market has really stabilized over the past two years, she says, adding that underwriting conditions for the product are more standardized, and clients better understand the need to cover this risk.

An account manager at this firm specializing in cyber risk, Cheasley emphasizes that the product generally has two components. The most important is access to insurers' capabilities and experts who help policyholders mitigate damages, close security breaches, resolve IT issues, and pay the ransom when necessary.

The second component aims to defend the insured whose civil liability is engaged because the breach caused damage to a third party and to negotiate settlements before a lawsuit is launched. Every insured company should have both because an insurance company will have access to the right tools, resources, and organizations to help in case of a violation, she specifies.

Interest in covering this risk is greater than before. Most clients have experienced a cyber incident or know someone who has, says Paige Cheasley.

Depending on the size of the company, its sector of activity, and the type of data it compiles, exposure and risk can vary greatly. Nevertheless, business leaders

are better able to express what they consider to be their weakest point than they could before, simply because they are more aware of the risk and analyze it more carefully, she explains.

New provisions adopted in Quebec and the federal government regarding personal information protection contribute to raising client awareness. More and more companies realize that this exposure must be addressed in one way or another, with or without insurance risk transfer, notes Cheasley.

The market has evolved significantly in recent years and recalibrated as insurers assess the cost of claims and establish rates that reflect actual exposure. Clients have also had to increase their risk controls. Adding this to insurers' better understanding of the risk has helped stabilize the market, adds Cheasley.

Being part of an international group like Gallagher has advantages, she acknowledges. The firm has a national cybersecurity practice group in Canada and an international practice group. The reach, access, and knowledge sharing can help find solutions to challenges, she says.

However, she says she is not in a position to comment on the claims aspect of the product, which she does not handle. She adds that she can't say which insurer is better than others. "They all have their expertise. They all have a claims team, and we also have one internally to ensure things move along well. We are there to advocate for our clients' claims," she says.

Ransoms

One of the most popular coverages is still ransomware coverage, according to Paige Cheasley. Most clients are well aware of this risk. But insurance coverage is increasingly standardized in the market, with major coverages automatically included in most policies, she says.

Some insurers specialize more in systemic risk exposure and privacy breaches and how to address them. Underwriting requirements such as multifactor authentication (MFA) and endpoint detection and response (EDR) procedures are widespread. More and more, insurers want to know more about employee training and incident response planning, she says.

Insurers want to know how security backups are done and protected. The requirements are largely the same for all business sizes, but they can vary significantly depending on the client, adds Cheasley. For example, companies that do not have direct contact with consumers do not have the same exposure to privacy breach risk.

Mitigating risks

Despite several years of unprofitability in this market, insurers manage to offer conditions at an acceptable price even for smaller companies, she estimates. Overall, clients are better at mitigating risks by improving their IT security, she says.

The market has recently stabilized, making it easier to find a good policy at a reasonable price for most clients. Again, some risk categories are still more challenging to insure, and clients must also do their part in terms of IT controls, she underlines.

The cyber risk landscape and its impact on the insurance market are difficult to predict, as new risks emerge as technology advances and criminals develop more creative attack methods, she says. Since it is difficult to stay ahead, the cyber insurance market can evolve rapidly, as we have seen in the recent past, she says.

New capabilities among insurers

The presence of new financial capacities in the cyber insurance market contributes to stabilizing the market and reducing premium increases.

BY ALAIN CASTONGUAY

Coalition, a firm specializing in cyber insurance underwriting, announced at the end of March 2024 that it had added a new artificial intelligence (AI) endorsement to clarify what is covered by its U.S. and Canadian excess policies.

The new endorsement expands the definition of a security failure or data breach to include an AI security event, where AI technology has caused a security failure of computer systems.

The Affirmative AI Endorsement platform also extends the trigger for a funds transfer fraud (FTF) event to include fraudulent instructions transmitted via "deepfakes" or other AI technology.

Coalition's Director of Business Development in Quebec, **Casimir Le Grand**, told the *Insurance Journal* that the product was launched to cover a risk still little known among cyber insurance buyers. "Organizations lacking resources will have to absorb the risk associated with attackers using AI, and unfortunately, this is what we have observed, and therefore, the value of cyber insurance would be diminished," he stated.

This new endorsement "clarifies the wording so that policyholders know they are covered. The inclusion of this clause is part of the evolution of the cyber threat landscape: guarantees will need to be expanded to include new types of attacks," adds Le Grand.

Regarding the use of "deepfakes" to manipulate the insured into transferring funds, Coalition's spokesperson emphasizes that this technology only changes the way instructions are given. It does not change the current funds transfer process by banks.

The wholesaler relies on its partnerships with law enforcement agencies worldwide to recover stolen funds. "In 2023, we recovered $38 million of our policyholders' money," he says, confirmed by the company's claims report.

Evolution

As hackers always seem to be one step ahead in using technology to get what they want, easy money, how do we counter these constantly evolving threats?

According to Casimir Le Grand, companies must be aware of the rapid and dynamic evolution of cyber threats. They can thus "take proactive measures to mitigate potential losses related to various cyber threats instead of focusing on preventing a specific attack method that makes headlines."

Fixing critical vulnerabilities and updating software are two of the most important tactics companies need to pay attention to, according to Casimir Le Grand.

Among Coalition policyholders, companies with an unresolved critical vulnerability were 33% more likely to file a claim. Additionally, Coalition policyholders using end-of-life software are three times more likely to experience a loss.

Coalition has become one of the largest cyber insurance underwriters. After starting as a managing general agent (MGA), the company expanded its capabilities by becoming a cyber program administrator or general underwriter. "For these activities, we have a captive, **Palekana Insurance**, which allows us to take part of the risk on our own balance sheet. In the U.S., we also underwrite certain businesses through the **Coalition Insurance Company** (CIS), our own full-fledged entity," explains Casimir Le Grand.

"Managed detection and response (MDR) is set to become the most important new cybersecurity control to implement for cyber insurance policyholders. MDR is a way for small businesses to better protect themselves without having to hire a specialized security team," concludes Le Grand. However, the Coalition MDR platform is not yet available to policyholders in Quebec.

Furthermore, on May 2, Coalition expanded its cybersecurity capabilities to allow companies with revenues up to $5 billion CAD, except in the Quebec market, to underwrite their risk with CIS Canada. Previously, the wholesaler focused on companies with revenues ranging from $100 million to $1 billion CAD.

5 Quick cybersecurity measures to improve cyber hygiene in companies, suggested by Coalition

1. Implement multifactor authentication (MFA) on all critical accounts;
2. Use a managed detection and response (MDR) system;
3. Keep reliable offline backups of critical company data;
4. Establish a formal procedure for electronic payments;
5. Regularly update software.

Breaches are becoming more expensive

BY ALAIN CASTONGUAY

According to the *Cost of Data Breach Report 2023* produced by **IBM Security**, the average cost of such an event reached $4.45 million USD last year, an increase of 2.3% compared to the previous year.

Among other highlights of the report, IBM notes a finding regarding the use of artificial intelligence (AI) and automated security systems. "Security AI and automation were shown to be important investments for reducing costs and minimizing time to identify and contain breaches." Organizations that used these capabilities extensively in their approach took, on average, 108 fewer days to identify and contain the breach. They also reported USD $1.76 million lower data breach costs compared to organizations that did not use security AI and automation capabilities.

Another more troubling finding: one in three companies that experienced a breach discovered the leak themselves. For two-thirds of breaches, the event was reported by a third party or the hackers themselves. When hackers disclose such a breach, it costs nearly a million dollars more to the company compared to leaks detected by its own employees.

IBM also reports that organizations that do not involve law enforcement after a ransom demand end up spending an average of $470,000 USD more than those that seek help. Additionally, the outage duration lasts 33 more days.

The healthcare sector had the highest average data breach cost for the thirteenth consecutive year, at $10.93 million USD.

Organizations that reported low or no security system complexity experienced an average data breach cost of $3.84 million USD in 2023. Those with high security system complexity reported an average cost of $5.28 million USD, an increase of 31.6%.

Increased competition

In its recent quarterly bulletin on the Canadian insurance market, Aon notes an improvement in cyber insurance. Increased competition and capacity in 2023 led to a slowdown in the cybersecurity market. The first quarter of 2024 resulted in a more stable pricing environment as primary and excess rating strategies aligned, stated Aon.

Underwriting remains very rigorous among insurers seeking to ensure that applicants meet minimum control standards, says the bulletin, noting that throughout 2023, coverage adjustments were made for all matters related to wars and systemic claims. The vast majority of global insurers have completed the deployment of these strategies, and currently, no new reduction or modification of coverage is planned, explains Aon.

Risk Tolerance

Howden Re published a report in May titled "Reframing Cyber Risk." The report advocates for a shift toward a more balanced view of risk between cyber risks and other business sectors.

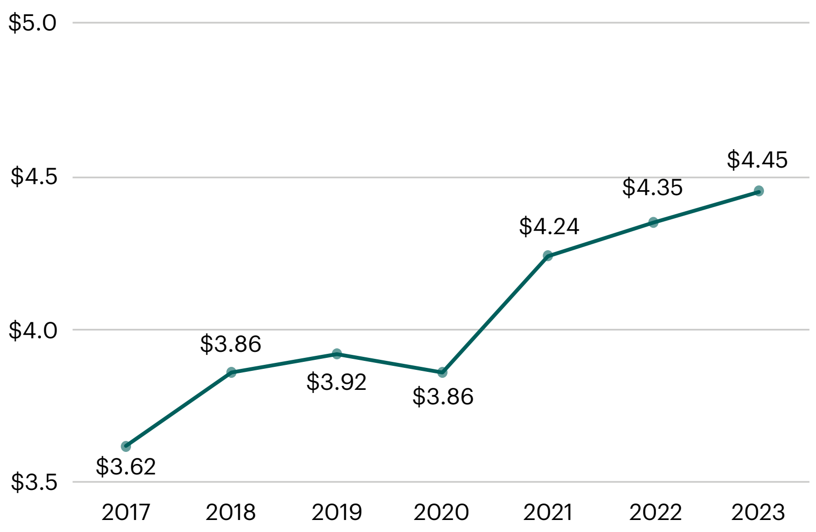
The authors deem it necessary to adopt a more nuanced approach to managing cyber risk exposure, with data indicating that the sector could and should bear more cyber risks.

The reinsurance broker's data show that large insurers take on a disproportionate amount of risk related to natural disasters compared to cyber risk, even though natural disasters have historically resulted in more significant losses.

The reinsurer's researchers also find that natural disaster claims have significantly exceeded premiums collected to cover them every year from 2017 to 2022.

"The frequency and impact of cyber events, while not negligible, are constrained by numerous factors, including the logistical complexity of orchestrating cyberattacks, advancements in cybersecurity, the intrinsic motivations of threat actors, and the diversified uptake and use of, and reliance on, different

AVERAGE COST OF A DATA BREACH
IN MILLIONS OF US DOLLARS



The years mentioned refer to the year the report was published, not necessarily the year of the breach. The breaches studied took place across 16 countries and regions and in 17 different industries.
Source: IBM Security, *Cost of a Data Breach Report 2023*.

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technologies by different profiles of insureds," notes Howden Re.

"To stay relevant to those buyers, as an industry, it is imperative that we embrace this class of business," says **Luke Foord-Kelcey**, global head of the reinsurer's cyber market.

"The maturing of the cyber market necessitates a thoughtful recalibration of how cyber risks are underwritten," underlines **David Flandro**, head of industry analysis and strategic consulting at Howden Re.

"A transition is necessary: from viewing cyber threats through a catastrophic lens and instead recognising the competitive advantage that can be gained through a more nuanced and informed risk analysis," adds Flandro.

Systemic Risk

For its part, reinsurer Lockton Re published a report in spring 2024 analyzing the impact of a major cybersecurity disaster to determine if a significant breach could become a systemic risk.

Entitled "A Kaleidoscope of Possibilities: Preparing for Ivan Wiper," the report evaluates a disaster film scenario caused by self-propagating malware. The virus, originating from a state-affiliated criminal group, targets the most commonly used operating systems in computing.

The impact of a $28.4 billion loss caused by a major virus, modeled in the same scenario, would be significant but would not create a shock that could shake the entire ecosystem.

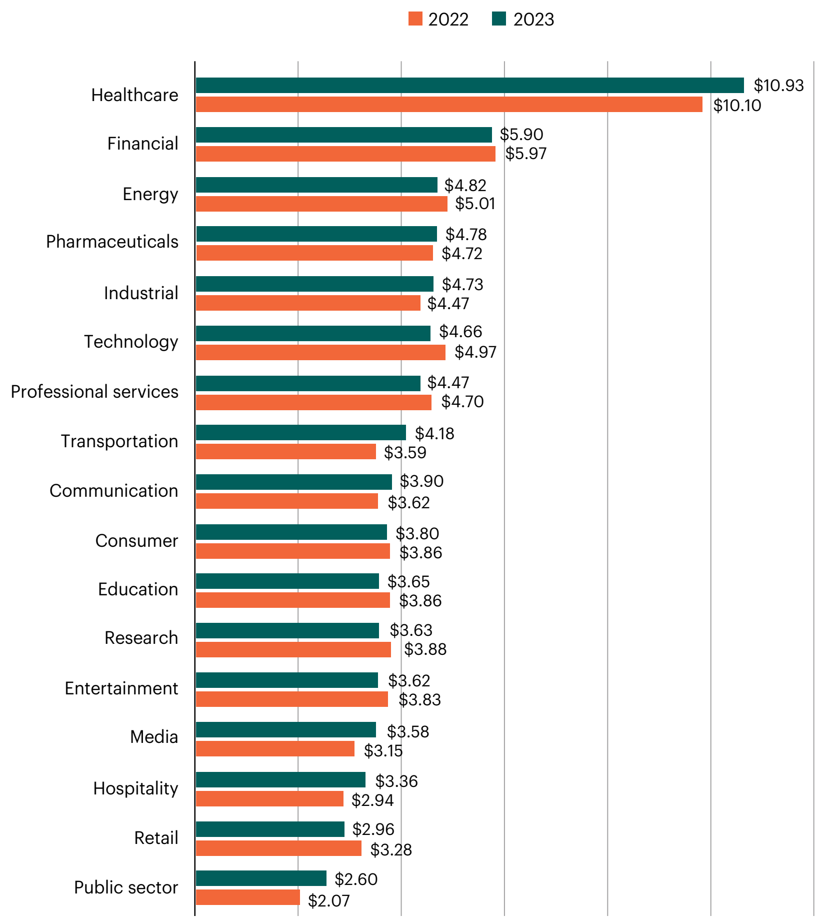
Consequently, Lockton Re finds that with better insight into the potential impacts of a cyber catastrophe, insurers are better prepared to mitigate the threat. Part of the job will involve the quality of work by loss adjusters and claims management teams.

Globally, cyber insurance premiums are estimated at $20.3 billion. A loss of this magnitude would create a combined loss ratio for the entire industry of 196.3% for that single year.

Investors who spent $100 million to buy bonds issued by reinsurers to cover disasters could face a loss of $1.5 billion, it is estimated. This remains lower than what it costs after a major hurricane devastates Florida, for example.

It is predicted that such a disaster would boost the penetration rate of cyber insurance in the business world, now aware of the product's necessity. An increase in demand at high prices would create a business opportunity that rarely occurs in the industry, concludes Lockton Re.

AVERAGE COST OF A DATA BREACH BY INDUSTRY
IN MILLIONS OF US DOLLARS



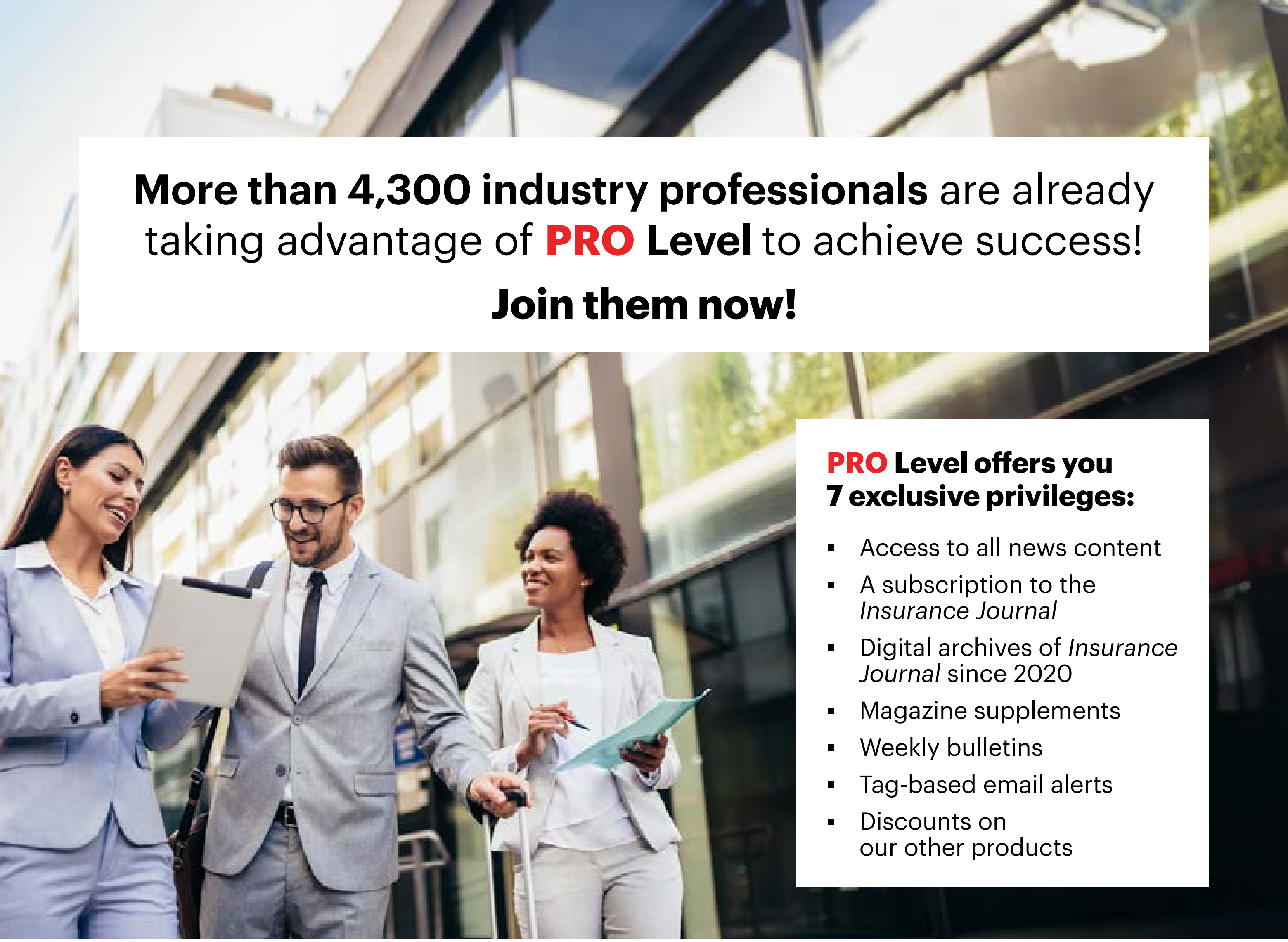
The years mentioned refer to the year the report was published, not necessarily the year of the breach. The breaches studied took place across 16 countries and regions and in 17 different industries.

Source: IBM Security, *Cost of a Data Breach Report 2023*.

MAGAZINE SUPPLEMENTS

- **Brokers concerned about SME cybersecurity** For **PRO** Level members
- **Coalition reviews 2023 claims results** For **PRO** Level members
- **Ways to mitigate damage caused by breaches** For **PRO** Level members **EXECUTIVE** Level

These articles will be available in the next few weeks on insurance-portal.ca



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P&C INSURANCE FINANCIAL REPORT

New IFRS 17 standards spark debate

BY SERGE THERRIEN IN COLLABORATION WITH CANADIAN UNDERWRITER

Insurance companies worldwide, including those in Canada, are operating in a new financial disclosure landscape. They must now report their information according to the new International Financial Reporting Standards 17 (IFRS 17).

This global standard replaces IFRS 4, which had been in effect since 2004. Its goal is to provide consistent and transparent principles for accounting and increases comparability between them, explained **Sarah Fong**, Assistant Chief Economist and Head of Industry Data, and **Tina Liu**, Economist Advisor, Policy Development, at the **Insurance Bureau of Canada**, in an analysis on the organization's website.

However, the transition is sparking debates within the industry. Among the comments gathered in annual reports or on websites, it is observed that ratios and certain measures differ between users.

IBC analysts describe that in property and casualty insurance for example, "expenses are now allocated between insurance results and non-insurance operating expenses, affecting the combined ratio. Equity may have transition adjustments, thus impacting the return on equity."

KPMG has also observed variations between companies.

Bob Owel, an associate in KPMG's **International Standards Group**, noted significant differences in the yield curves used to discount insurance liabilities. The level of detail provided on how discount rates are determined also varies considerably, he wrote in an analysis on the firm's website.

According to the author, variations between companies are more prevalent in the life insurance sector. In property and casualty insurance, many insurers report their performance similarly to previous standards. Nevertheless, KPMG reports that nuances exist, particularly with the combined ratio, a highly revealing performance indicator in property and casualty insurance.

This has not gone unnoticed by **MSA Research**. This firm has been providing financial data to numerous insurers and organizations in Canada for decades.

Will the Real Combined Ratio Stand Up?

In its latest analysis, **MSA Research** warns that a new ratio, intended to replicate the well-known combined ratio, might not hold in practice when all components and complexities of a real income statement are included. This is the Net Combined Ratio (fully discounted).

"Some people in the industry have expressed concerns about the new combined ratio used by MSA Research and have proposed alternatives, which has sparked the idea to produce this article," reads MSA's *Will the Real Combined Ratio Please Stand Up?*

After discussion within the industry, MSA created the Combined Insurance Services Ratio (CISR) as a new key performance indicator (KPI). This indicator is intended to include the net reinsurance expense in the numerator rather than allocating its components between the numerator and denominator as done with the Net Combined Ratio (fully discounted), explains MSA Research. "This measure is not meant to replace the previous ones but rather complement and supplement them," underlines the research firm.

Another indicator introduced by IFRS 17 is the Net Insurance Services Ratio (NISR). It takes into account insurance service expense and net expenses from reinsurance contracts held, but not general and operating expenses like the Combined Insurance Services Ratio does. This measure focuses on insurance service results: an NISR of 100 indicates an insurance service result of zero. ➜

PERFORMANCE INDICATORS FOR THE TOP 10 PROPERTY AND CASUALTY INSURERS IN 2023

COMPANIES ARE RANKED BY THEIR 2023 NET INCOME, DESCENDING

Companies	Insurance service ratio				COR - Fully discounted	
	Combined (CISR)		Net (NISR)			Net
	2023	2022	2023	2022	2023	2023
Lloyd's Underwriters	61.3	71.7	60.7	71.1	68.6	68.6
Intact Financial Corporation	n/a	n/a	n/a	n/a	n/a	n/a
Unifund	99.8	97	95.9	93.1	102.9	104
Intact	96.5	92.9	90.4	87.3	97.1	100
Royal & Sun Alliance	97.4	86.7	95.3	83.8	102.9	109.1
Belair (including Nordic)*	101.9	92.4	90.5	87.3	107.3	106.5
Western Assurance	1,408.7	86.6	1,425	83.8	726.7	908.5
Novex	90.1	88.9	86.6	87.3	94.3	98.4
Jevco	92	88.5	87	87.3	105.9	103.1
Quebec Assurance	n/a	86.7	n/a	83.8	n/a	n/a
Canadian Northern Shield	108.8	92.2	104.4	87.1	98.2	122.1
Trafalgar	128.7	87.7	91.1	87.3	138.5	140.9
Sagen Mortgage Canada	22	18.3	17.9	14.8	32.6	32.6
Desjardins	n/a	n/a	n/a	n/a	n/a	n/a
Personal Insurance	95.8	102.8	92.5	99.2	101.9	97.5
Certas Home and Auto	95.6	100.2	90.2	97.3	103.7	100.5
Desjardins General Insurance	95	101.3	90.9	97	92.6	96.3
Certas Direct	92.4	102.2	89.5	99.2	98.9	92.4
Personal General Insurance	95.9	100.7	92	96.6	98.6	97
Northbridge	n/a	n/a	n/a	n/a	n/a	n/a
Northbridge General	86.8	87.4	82.9	84.8	90	89.3
Federated	82.6	85.3	78.3	81.8	83.7	85.5
Zenith	109.9	106.3	105.6	104.3	117.6	116.2
Verassure	129.7	100.5	125.3	98.5	161.4	144.3
Canada Guaranty Mortgage	12.7	10.9	8.8	7	21.3	21.3
Wawanesa	92.9	91.9	91.2	89.5	92.6	98.1
Definity	n/a	n/a	n/a	n/a	n/a	n/a
Definity	94.2	93	89.4	87.4	96.9	97.6
Sonnet	96.1	91.7	94.1	87.3	107.2	97.1
Petline	90	91.2	89.6	90.8	90	90
Aviva	n/a	n/a	n/a	n/a	n/a	n/a
Aviva Canada	95.9	97.1	95.9	97.1	94.4	104.6
Aviva General	100	105.1	100	105.1	105.8	93
Traders General	100	103.8	100	103.8	103.7	105.8
Elite	100	102.2	100	102.2	90.9	100.6
Scottish & York	101.6	105.8	101.6	105.8	98.9	79.4
S&Y	101.5	104.3	101.5	104.3	124.2	254
Pilot	n/a	n/a	n/a	n/a	n/a	92.6
Chubb	n/a	n/a	n/a	n/a	n/a	n/a
Chubb Canada	84.2	82.1	80.8	79.2	71	77.1
Federal	n/a	18,273.3	n/a	22,360	n/a	n/a

Source: MSA Research | Compilation: Insurance Journal

Picking and choosing

MSA notes that industry professionals may prefer one ratio over another depending on the circumstances. For example, the Net Combined Ratio (fully discounted) replicates the IFRS 4 logic and may be appropriate for a more sophisticated audience, but it cannot be calculated solely from the income statement.

"The debate is certain to rage on and we at MSA will take the lead from our industry KPI working group with a hope that the industry will coalesce around an agreed-upon COR (combined operating ratio) and that it will indeed stand up!"

The lack of consistency in IFRS 17 related to combined ratios is concerning, **Bryan Lillycrop**, vice president of financial reporting at **Definity** and chairman of Insurance Bureau of Canada's finance standing committee, said during IBC's recent Financial Affairs Symposium. "It's interesting, our [new accounting] standard, which is supposed to make us all comparable, has made us less comparable than we've ever been in the industry."

MSA says it welcomes feedback from the industry on the topic. "We expect KPIs and the industry's preferences to evolve over time, and as such, we may again make refinements in the future."

Analysts Sarah Fong and Tina Liu share the same sentiment, stating that IFRS 17 will need to be in effect for a few years before key performance indicators emerge and benchmarks allowing precise year-over-year comparisons can be applied.

NET INCOME GROWTH OF THE TOP 10 PROPERTY AND CASUALTY INSURANCE COMPANIES IN 2023

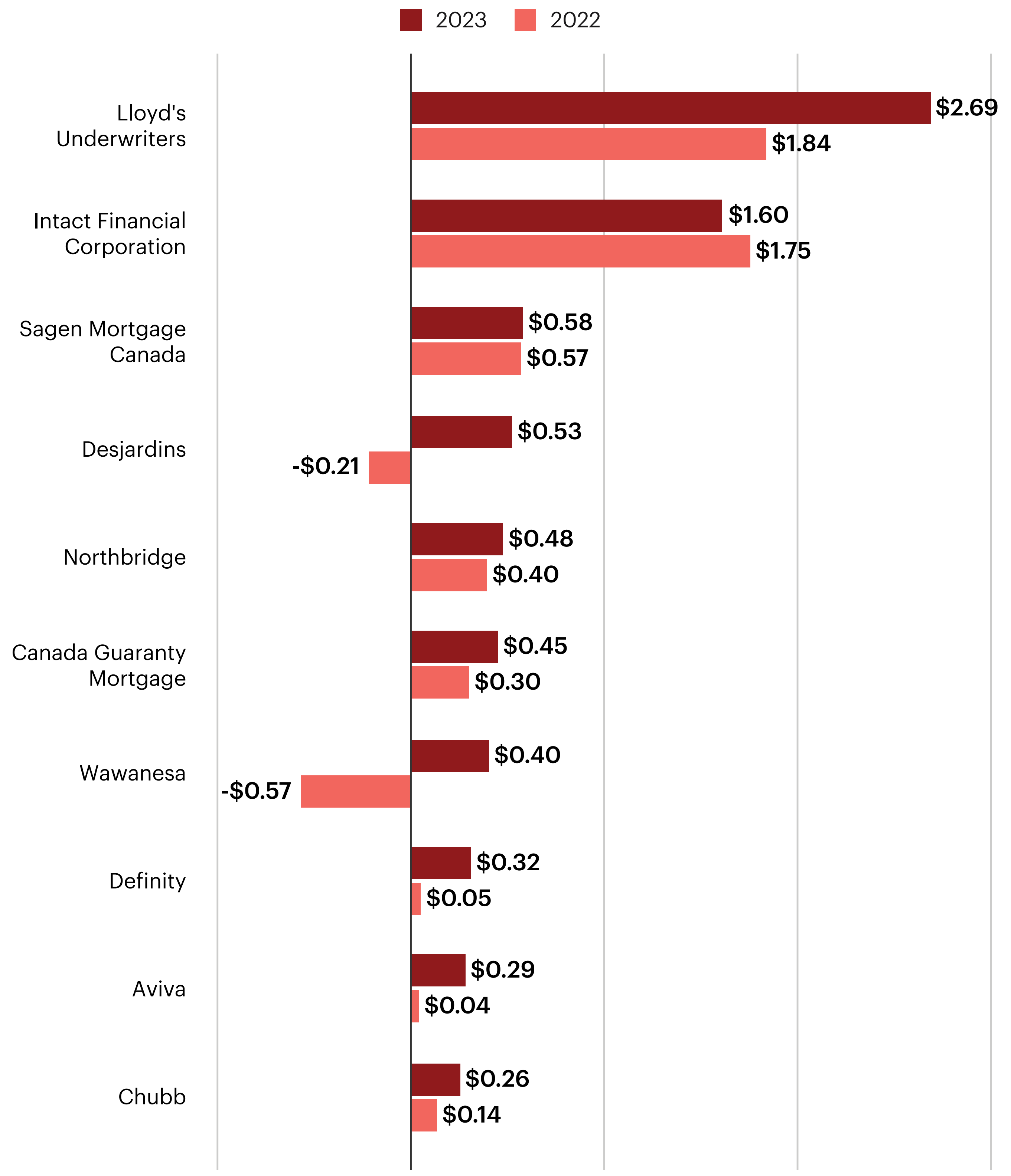
The net income from insurance activities, disclosed by insurers under IFRS 17 for insurance contracts, and reported by **MSA Research**, no longer includes investment-related elements. As shown in the table below and in the graph on page 35, **Lloyd's Underwriters Insurance Company** dominates in terms of net income. Compared to 2022, **Definity**, **Aviva**, and **Chubb** experienced stronger net income growth than the industry average. **Desjardins** and **Wawanesa** also stand out in 2023 after reporting a negative result in 2022. *(Alain Castonguay)*

Companies	One-year growth rate (2022-2023)
Lloyd's Underwriters	▲ 46.1%
Intact Financial Corporation	▼ -8.5%
Sagen Mortgage Insurance Company Canada	▲ 2.1%
Desjardins	— n/a
Northbridge	▲ 20.6%
Canada Guaranty Mortgage Insurance Company	▲ 47.6%
Wawanesa	— n/a
Definity	▲ 527.2%
Aviva	▲ 543.2%
Chubb	▲ 84.4%
INDUSTRY	**▲ 64.2%**

The companies are ranked in descending order based on their 2023 net income.
The compound annual growth rate (CAGR) cannot be calculated when a company has experienced a loss during a year, in which case "n/a" (not available) is indicated.
Some companies in the table are groups; detailed results of subsidiaries will be published on the *Insurance Portal*.

Source: MSA Research | Compilation: Insurance Journal

TOP 10 PROPERTY AND CASUALTY INSURANCE COMPANIES NET INCOME
IN BILLIONS OF DOLLARS



The companies are ranked in descending order based on their 2023 net income.

Source: MSA Research | Compilation: Insurance Journal

REVENUE, NOT PREMIUMS

The data provided by property and casualty insurers to regulatory bodies, and shared with us by **MSA Research**, are presented differently due to IFRS 17 for insurance contracts. Instead of using gross written premiums as a comparison point for companies, insurance activities revenue is now used.

Revenue is recognized as insurance services provided during the coverage period. The financial institution uses two methods to allocate revenue. The first is the Premium Allocation Approach (PAA). The PAA is a simplified process applied to contracts with a coverage period not exceeding one year. The other revenue allocation method is the General Measurement Approach, mainly used in life insurance for long-term contracts.

For the entire industry, revenue exceeded 88 billion dollars (B). According to the **Property and Casualty Insurance Compensation Corporation** (PACICC), this revenue was up 8.6% over 2022. PACICC had excluded mortgage insurers from its 2023 report (**Sagen Mortgage Insurance Canada** and **Canada Guaranty Mortgage Insurance** are present in the top 10 for profitability).

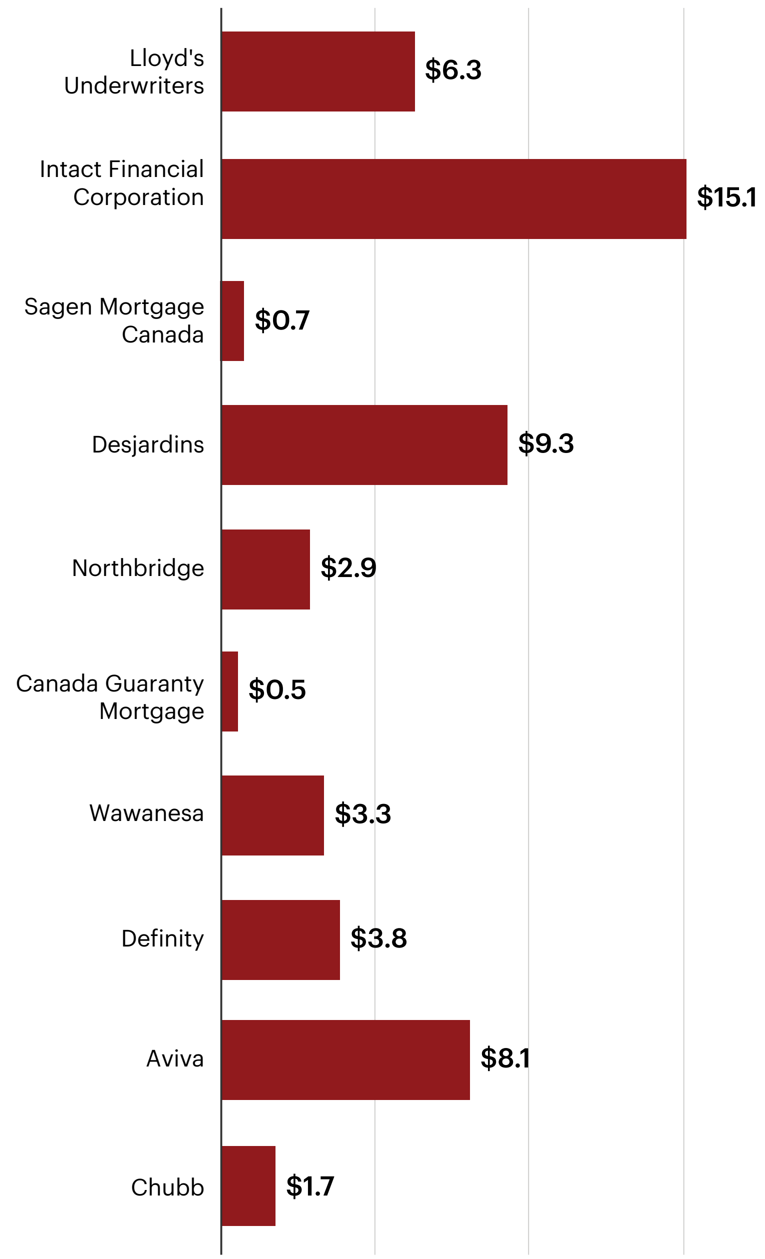
Insurance activities expenses totaled $69.6B in 2023, an increase of $4.3B or 6.6% compared to 2022, still according to PACICC. According to MSA, the net income of insurance companies in Canada was $10.2B in 2023, compared to $6.2B in 2022. This represents an increase of 64% over 12 months.

The higher profitability of the industry is mainly attributable to a rebound in investment income, according to PACICC. In 2022, property and casualty insurers had recorded losses on their investment portfolio for the first time in 50 years. This portfolio is composed of two-thirds bonds. The stability of interest rates for much of 2023 and the better return on invested capital allowed insurers to improve their profitability.

The 10 most profitable insurers reported insurance activities revenue totaling $51.7B in 2023, accounting for 59% of the industry's total. *(Alain Castonguay)*

TOTAL INSURANCE GROSS REVENUE

IN BILLIONS OF DOLLARS – AS OF DECEMBER 31, 2023



The companies are ranked in descending order based on their 2023 net income.
Source: MSA Research | Compilation: Insurance Journal

MAGAZINE SUPPLEMENT

- **Property and casualty insurers' financial results in Canada in 2023** For **PRO** Level members **EXECUTIVE** File

This article will be available in the next few weeks on insurance-portal.ca

Capital gains changes: challenges and opportunities

Don't lose sight of the planning when responding to new income tax changes.

BY KATE MCCAFFERY | ILLUSTRATION BY FREEPIK

The insurance opportunity is clear: Thanks to the increase in the capital gains income inclusion rate from one-half to two-thirds, effective June 25, 2024, many of your clients are going to be paying more tax on capital gains in the future. If you've worked to secure insurance for your clients for the purposes of covering estate taxes, business partnership buy-out agreements and more, the time to contact them is now.

Diane Everett, vice president of planning services with **PPI** suggests contacting clients to see if they've heard of the changes, to take advantage of the communication opportunity.

Everett and her colleague, **Chris Ireland**, senior vice president of planning services with PPI, sat down with the *Insurance Journal* to discuss the capital gains inclusion rate introduced in the 2024 federal budget and later tabled in a Notice of Ways and Means document in **the House of Commons** June 10 – just two weeks before the new rules became effective.

Greater tax liability

"The insurance opportunities are there because the tax liability is getting greater – people will find the amount that they thought they'd have in their estate is going to be lower as the tax is greater than before," Everett says. "As far as corporations are concerned, the capital dividend account credit has changed and amounts that shareholders and directors thought would be there has fallen." (More on this in a moment.)

In the time before and immediately following the tabling of the government ways and means document, much discussion focused on triggering gains early to avoid the new taxes. The discourse also included much handwringing about who would be affected. (The changes apply to substantial gains – those over $250,000 annually for individuals.)

Rather than be reactive, both Everett and Ireland say it remains necessary to be intently focused on the planning – the client's original goals and objectives – when considering the impacts the capital gains inclusion rate change will have on their overall plan.

"Why would I want to trigger a gain on something prematurely if I didn't have to? Especially if I was planning to hold it long term?" Everett asks. "It's just too easy to say the rate of inclusion will rule the day. It's one factor in your overall planning. That's the key issue – don't forget the planning."

Planning is paramount

Review your client's financial plans, particularly those created for business owner clients and anyone with a family asset, such as a cottage or vacation property which has appreciated in value. In the future, those transferring family cottages or family business shares will almost certainly be required to pay more tax.

"Whether it be a life insurance policy or someone's cash reserves, a larger amount will now be required," says Ireland. "What are your client's goals and objectives with respect to their various assets? Make sure that wills deal with the use of funds to pay that tax bill, if in fact you want that asset to be preserved."

Everett says advisors need to analyze a client's sources of income, ideally annually, to determine how these can be managed to lower the tax burden. Some businesses may not have a lot of capital gains to begin with. Many clients will also have capital gains from other sources.

Although there are some good reasons business owners trigger capital gains – expansion is one – she further recommends analyzing all funding options before triggering a gain, as deferral might be the more valuable option. "Should I go to the bank instead of selling this asset? Can I do this from cash flow? What are the other sources of capital to allow me to make this expansion? Those are the kinds of questions you have to ask."

Always, however, go back to the beginning and identify what outcome the client is trying to achieve. "Let's not lose sight of the planning," Everett says. "The planning is critical."

Both executives also urge advisors to keep great records and maintain access to client records, as these will become crucial when trying to determine which losses can be used to offset future gains.

Get to know your tax advisors better

Paying attention to losses and how they're going to be used, however, requires most in the profession to consult with a client's tax advisors to understand the full picture and to get fully accurate calculations when determining a client's tax liabilities.

"Don't lose sight of the fact that the capital gain calculation should be performed by somebody who knows what they're doing," says Everett. "Speak to your accountant and make sure that you know what's subject to current tax and what can be deferred.

For instance, the rules are very complex in how you compute the amount of capital gain that is subject to tax when you have capital losses from other years."

The same is also true for those working with a corporate capital dividend account (CDA).

Familiarize yourself with the rules

While the calculation regarding how insurance proceeds are or can be paid into a CDA remains untouched by the changes in legislation, the two-thirds inclusion rate dramatically changes how gains are credited to the CDA.

"The non-taxable portion has now dropped from one-half to one-third, which means that if you want to pay a capital dividend to your shareholder, there's a lower amount in the capital dividend account which is available," Everett explains.

Although there is a lifetime capital gains exemption of $1.25-million on the sale of small business shares, farming or fishing property, and another exemption available to some entrepreneurs, the rule change is such that half of the first $250,000 of capital gains earned annually by an individual will be included in their income for tax purposes. Gains over $250,000 are taxed at the two-thirds inclusion rate. Qualified disability trusts and graduated rate estates also enjoy the same reprieve on the first $250,000 – only half of these gains are included in income. Corporations, however, do not – all gains earned by a corporation are taxed at the two-thirds inclusion rate.

Get in contact with clients

"We've been making our advisors aware of what the new numbers look like for someone with corporate owned insurance, using it to fund the tax bill or buyout of that person's shares," Ireland says. "The flip side of an increased capital gains rate is, of course, more tax to pay."

Everett concurs. "The insurance opportunity is clear. When a person dies, there's a deemed disposition of their capital properties on death. We're going to be paying more tax. Work with your client's accountants to figure this out."

How to start every new insurance prospect meeting

Question: Starting a new life insurance sales meeting is always a challenge – scary even. What should I say to start to get the best result?

You're right. Starting off a new insurance sales call can cause so much anxiety that we almost don't want to have them. I know that's paradoxical, but I see it all the time. When you don't have a great opening for your approach, many advisors are afraid to have them. So, they don't.

But I have an answer for you that has been helping advisors open great meetings with prospects, set the stage for a better meeting, and even get better results, faster. Who doesn't want to have more of those?

When you speak with top advisors about their sales approaches, you'll discover that they routinely have a set way into a meeting. Same thing, every time. Lather, rinse, repeat. After that, the meeting is a "give and take" process depending on what the prospect wants to do, but there is a way to start to make meetings better.

Here is a proven way to start every life insurance prospect meeting and improve your confidence and results. These are 4 simple statements – a question and 3 pieces of information. They are so easy that you don't have to be worried about being wrong and looking foolish. You are just setting the stage. Here they are:

1. "Prospect, obviously you had a reason for agreeing to meet with me today, would you mind telling me what it is?" This simple, sensible question puts your prospect at the centre of your process. What matters most to them, matters most to you. Everyone wants to be the centre of attention. And whatever they say is their reason, is a perfect way to start. Even if they say that they just said okay just so you would stop calling them, you can work with that. "So, Prospect, you're saying that I had better be great today if I ever want to see you again? (smile) Fair enough." But sometimes they will have a useful reason… Someone they know had a health problem. They bought a house. Borrowed money. Had a child. Got married or divorced. That gives you the chance to solve that problem first, and you are off. But, if there is no special reason, what do you say?
2. "Thank you, Prospect. To get us started, may I make a few comments? Great. First, no one needs life insurance. Not you and not me. There are no mandates anywhere that require you to buy life insurance to protect your family or business, build a foundational, tax-sheltered asset for your benefit. So, while by law you need car insurance to drive a car, you don't need life insurance to protect your kids from a financial disaster if you were fatally injured in that car. You only buy life insurance because you want it. You want to protect your family's lifestyle and your personal and business legacy." This is a very disarming statement from an insurance agent. Now they want to know why they would want to buy it but it's up to them.
3. "Next, no one buys life insurance because of the probability of needing it. In fact, if the probability of your needing it was high, it's quite likely that no insurance company would sell you the amount you would want at a price that made any sense. Instead, we buy life insurance because of the consequences of dying prematurely and not having the tax-free, quick capital on hand to do the estate job we want for our family or business." This concept and the previous one address the "I don't need life insurance" objection. The fact is, that we can only buy it when we don't need it and we only buy if we want to. Best to get that idea out early.
4. "Finally, Prospect, it's important to know that you can't buy life insurance, you can only apply for it. It's why the paperwork we complete is an 'application' and not an 'invoice'. Further, the numbers the company shows on an insurance illustration are not a price quote, they are only an estimate of what you might pay. They have the final decision on price and if you can buy." This statement deals with the deal breaking objection "Let me think about it." Thinking suggests buying. But we are not buying; we are applying. Apply and then we can think. This idea saves many cases. Then… "Does that make sense, Prospect? Okay, great. May I ask you a few questions…?"

With these 4 simple statements out of the way, you can get into your approach questions with confidence and see what "beneficiary value" they want for themselves and their family or business. Anxiety is gone and business is being done.

—

For more information on the tools to use to build your brand, check out Advisorcraft.com.

Jim Ruta's mission is simple – to preserve, promote and propel the financial advisor business. A former insurance advisor and executive manager of a 250-advisor agency, Jim is a highly regarded coach, author, podcaster and keynote speaker. He has spoken four times at the MDRT Annual Meeting including the Main Platform. Jim Ruta is an Executive Coach and Keynote speaker specializing in life insurance advisors and leaders. He works with top advisors around the world and re-energizes audiences with his deep insight and passion.

Discover more at www.jimruta.com.
If you have a question for Jim, you may send an email to jim@jimruta.com