INSURANCE Journal

$10 Vol. 26 No. 04 June 2022

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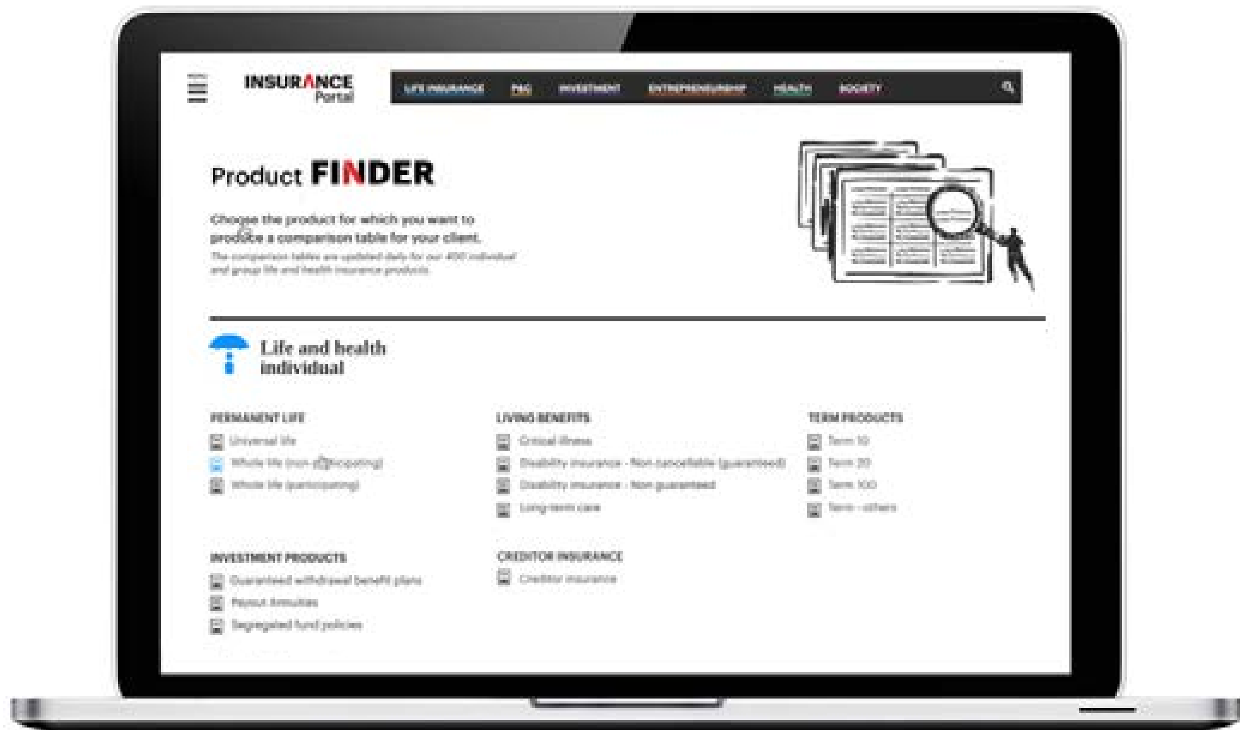

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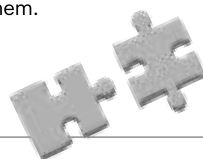

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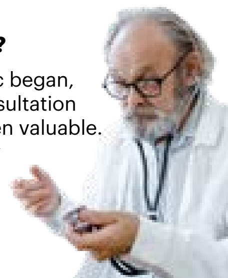

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Jim Ruta

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Vol. 26 No. 04 — June 2022

THE INSURANCE JOURNAL PUBLISHING GROUP: AN EXPANSIVE RANGE OF PRODUCTS TO SERVE YOUR NEEDS!

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The ***Répertoire des fournisseurs en assurance de dommages*** provides an excellent overview of the products and services offered by professionals in restoration and non-standard risks in the P&C industry.

Digital services

As part of our digital transformation, our company has created the ***Insurance Portal***, a one-stop shop that will eventually bring together all of our information services and products. It has customization and keyword search functions. It will also host the services of other organizations and companies interested in offering their products to financial services industry professionals. A true insurance business centre, the Portal is a powerful tool for helping industry professionals grow their businesses.

Available online, ***InsuranceINTEL*** is a market intelligence centre for the life and health insurance industry in Canada. The database is constantly updated and provides the features of more than 470 insurance and investment products through easy to analyze comparative tables.

Users can also access 3,000 marketing documents, as well as 350 insurance applications. Various levels of membership are available for insurance companies, banks, MGAs and advisors to enable them to stay on the forefront of new industry developments. ***InsuranceINTEL Weekly*** monitors the trends and changes in the life & health insurance industry in Canada: product launches, changes in premium rates, modifications to commission schedules, technological developments and marketing campaigns.

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Available for replay on portail-assurance.ca/cc

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On Wednesday, October 26, 2022 at the Toronto Congress Centre and on insurance-portal.ca/csc

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On Thursday, April 13, 2023 at the Palais des congrès de Montréal and on portail-assurance.ca/jad

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Something to think about...

"If you have an average idea and fantastic execution, you're probably better off than having a fantastic idea and horrible execution."

— Danish Yusuf, founder and CEO, Zensurance

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The C-Suite
INTERVIEW

Zen and the art of insurance industry partnerships

Online, omni-channel commercial business brokerage Zensurance would appear to be on a growth trajectory, launching products and hiring employees. Its CEO, Danish Yusuf discusses the people and partnerships that got it here, and the course it is on for the future.

BY KATE MCCAFFERY

The industry of the future will come about as the result of partnerships. Getting people to run the industry also requires some creative thinking. In a wide-ranging discussion ranging from industry collaboration and human resources (HR) concerns to the industry's image and the company's own growth story, **Zensurance** founder and CEO, **Danish Yusuf** also chats candidly with the *Insurance Journal* about Zensurance's future plans.

Embedded insurance, he says, is just one frontier that many in insurance are working on presently, a trend which has emerged alongside the hyperfocus on product customization in other industries.

Embedded insurance

Still early days in this respect, he says "there's a huge push on embedded insurance, where you buy something and insurance is embedded into it. It's completely customized for exactly what you need. We're looking at that ourselves," he says. "It hasn't been practiced, but that's the next frontier that many people are working on – embedded (insurance) coupled with hyper customization."

He adds that the firm is currently exploring options for partnering with goods and service providers who sell customized products. "We provide the insurance," he says.

Such collaboration is just one variation or permutation the CEO sees becoming quite standard in the industry of the future. In a 2021 presentation about the future of insurance, delivered to an audience hosted by **Reuters Events**, Yusuf told those gathered that collaboration will be the name of the game among insurers, reinsurers, insurtechs and distribution in the future.

"There are potentially 1,000s of combinations of startup and incumbent that could be formed to try and deliver a better experience to the customer," he told the group. "I don't believe insurance is a winner-take-all-model. There's room for lots of different business models, different players, different combinations. We'll see lots of interesting things coming out in the future." But, he warns, just as there won't be a single winner, he adds that there will be many losers.

The majority of startup companies, in particular, will shut down within a couple of years. Working in a startup himself – Zensurance was formed in February 2016 – and also working with a number of startups along the way, has given the CEO some insight into working with them.

"The running of a business of any type, particularly a startup, is super stressful," he said in his conversation with the *Insurance Journal*. In addition to needing passion for the vision, he adds that there is also a great deal of luck involved in surviving. "If it doesn't work out, you learn a lot. Then you go do something else, and something else, and hopefully within a couple of tries you can be successful."

If the majority of startups fail, the question then is how do senior management teams know where to focus their energies and attention? In evaluating the potential partnerships the firm could make with startup firms, he says it's not necessarily the quality of the idea being considered that matters. "You need a lot of grit," he says. "I don't think it's the quality of the idea that results in success, it's how much can you grind it out? It's a battle, the survival of the fittest. I've been in the startup world for 10 or 15 years, not (just) as a founder but as an investor and partner. This has been true throughout: If you have an average idea and fantastic execution, you're probably better off than (having) a fantastic idea and horrible execution."

Human resources and the industry's image

Pulling off that execution would appear to be very much related to the people Yusuf says he likes to surround himself with, as well. "As the founder, I need

> *I don't think it's the quality of the idea that results in success, it's how much can you grind it out? It's a battle, the survival of the fittest.*
>
> — Danish Yusuf

Danish Yusuf

to find people who plug my capability gaps," he says. What is also somewhat unique about the company is its approach to recruiting.

The executives working with Yusuf are all experts with track records in their respective disciplines, whether that role is to run a sales team, build software or manage insurance relationships. At the same time, however, he says those with too much experience in the insurance industry can sometimes be used to doing things the old way. "They need to have a track record, but also demonstrate the ability to rethink everything and do it in a new way," he says. Sometimes, he adds, it can be easier to teach a recruit something new rather than ask an industry veteran to forget what they already know. "It's a balance between the two."

Many of those he is presently recruiting into the business come from the hospitality industry. Changing perceptions about insurance as a viable career path, however, remains a perennial challenge. "Very few people grew up thinking they want to get into the insurance industry," he agrees. "One of the things that we are trying to do is change that perception by hiring a lot of people who are new to insurance."

More, he says the company is spending a great deal on learning and development for its employees. To solve the problem where companies who offer such training might only be seen as a stepping stone to future positions elsewhere, he says the company also makes a point of promoting from within. Compensation and benefits, he adds are simply table stakes. "You have to be competitive there." People who stay with the company, do so, he says, because of the internal career growth opportunities. "We're hoping that people look at insurance as a good career option. Because it is a very good career option."

With this in mind, he adds that it is unfortunate that insurance, being a critical part of any developed economy, still gets a bad name and low trust scores among consumers. "I don't know how to do it, but I really hope someone can figure that out," he says. "I hope we can improve the brand perception of insurance."

The Zensurance growth story

When it entered the pandemic in March 2020, Zensurance had 50 employees. Today the company has more than 200 employees, up from 175 last August, and has plans to hire another 100 in 2022. Of those, at least 50 are focused on data science and software engineering.

Managing a staff of 200, all with different aspirations and different levels of motivation, he says presents a challenge that many business executives will likely recognize. "How do we keep everyone excited? How do we motivate them to stay here for the long term? Make them feel like they're loving their job but also working hard?" he asks. "I think that's the most challenging thing. It's very rewarding if you get it right."

The company's focus on commercial insurance for small and micro-sized companies, meanwhile, meets a unique need in the industry. Providing that product has also come about as the result of the brokerage's collaboration with more than 50 insurers.

"There are almost no brokerages that exclusively focus on small business insurance. When insurance companies focus on the space, they lump small and medium together – medium might be $50-million in revenue. Small might be $1-million in revenue. Everything is looked at as one large group," he says.

This, however, is something of a problem, he adds, as the groups have very different behaviours and buying patterns. "What we have been doing for many years is trying to get our insurance partners to focus on the micro and small end." Instead of bundling policies with coverages that are automatically thrown in but not necessarily needed, he says the company also focuses on stripping out these elements, making them optional for buyers. "You can still buy it, but you don't have to. That's one of the ways we drop the price," he says. "Why are you giving someone tree and shrub coverage when they don't need it?"

Instead, he says the company will go all the way back up the value chain as needed to make the changes necessary to deliver a policy for an affordable price, much the same way companies like Ikea reverse engineer products so they come in at a certain price point.

"A handful of insurance companies have said yes, we will carve (this) out specifically and deal with you separate from everyone else," he says. "It's been super successful."

BY THE NUMBERS:

Zensurance employees in March 2020: 50.

Employees in August 2021: 175.

Employees today: 200, with plans to hire an additional 100 in 2022.

Issued more than 40,000 policies to date, up from 15,000 18 months ago.

Company has doubled in size each year for the last four years. Yusuf says it is on track to double again in 2022.

Offers professional business coverage to more than 800 professions.

Headquartered in Toronto, Ontario, Zensurance operates in nine provinces, excluding Quebec.

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A profile of insurers' profitability

The profitability picture among insurance companies operating in Canada is quite diverse.

Insurance Journal presents tables and graphs that illustrate the financial results, in other words, the efficiency of the insurers whose products are sold by life insurance advisors.

BY AURÉLIA MORVAN AND IAN BOLDUC
DATA COMPILATION: IAN BOLDUC
GRAPHIC ILLUSTRATIONS: MYRIAM LAUZON AND MARJORIE POIRIER

MANULIFE IN THE LEAD

Insurance Journal has compiled the Top 10 most profitable insurers of 2021, based on the net income reported by all the life and health insurance companies on the Canadian market that year.

Manulife reported the highest net income in 2021, at $7.6 billion. The insurer had net income of $3.6 billion in 2016, $2.7 billion in 2017, $5.3 billion in 2018, $6.2 billion in 2019 and $6.4 billion in 2020.

Manulife achieved five-year compound annual growth* (CAGR) of 16.13 per cent, surpassing the profitability of the industry as a whole over this period. By comparison, the life and health insurance industry had a five-year compound annual growth rate in net income of 4.64 per cent.

Sun Life Financial boasts the second highest net income in 2021 at $4.0 million. With a five-year compound annual growth rate of 16.45 per cent, it too outpaced the industry for this period. Third-ranking **Canada Life** has a net income 2021 of $2.9 million and five-year compound annual growth that lags behind the one of the industry, at 1.40 per cent *(Aurélia Morvan and Ian Bolduc)*.

COMPOUND ANNUAL GROWTH IN NET INCOME FOR THE TOP 10 LIFE AND HEALTH INSURERS IN 2021

	One-year growth rate (2020-2021)	**Two-year** compound annual growth rate (2019-2021)	**Three-year** compound annual growth rate (2018-2021)	**Four-year** compound annual growth rate (2017-2021)	**Five-year** compound annual growth rate (2016-2021)
Manulife	18.18%	10.74%	12.82%	29.99%	16.13%
Sun Life Financial	60.89%	21.87%	25.62%	15.83%	16.45%
Canada Life	2.20%	3.25%	-1.32%	3.79%	1.40%
iA Financial Group	27.58%	8.72%	9.97%	12.22%	8.77%
Desjardins Insurance	-20.74%	-22.46%	-12.91%	-9.54%	1.52%
Beneva (La Capitale and SSQ Assurance)**	31.21%	32.09%	31.45%	23.40%	24.86%
BMO Financial Group	32.49%	0.02%	7.10%	-8.83%	13.01%
Empire Life	61.23%	14.62%	17.70%	7.98%	8.86%
RBC Insurance	-40.63%	-5.94%	-2.57%	8.46%	9.41%
Equitable Life	21.99%	30.95%	29.10%	15.19%	18.49%
INDUSTRY	**22.27%**	**-2.42%**	**1.31%**	**6.97%**	**4.64%**

*The compound annual growth rate (CAGR) "is the mean annual growth rate of an investment over a specified period of time longer than one year. It represents one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios, and anything that can rise or fall in value over time," Investopedia explains.

**Company results.

The Top 10 are ranked by 2021 net income.

Source: MSA Research. Compilation: Insurance Journal.

MAGAZINE SUPPLEMENT

- **Life and health insurance: Financial results of 69 insurers operating in Canada in 2021**

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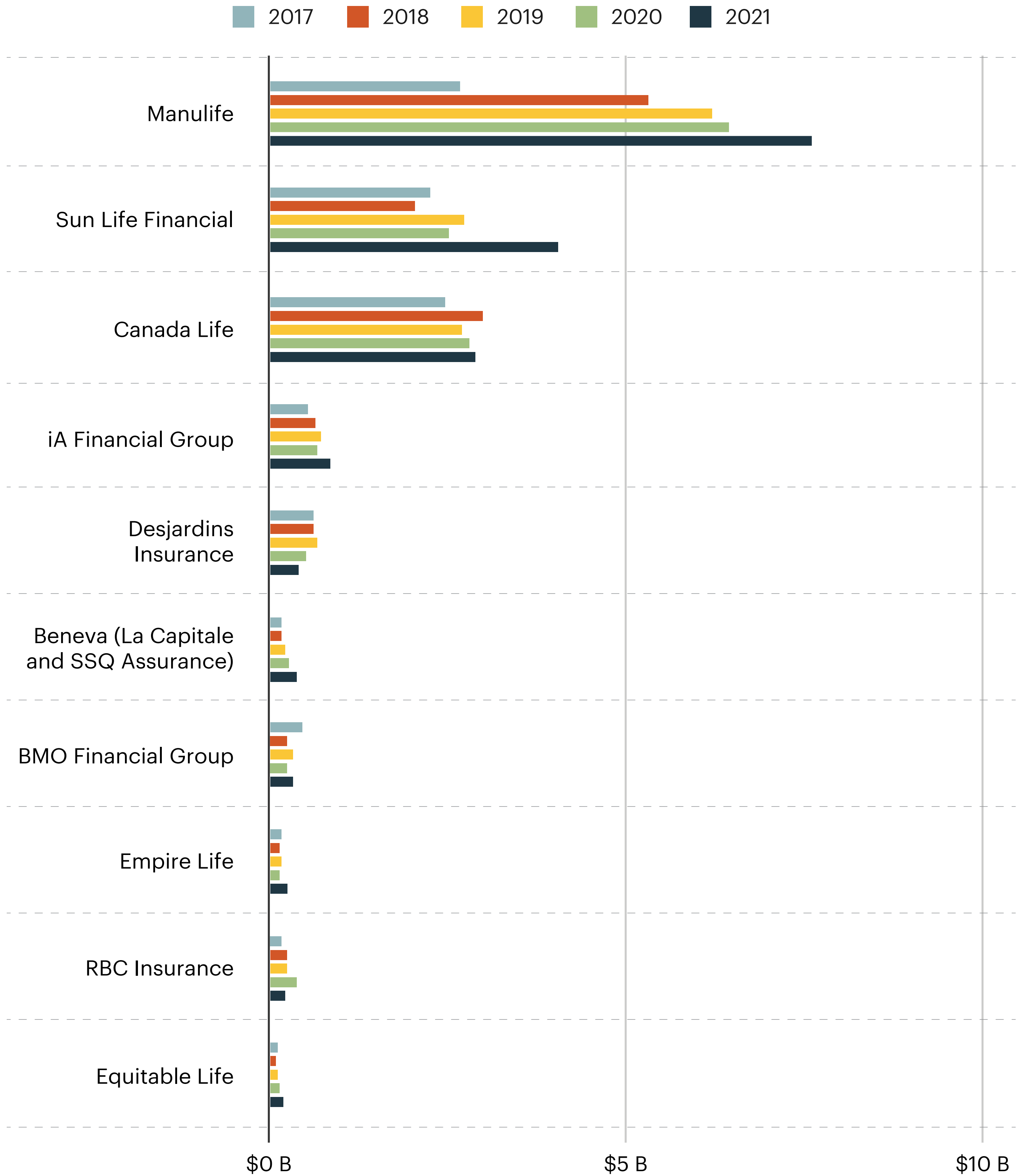
THE TOP 10 LIFE AND HEALTH INSURANCE COMPANIES RANKED BY 2021 NET INCOME



The top 10 are ranked by 2021 net income.
B: billion dollars.

Source : MSA Research. Compilation : Journal de l'assurance.

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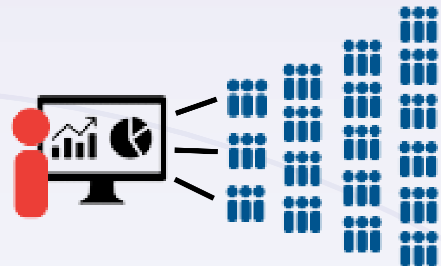

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Life insurance companies facing headwinds in 2022

Equity market weakness weighed on insurers' first quarter results.

KATE MCCAFFERY

None of the major Canadian lifecos followed by analysts saw share price gains after releasing their quarterly results in the first quarter of 2022.

IFRS 17 (International Financial Reporting Standards) disclosures took share prices sharply lower in some cases, while lower equity markets weighed on the group as a whole.

> *We continue to be relatively cautious on the sector overall for a couple of obvious reasons: the first is direct earnings exposure to public equity markets, which continue to trade down and with a lot of volatility.*
>
> — Paul Holden

Financial analyst with **CIBC Capital Markets, Paul Holden**, prior to the release of company earnings, predicted that life companies would report a relatively weak first quarter earnings, based on lower management fees, COVID-19 impacts on Asian sales and elevated mortality experience.

Following the release of earnings, in a review written by the CIBC equity researchers for clients, he states that "Q1 included a couple of large earnings misses and negative revisions to consensus estimates. The sector has not traded well since results were released. Ongoing volatility and valuation compression across multiple asset classes are not positive for the sector as a whole," he writes.

He goes on to say that Q1 results were generally weaker than expected.

"I would say my fundamental outlook has not changed," Holden told the *Insurance Journal* in an interview following the release of company earnings. "We continue to be relatively cautious on the sector overall for a couple of obvious reasons: the first is direct earnings exposure to public equity markets, which continue to trade down and with a lot of volatility." A more immediate negative impact too, was the effect rising interest rates had on regulatory capital ratios.

Tom MacKinnon, managing director, equity research, insurance, asset managers and diversified financials with **BMO Capital Markets** says sales in Canada, meanwhile, remained relatively strong, but echoed the sentiment that market performance would weigh on companies. He pointed to negative sales in Asia as a result of COVID-19 lockdown restrictions as being another weight for those with significant exposure to the region.

In looking at all companies, he adds "there is nothing stellar about their quarters, at all. I think that had to do with the weight of equity markets as it relates not only to some of their wealth and asset management business, but also to the earnings they get on surplus assets too."

Equity markets

One point Holden makes is that asset valuation matters more for share prices today than the level of sovereign bond yields.

"We had stated that the performance of equity markets matters more for earnings than interest rate movements, and this quarter's results were largely reflective of that premise," he writes, adding that AUM (assets under management) growth declined six per cent (the firm had assumed a three per cent decline on average). "Wealth and asset management earnings dropped 11 per cent quarter-over-quarter on average, again worse than our forecast (called for a decline of six per cent). Equity markets and bonds continue to perform poorly since the end of Q1, suggesting another significant decline in AUM in Q2." The firm's current assumption now is for average AUM growth to decline three per cent in the second quarter, but he adds, "current equity market levels imply downside risk to that assumption."

Wealth and asset management

"Equity market levels are one of the factors that have a more immediate and meaningful impact to lifeco earnings, versus interest rates. This is because all four lifecos derive a meaningful portion of core earnings (20 per cent on average) from wealth and asset management segments," he writes.

He says **Sun Life** generates the highest proportion of earnings from wealth and asset management, approximately 40 per cent, and has the most to lose from an equity market drawdown. At the same time, however, he cites the company's high-quality earnings mix, regulatory capital ratio and balance sheet quality as qualities that bode well for the company managing periods of market volatility. **Great-West Lifeco**, he adds, has the least amount of earnings sensitivity to market changes.

At CIBC, the bulk of analyst's (downward) revisions were related to wealth and asset management estimates. In general, he says, "we would argue that lifecos also carry more downside risk in a garden variety

recession, due to large wealth and asset management segments." He adds that analysts see the potential for further downward revisions as well, if equity market weakness persists.

MacKinnon agrees, saying to the extent that wealth and asset management businesses continue to come under pressure, there will be net sales and AUM growth pressure. "Generally weaker equity markets are going to lead to lower assets, lower growth in assets. Lower growth is going to lead to lower earnings associated with those businesses."

Interest rates and bond yields

Although higher yields, those that are sustainably higher, will be a major break for an industry that's faced downward pressure on bond yields for over 30 years, Holden adds that higher rates only help sentiment, not earnings or book value. "If lower equity market returns continue, we expect further downward revisions to lifecos' earnings," he wrote in April.

MacKinnon says rising long term interest rates helped company valuations to some extent in the first quarter of 2022. "They're positive, especially for businesses where liabilities are longer than assets. So, intuitively rising interest rates help mitigate the reinvestment risk. That's good. I think higher interest rates will generally lead to more profitable business, especially in the longer tail and life insurance businesses." He adds that the industry should still be net beneficiaries, even if higher rates are accompanied by rising inflation.

At the same time, however, he adds that those with a lot of excess capital sitting in bonds could feel mark-to-market pressure on their capital positions due to higher interest rates, but says as companies move to IFRS 17 accounting, those sensitivities may decline.

Holden too says that the upward move in bond yields helped relative performance year-to-date, "but we expect that benefit to be fleeting," he wrote. "The significant move in rates in Q1 is expected to have material negative financial impacts for the lifecos," he adds. "We expect book value to be negatively impacted by the surge in bond yields this quarter, due to mark-to-market losses on available-for-sale securities." (**Manulife** and Sun Life were most likely to be affected in this way.)

Fast forward to mid-May, post earnings, Holden says mark-to-market bond losses did in fact reduce book value by three per cent on average in the first quarter. Solvency ratio impacts were also negative.

"Higher rates are structurally positive for lifecos over time, but all four Canadian lifecos have largely immunized in-force business against movements in sovereign bond yields," Holden writes. "The straightforward math implies that higher interest rates will be a drag on the book value of equity. This important conclusion, along with the large wealth and asset management arms owned by the lifecos, explains why the devaluation of assets matters more for the share prices than the level of sovereign bond yields."

COVID-19 impacts

Sales in Asia, notably in Hong Kong and China are currently being impacted by COVID-19 related restrictions, as well. "COVID lockdowns had some influence on sales there," MacKinnon says.

The impact was expected by analysts. Holden, in his preview written before earnings were released, points out that "historically, Hong Kong had delivered mid-teen growth, but that will be something lower in the short term due to COVID headwinds." Over the medium term he also says negative population growth is also a concern. ➜

> *There is nothing stellar about their quarters, at all. I think that had to do with the weight of equity markets as it relates not only to some of their wealth and asset management business, but also to the earnings they get on surplus assets too.*
>
> — Tom MacKinnon

As well, there are some elevated claims due to the COVID-19 pandemic, elevated mortality and morbidity to some extent too. "We'll see how that plays out," MacKinnon says.

Holden adds that mortality trends, for the most part, improved as COVID case numbers in North America came down. He says getting people back to work after the pandemic has been a long-term disability challenge, but all in all, says "the losses in aggregate are not that large. They're manageable."

"We do assume modestly less favourable experience across the group, but (we) are not convinced that COVID morbidity will have a material impact on overall earnings," he writes.

Ongoing IFRS 17 impact

What will have a notable impact on company financial statements going forward, and really one of the biggest variables analysts are considering this year, is the introduction of International Financial Reporting Standards, known as IFRS 17.

In this quarter's earnings, it was Manulife that stepped up to the plate and disclosed how IFRS will impact the business' financial statements. **iA Financial Group** was the first to disclose, saying the expected impact on key financial metrics should be near neutral to favourable. Immediately following the release of earnings, Great-West Lifeco and Sun Life Financial had not yet disclosed the impacts of IFRS 17 on their financials. Great-West is expected to be the least impacted among Canadian life companies, Holden says, while Manulife, which derives the highest proportion of earnings from long tail liabilities and the highest proportion of earnings from new business gains, will likely be impacted the most.

For its troubles, investors rewarded Manulife by selling off its stock – MFC saw a decline of more than 10 per cent after the release of its earnings.

"IFRS 17 will continue to be an information discovery process. The one day move in MFC suggests there was a level of shock associated with the quantification of IFRS 17 impacts. It also demonstrates that the accounting change can significantly influence market valuation," Holden wrote following the release of all company earnings.

"IFRS 17 will impact where, when and how specific items are recognized in the financial statements; however, it will not impact the fundamental economics of our business, our financial strength, claims paying ability, or the dividend capacity of the company," Manulife stated in its quarterly report to shareholders. "IFRS 17 Insurance Contracts will replace IFRS 4 Insurance Contracts beginning on January 1, 2023 and will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the company's financial statements."

Specifically, the company says the impact of the accounting change will decrease equity by approximately 20 per cent on transition. "To a substantially lesser extent, the timing of investment results are expected to result in a net reduction of 2022 core earnings, on transition, of approximately 10 per cent under IFRS 17, compared with IFRS 4."

On the plus side, analysts point out that the company still has excess capital and the move to IFRS 17 doesn't influence that position. MacKinnon says it might simply be necessary to take in a few quarters of results to see how different components, namely the Contractual Service Margin (CSM), its makeup, the size of it at each company and its growth play out.

"The importance of the CSM is ringing loud and clear in my opinion, but in order to put it more in context as to how to value the companies, we might actually have to live a little bit in the IFRS 17 world before we can actually see how the thing grows and what its components are," MacKinnon says, adding that the components may provide a better framework for valuation over time.

"I think investors have to be willing to adopt new tools in their valuation toolkit. We might need to see a couple of quarters to see how those things move. I think as we move into that IFRS 17 world, we'll be able to compare and contrast CSMs amongst companies."

Going forward too, Holden says IFRS will continue to be a significant information discovery event with the potential for negative and positive surprises. "There are still a lot of things that need to come to market," he says.

In his note to clients, he adds that earnings mix, long duration insurance contracts, short duration insurance contracts, fee income and investment income will all be more transparent under IFRS 17. "Additional disclosure requirements will provide transparency on relative conservatism behind actuarial assumptions. There will be additional period-to-period volatility associated with more risky liabilities and investment assets," he warns. "We continue to anticipate significant information discovery over the next 12 months as IFRS 17 will include a new perspective on earnings generation and the assumptions underlying those earnings."

A look into the future

Finally, analysts say overall, looking at the 10,000-foot view of things, company prospects are good once things stabilize somewhat. "The demand for insurance products is quite strong. You're seeing that in individual insurance sales," Holden says. "Insurance demand

has been quite strong and will likely continue to be strong."

He adds that wealth and asset management will continue to be a big focus, a long-term opportunity if companies with those businesses effectively navigate the current downdraft in public equity markets. Rising bond yields should also help profitability over time for all companies.

"I think the thing that's always going to be important for all of these companies is capital management," Holden told the *Insurance Journal*. "Capital management is very important. In some ways they have similar strategies but, in many ways, the way they execute on it is different."

MacKinnon also says expense management is going to be under focus more going forward, "especially as extra spends to, say, enhance digital capabilities may need to come under a bit more of a microscope."

In Asia, meanwhile, he says he's anticipating a pickup in sales which should help new business gains, especially for Manulife.

"Maintaining balance sheet strength, I think is important as we venture into volatile markets. That seems to be on their minds," he adds when asked what frame of mind company CEOs would appear to be in on recent conference calls. "It's a bit of an intangible, but inflation as it relates to salaries and additional cost spends," are a concern, as is maintaining a company culture in the face of back-to-work, COVID-19 transitions. "Motivating and keeping employees engaged as we transition back to work is of key importance to them. I think they're also on the lookout for ways to deploy capital, but at the same time, they're cognizant of the volatile environment."

A WORD ON SOLVENCY RATIOS:

CIBC analysts note that rising rates have a negative impact on solvency ratios. "Updated disclosure shows that a 50-basis point increase in rates in a parallel fashion would decrease the LICAT ratio by 2.8 per cent, on average," they write.

Once earnings were out, it was determined that bond yields during the quarter contributed to a three per cent decline on average, relative to the previous quarter's two per cent increase.

In Q1 of 2022 Great-West Lifeco's solvency ratio declined five per cent while Manulife's dropped 2.3 per cent. "Both saw the biggest declines due to the relatively high sensitivities to movements in interest rates. IAG saw a modest decline of 1.9 per cent. SLF was the relative winner with a 1.3 per cent decline, quarter-over-quarter," CIBC analysts write.

Source: Lifeco Q1 Post View, Market Volatility Met By Earnings Volatility; Remain Cautious. CIBC Capital Markets, May 19, 2022.

FIRST QUARTER HIGHLIGHTS

MANULIFE FINANCIAL CORPORATION (MFC)

($, MILLIONS UNLESS OTHERWISE NOTED)

	Q1 2022	Q1 2021
Net income	2,970	783
Assets under management	629,121	596,524
LICAT ratio (per cent)	140	137
Canadian business, net income (loss)	547	(19)

Source: Manulife Financial Corporation.

To learn more consult this article on Insurance Portal: Manulife's net income skyrockets by 279.3 per cent

SUN LIFE FINANCIAL (SLF)

(MILLIONS UNLESS OTHERWISE NOTED)

	Q1 2022	Q1 2021
Net income	858	937
Assets under management (billions)	1,352	1,304
LICAT ratio, Sun Life Financial Inc. (per cent)	143	141
LICAT ratio, Sun Life Assurance (per cent)	123	124
Canadian business, net income	263	405

Source: Sun Life Financial Inc.

To learn more consult this article on Insurance Portal: Sun Life: Net income down 8.4 per cent

GREAT-WEST LIFECO (GWO)

(MILLIONS UNLESS OTHERWISE NOTED)

	Q1 2022	Q1 2021
Net income	770	707
Assets under management	954,395	943,641
LICAT ratio, Canada Life (per cent)	119	123
Canadian business net income	275	287

Source: Great-West Lifeco Inc.

To learn more consult this article on Insurance Portal: Great-West Lifeco's net earnings up 8.9 per cent

IA FINANCIAL GROUP (IAG)

(MILLIONS UNLESS OTHERWISE NOTED)

	Q1 2022	Q1 2021
Net income	151	173
Assets under management	107,044	101,619
LICAT ratio (per cent)	132	128

Source: iA Financial Group.

To learn more consult this article on Insurance Portal: iA's net income falls 12.7 per cent

McKinsey identifies mega trends affecting global insurance industry

Half of insurers globally are not earning their cost of capital, and half are trading below book value, according to a new report from global management consulting firm, McKinsey & Company.

KATE MCCAFFERY

"After decades of stable returns, insurance is now a value-destroying industry in which half the players do not earn their cost of equity," say researchers and authors of **McKinsey**'s report, *Creating value, finding focus: Global Insurance Report 2022*.

They say among the world's largest companies, economic profit is distributed unequally, with the top 10 per cent of firms capturing 80 per cent of the profits.

In Canada, among life insurers, the top five insurers by premiums in 2020 captured 76 per cent of market share in the country, according to McKinsey Global Insurance Pools. This effect was less pronounced in the nonlife insurance market. McKinsey's numbers show the top five nonlife insurers, by premium in 2020, captured 45 per cent of the nonlife market.

> *"Worldwide, about 50 per cent of listed insurance companies have consistently traded below their book value over the past five years. This is clearly a vote of no confidence in the industry and raises questions about the long-term future of several players as stand-alone entities."*
>
> — McKinsey & Company

For those wanting to jump into the top 10 per cent, the firm says its research suggests that five moves, pursued persistently, can propel players up the power curve. These are to dynamically reallocate capital among businesses, reinvest a substantial share of capital into organic growth and innovation, pursue thematic and programmatic M&A (but not mega deals, they warn), enhance underwriting margins and make "game-changing" improvements to achieve top quartile productivity. "All of this has to be done in a very different and rapidly changing environment. Starting points vary greatly among geographies and lines of business," they write.

Broken down, the report also examines megatrends in the post COVID world that are affecting insurers and the current state of the industry – they say there is limited productivity improvement and economies of scale have proven to be elusive. The report also looks at investor's perceptions about the industry, lists and examines nine strategic imperatives for companies, suggests ways of determining what geographies and lines of business companies should operate in, examines the next phase of mergers and acquisitions (M&A) in the industry and discusses how companies should refocus their respective portfolios of activity. The report finishes with nine additional questions for decision makers about their own firm's geographical considerations, lines of business and value chain positioning.

State of the global industry

McKinsey's researchers say there are structural factors challenging industry growth. These are persistent low interest rates, digital attackers and pricing pressures driven by comparison websites and fee transparency demands.

"Organic demand is growing only slowly in mature markets," they add. "The latter is particularly worrying because growth in developed economies is coming mostly from price increases, rather than from volume or new risks covered, highlighting a risk that the industry might lose its relevance over time."

Most notably, the report repeats the thesis that insurance is now a value-destroying industry. "Industry average ROEs have remained at or slightly below the cost of equity over the past years, notably in North America and Western Europe. This is not a problem caused by a few underperformers. Rather it is industry wide: 54 per cent of listed insurers, representing 52 per cent of the global industry's equity, had ROE below their cost of equity over the past five years, raising questions about the long-term economic viability of their business models," the report states. "Worldwide, about 50 per cent of listed insurance companies have consistently traded below their book value over the past five years. This is clearly a vote of no confidence in the industry and raises questions about the long-term future of several players as stand-alone entities."

McKinsey researchers add that some trends look certain to reshape how insurance is underwritten, distributed and managed. The increasing complexity of the macroeconomic environment, stagnant productivity and talent retention are all themes and concerns also cited in the report.

Post COVID megatrends

In aggregate, McKinsey researchers say a number of these mega trends are shaping a new operating environment. "In coming years, the global insurance industry will be profoundly shaped by some megatrends that have emerged and accelerated since February 2020," they write.

Among them, they say there is a decoupling of macroeconomic environments in Asia, Europe and North America. Winners and losers have emerged as the pandemic's effects are felt differently by sector and within each sector. Remote interaction with customers and personalization has also forced insurers to make additional technology investments. "They might even need to significantly modify their distribution models by repositioning the roles of agencies, brokers and digital sales channels," the McKinsey report states.

An increased awareness about sustainability, climate change and issues of diversity, equity and inclusion, meanwhile, will also have an immediate impact on insurers, as will changes in mobility and ways of working. Notably, they say company and industry purpose and relevance will also come into question.

"The pandemic and its associated insurance issues have put the spotlight on the insurance industry. This might prompt insurers to rethink their societal purpose and relevance in the economy as a risk-taking industry," they write. "There is a perception that the industry has lost this characteristic in the past ten years by limiting the types of risks or clients it covers."

To help, in addition to the questions posed to decision makers at the end of the report, the firm recommends the use of nine "value levers." Among them, they say companies should make environmental, social and governance considerations a core feature of their business models, work on covering new risks, focus on customer engagement and experience, and engage with ecosystems and insurtechs to renew value creation.

U.S. life and annuity insurers adjust their distribution

Life insurance companies in the United States are increasing their use of managing general agencies such that MGAs have increasingly attained more authority in that country over time. Although the Canadian life insurance market is "quite different" relative to its U.S. counterpart, there are some transferable lessons to be learned, say AM Best analysts.

KATE MCCAFFERY

The rating agency's recent commentary, (U.S.) *Life/Annuity Insurers Adjust Distribution Strategies to Reach Consumers*, suggests that the majority of companies surveyed by the firm are moderately satisfied with innovation efforts underway, related to distribution. The same survey found that 80 per cent of companies believe the middle market is extremely or very important for future growth. Interestingly, they also write that "as the pandemic reduced in-person interaction and created internal processes and communication hurdles, MGAs have attained more authority."

Growing distribution relationships

They say nearly 60 per cent of annuity and 40 per cent of multi-line writers are focused on growing distribution relationships with fee-based financial planners and registered investment advisors. "These relationships have helped companies bring products into a more holistic financial planning process for consumers, rather than being part of an isolated life insurance or annuity sale."

They add that companies are telling the ratings agency that they feel they are further along in improving the customer experience compared to 2019 when the firm took a similar poll at one of its conferences.

While this evolving landscape includes rising consumer awareness about the important role life insurance plays in protection and planning, it also includes inflation concerns and increased skepticism about the affordability of life and annuity products.

Automated underwriting processes

Possibly in part to address these issues, more companies today are going through automated underwriting processes with clients and customers than was the case in 2018. "Mutual companies trend on the higher side compared to stock companies, though that may be because their product offerings such as term or whole life are less complex and more suitable to the automation process," the AM Best report states.

Digitalization and the technological investment needed to improve customer experience, meanwhile, remains as one of the biggest growth and distribution modernization challenges, they add. "Companies have sought to develop personalized solutions that add value to a customer's daily life, aiming to create greater loyalty and new opportunities. New customer engagement approaches are (also) being tested for growth opportunities."

When asked about the Canadian experience, **AM Best** associate director, **Michael Adams** told the *Insurance Journal* that one transferable lesson is the need to stay ahead of these respective curves with innovation and the digitalization of the life insurance sales process. "You don't want to get left behind. As life insurance is generally a commodity business, especially in a saturated and mature market like Canada, customer service and innovation that improves or increases access to new customers is a differentiating factor."

In its September 2021 analysis of the Canadian insurance industry, AM Best maintained its stable outlook on the property and casualty (P&C) industry segment and revised its life and annuity segment outlook from negative to stable.

In P&C they say underwriting performance and capitalization has been consistent in recent years, even in 2020, despite the challenges presented by the COVID-19 pandemic. The ratings agency maintained its stable outlook, in part because companies improved their operating results that year, following two breakeven years, even in the face of growing market and weather-related pressures.

Innovation in underwriting and distribution

"Advancing refinement and innovation in underwriting and distribution capabilities in response to competitive pressures and consumer evolution," was one factor the firm considered in its ratings deliberations. Risk-adjusted capitalization was another. "Underwriting results improved despite elevated natural catastrophe losses in recent years," analysts write in the September report, *Canadian Insurance: P/C Segment Remains Resilient, L/A Segment Outlook Turns to Stable*. No ratings actions were taken in that segment in response to the pandemic, they write.

For Canada's life and annuity businesses meanwhile, the firm's revised outlook for this segment took into consideration an improved operating environment. "The negative outlook factored in a stressed operating environment for Canada's life and annuity insurers, which was expected to have a material impact on operating performance, with a second, more muted impact on regulatory capital because of the disruptions in the financial markets caused by the outbreak of COVID-19," they write. Instead, they say financial supports provided by government agencies subdued many of these impacts, both in Canada and for companies around the world, as well.

Adjustments to Canadian underwriting – many insurers increased the amount of coverage per policy that could be underwritten without a full medical exam – also seem unlikely to return to pre-pandemic practices.

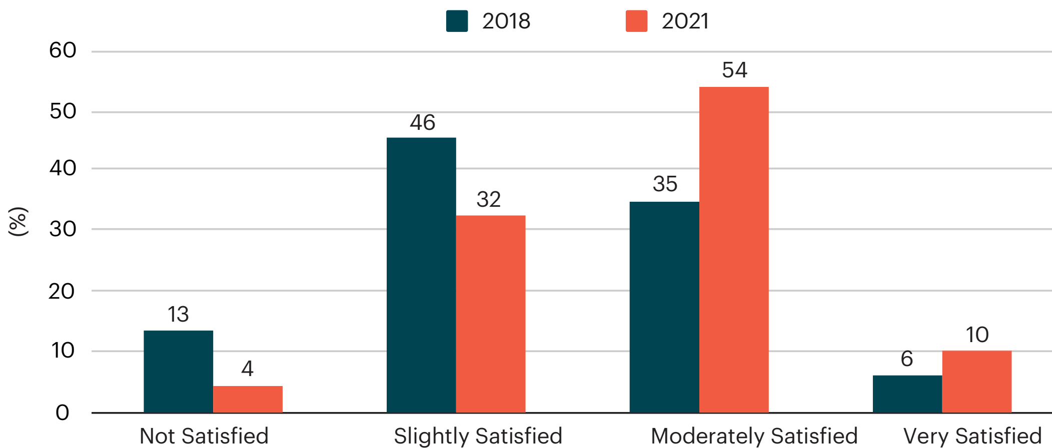
Although clients will likely welcome the less invasive process, the firm also warns that this new reliance on data and analytics is not without its concerns. “Relying more heavily on enhanced data analytics and predictive modelling capabilities in place of medical exams is a big step for the life insurance industry. From a mortality perspective, the results of these changes are unknowable at this point.”

The firm also discussed balance sheets at that time, saying these remain strong and that LICAT (life insurance capital adequacy test) ratios generally rose in 2020. (This was due to the mandatory ceasing of share buybacks and restrictions on shareholder dividend increases which resulted in higher retained earnings.)

“Although LICAT ratios were negatively impacted in the first half of 2021 due to the meaningful rise in risk-free rates and the narrowing of corporate spreads, they remain well above minimum regulatory requirements,” they wrote.

“The stable outlook reflects the view that the industry’s historically strong regulatory capital has enabled Canadian insurers to underwrite balance sheet risk well enough to materially mitigate the stressed financial market conditions of last year (2020), as well as the current environment.” The firm’s next Canadian commentary is scheduled to be published in August 2022.

SATISFACTION LEVEL WITH INNOVATION EFFORTS RELATED TO DISTRIBUTION



sources: AM Best, Life/Annuity Insurers Adjust Distribution Strategies to Reach Consumers, Feb. 14, 2022

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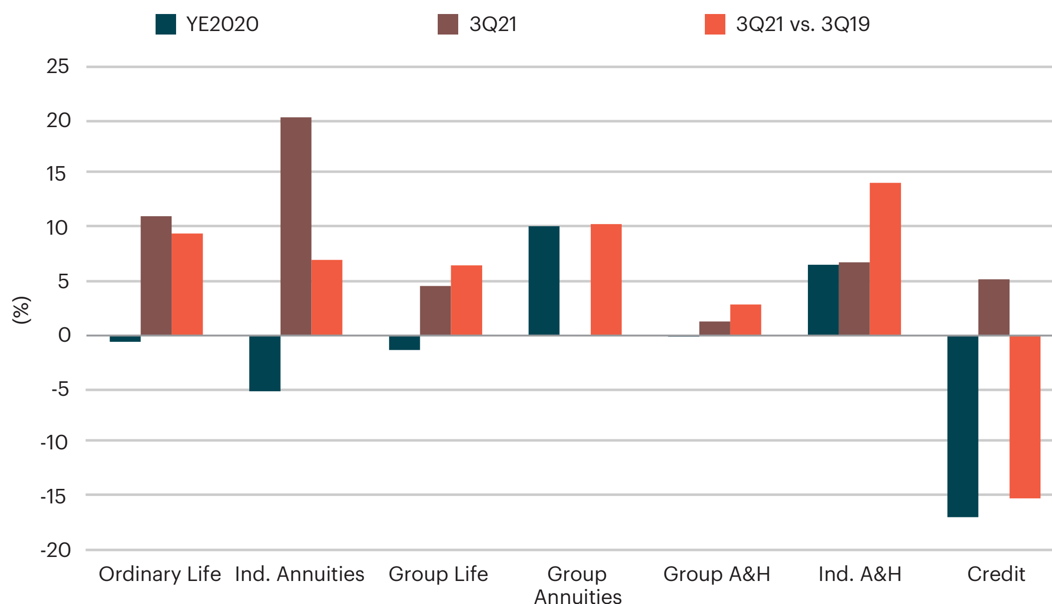

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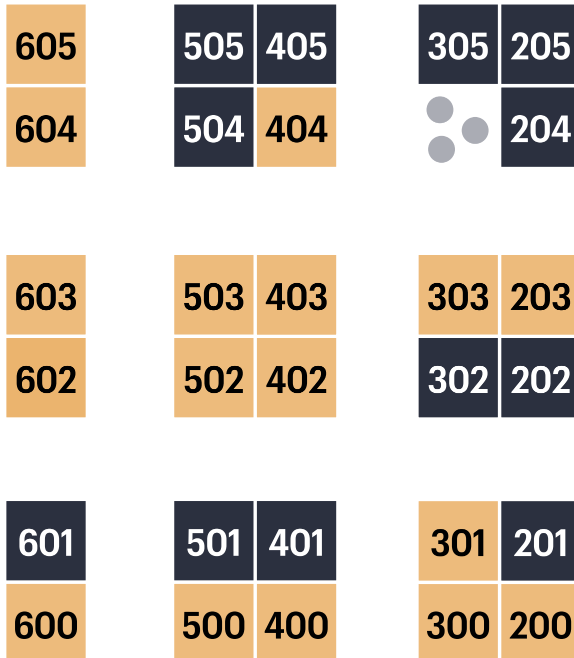

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Financial advisors can help empower people with early stage dementia

Many people with early stage dementia want to continue to take part in decisions that affect them and it's up to groups like financial advisors to ensure they do their best to allow that.

BY SUSAN YELLIN | IMAGES BY FREEPIK

Krista James, national director of the **Canadian Centre for Elder Law**, said all adults have the right to make their own decisions as long as they are capable of understanding the relevant information to make that decision. If it gets to the point where the person cannot understand the information required then they have the right to hand the issue over to a substitute decision maker. Many people can make their own decisions independently regardless of whether they have a diagnosis of a disability, said James. But this can all change when dementia progresses.

"Along the dementia journey there are many stages where people can make their own decisions if they have support from people they trust and are cognizant of the things that support their capacity rather than stressing them out and confusing them," she said.

The **Canadian Centre for Elder Law** has put together information on decision-making dealing with this in-between area, noting that even if people don't have a disability they often consult someone else, like a close friend or relative, since decision making is inherently collaborative.

"Many people with disabilities retain their own legal rights to make their own decisions if we support them," said James. "But what happens in practice is that as soon as you are diagnosed with a disability you are encouraged to do advanced planning and appoint someone to make decisions for you. And that's a great practice just in case you lose the ability to make your own decisions. And the diagnosis often triggers an attention to planning but the diagnosis shouldn't trigger the shifting of decision-making rights to someone else."

The **Canadian Securities Administrators**, along with the **Investment Industry Regulatory Organization of Canada** (IIROC) and the **Mutual Fund Dealers Association of Canada** (MFDA), published final amendments in July of last year to improve the protection of older and vulnerable clients across Canada.

They require dealers to take "reasonable steps" to get the name of a trusted contact person (TCP) and the client's written consent to contact that person in certain circumstances. The TCP cannot make transactions on an account, but can be a resource to aid in protecting a client's financial interests or assets.

Dealers and other approved persons can put a temporary hold on either the purchase or sale of a security or a withdrawal if the dealer believes there's been financial exploitation of a vulnerable client and if the client doesn't have the mental capacity to make financial decisions.

The Canadian Centre for Elder Law has put together a checklist to support Client Capacity for Investment Decision-Making, supported by the **Law Foundation of Ontario**'s Access to Justice Fund and the **Alzheimer Society of British Columbia** and **Inclusion BC**.

The checklist includes a number of different strategies. For example, it suggests that before the meeting, the financial advisor should put together a meeting agenda and a list of documents, keeping in mind font type and size and avoiding acronyms and confusing terminology.

During the meeting, the advisor should use visual diagrams and reduce any kind of background noise while talking directly to the client. If the client looks confused, try rephrasing and use scenarios to gauge investment knowledge and risk tolerance.

Forget jargon, abbreviations and 12-page explanations in tiny print that make a vulnerable investor sign in a bunch of different places, said James. Some professionals actually discourage people from signing, she said.

She added that there are families who make the vulnerable investor think they can't make decisions on their own and should give up that right to someone else. While these people may be well meaning, she said it takes away a lot of people's sense of power, autonomy and control over their own lives. "It freezes people out. I understand that regulators and financial sector folks are concerned about risk and liability and they feel greater comfort often in having the decision made by someone who has no disability. But sometimes these decision makers have their own challenges."

"Along the dementia journey there are many stages where people can make their own decisions if they have support from people they trust and are cognizant of the things that support their capacity rather than stressing them out and confusing them."

— Krista James

James said the increase in the number of people with dementia is an opportunity for everyone to be clearer about what they are trying to get across to all clients.

"Lots of people who don't have disabilities are secretly totally confused about what financial advisors are saying but no one wants to admit that we don't know what a mutual fund is," she said. "But we all need to do better to teach where we work. This shift in our practice is going to benefit people with disabilities but it's also going to benefit everyone.

"Obviously they are going to get to the point where they can't make their own financial decisions, but I feel we have been rushed to that place and that's laziness on the part of all professionals."

Delaying onset of dementia is a key preventive approach

With the aging population, dementia cases are on the rise in Canada. There are no cures on the horizon, but prevention efforts may help.

BY SUSAN YELLIN

The number of Canadians with dementia is expected to more than double over the next decade to almost one million people, with associated costs approaching $17 billion a year, a situation that will require a total remodelling of the Canadian healthcare system, according to the **Alzheimer's Society of Canada**.

"On top of that there's also a cost to family and friends of those living with dementia," said **Dr. Joshua Armstrong**, a research scientist with the Society. "It's hard to estimate, but it's obviously huge when people have to spend a great deal of their time looking after loved ones."

COVID-19 may also have had a hand in increasing the number of people with dementia. Physicians do know that COVID-19 has an impact on the nervous system, as well as brain fog and a loss of taste and smell. Add on to that social isolation and stress and there might well be a negative impact on the brain, said Dr. Armstrong.

Looking for the gaps

As part of projects with the Alzheimer's Society, Dr. Armstrong has surveyed family and caretakers to better understand the relationship between physicians and caregivers to see where the gaps are. "We want to get ahead of this issue," said Dr. Armstrong.

As it now stands, it's difficult for doctors to diagnose dementia or other acute issues that might cause cognitive impairment. To that end, the Society is working on guidelines to support family physicians and the care of both older adults and those with early stage dementia to better prepare them to handle their patients.

One area of note he said was the increase of immigration and changing demographics, newcomers who are also developing the disease. The Society wants to see if it can forecast which populations will be most likely affected by dementia down the road.

(Dementia is the umbrella term that covers a group of symptoms that negatively impact memory, while Alzheimer's is a specific progressive disease of the brain that slowly causes impairment in memory and cognitive function.)

SIGNS OF DEMENTIA

- Memory loss that affects day-to-day abilities
- Difficulty performing familiar tasks
- Problems with language
- Disorientation in time and space
- Impaired judgement
- Problems with abstract thinking
- Misplacing things
- Changes in mood and behaviour
- Changes in personality
- Loss of initiative

A Race Against Time

In November of last year, the **Conference Board of Canada** assembled 22 Canadian health care leaders to discuss the current and future states of dementia in Canada. The result is a report called *Race Against Time*.

The report noted that Canada has the lowest number of dementia specialists among G7 countries. The specialists include everyone from neurologists to geriatricians.

It also said Canada has the lowest number of imaging devices required for accurate diagnosis compared with other countries.

Among the health leaders' recommendations were:

- Create more medical school positions and devise a targeted recruitment strategy
- Invest in dementia education and broaden the scope of practice for family physicians, nurses and others, and
- Update current Canadian guidelines for diagnosis and treatment of dementia

There are some therapies that may be able to slow down the progression of dementia, but it's doubtful there will be a cure in the near future, said Dr. Armstrong.

"We haven't seen any cures that come even close to solving the problem," he said. "I don't believe that in the next decade we'll see any magic bullet. It's quite a complex disease and it happens over a long period of time. The best prevention approach might be dealing with overall brain health and social health to push back the onset of dementia as far as possible."

Delaying the onset

The best ways to prevent dementia are to put greater emphasis on ways to delay the onset of the illness, he said. On an individual level, this means people should try to ensure good heart health, avoid diabetes, get enough and good sleep, maintain a good social network, challenge themselves mentally and physically, and generally, keep busy.

Professionals across the country are informing different levels of government as to the issues and challenges of dementia.

The 2021 annual report to Parliament on the national dementia strategy discusses programs that aim to cut the number of seniors who need facility care by 20 per cent by 2031. The program by the **National Research Council** states that over the next seven years, it will focus on improving the quality of life of older adults, including those with dementia, as well as supporting caregivers.

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Term insurance sales benefit from economic conditions

Rising inflation and interest rates stoked the popularity of long-term term insurance with new home buyers in 2021.

BY ALAIN THÉRIAULT

A perfect storm is raging around long-term term insurance sales, especially in the mortgage insurance niche.

In Canada, the average price of properties sold climbed to $746,146 between April 2021 and April 2022, for an increase of 7.4 per cent, the **Canadian Real Estate Association** (CREA) reports. In the Greater Vancouver area, the average cost of a home in April 2022 was $1,375,000, up 18.9 per cent from April 2021. In the Greater Toronto Area, the average cost of a home in April 2022 was $1,354,000, 30.6 per cent higher than in April 2021.

Although the **Bank of Canada** reported an inflation rate of 6.8 per cent in April 2022, there is no sign that price pressures will ease.

In fact, the string of interest rate hikes recently announced by the Canadian central bank is impacting the mortgage market. After a 0.25 per cent increase in March and a 0.50 per cent increase in April, the Bank of Canada's policy rate in May was 1.00 per cent. On June 1, the Bank of Canada raised the rate to 1.5 per cent. CREA reports that residential sales recorded over MLS systems (from **Realtor.ca**) fell 12.6 per cent between March and April 2022.

Many Canadians say, however, that they are willing to invest more in a home, according to the latest **BMO** Home Finance Survey. Released on April 25, 2020, the survey found that the majority of homebuyers expect inflation, housing costs and interest rates to continue to rise.

More specifically, 68 per cent of home buyers are willing to change how much they spend on buying their home. Nearly three quarters (73 per cent) of that group are willing to spend more on their purchase. The

main reasons for this would be because prices have gone up (55 per cent) and because they have more income (28 per cent) and more savings because of the pandemic (27 per cent).

Lastly, 52 percent of buyers said they would use their increased down payment to spend more on their home and obtain a bigger mortgage, a significant increase of 20 percent since last year. More than one third of respondents expect to have a down payment of 10 per cent or under. In all regions of Canada, buyers plan to spend more on a home in 2022 than they did in 2021. The trend is particularly strong in Ontario and the Atlantic provinces.

Increase in the face amount purchased

The economic environment has influenced term insurance sales and amounts, many sources believe. **Mark Arruda**, Assistant Vice president, Insurance Product Management at **Sun Life**, points out that 20-year term life insurance (T20) is often used as mortgage protection. "We are noticing increases in face amounts as the housing market heats up and home prices rise," he says.

Rising property costs and persistent inflation underline the importance of protecting families' financial security, he continues. He says the T20 market is being propelled by the need to protect higher consumer debt, including mortgages. "We also believe there is a continuing need for income protection that remains underinsured," he adds.

Mark Arruda thinks that using T20 as a mortgage insurance solution alleviates clients' uncertainties arising from the current economic conditions because of the stability that having coverage provides.

At **iA Financial Group**, **Philippe Cleary** made a similar observation. "With rising home prices and inflation, we've seen an increase in the average amount of insurance recently," he says. Cleary, who is the insurer's Director, Actuarial Services, Individual Insurance, Savings and Retirement, says he believes the need for insurance intensifies when these economic parameters are factored into the financial needs analysis.

François Cloutier, Vice President of Actuarial and Product Development at **Beneva**, thinks there will always be a need for mortgage insurance. "The significant increase in home prices will most certainly have an impact on the average amount of coverage, which will increase. This increase in price also goes hand in hand with higher debt levels for buyers, which makes insurance even more important," he says.

Mike Stocks, Vice President and Chief Marketing Officer, Retail, at **Empire Life**, notes that the average coverage per T20 policy increased by 11 per cent in 2021 versus 2020 because customers need additional protection due to higher mortgages.

The **Co-operators** foresees the same trend. "As housing prices continue to rise, longer term lengths will become more prominent and important in the industry," predicts **Paul Gobeil**, Vice President, Individual Insurance and Wealth Management, and Chief Actuary, Life. "To secure a home amidst increasing competition and higher purchase prices, individuals will stretch themselves and require longer mortgage lengths to do so," he adds.

Gobeil expects to see the average face amount on his T20 products increase as a result, as the need for mortgage protection escalates. Among the trends that are lengthening the required insurance term, Gobeil says couples are starting families later in life. They will need coverage for as long as the children are in the home, he explains.

Sales also on the rise

UV Insurance stops short of linking term insurance sales to economic conditions. "We have noticed an increase in term life sales recently, across all terms, but it is difficult for us to attribute it to the economic environment, given the recent significant changes to UV's products," says **Julie Michaud**, Senior Vice President, Individual Insurance and Investment & Retirement. She adds that T20 has been a growth market at UV Insurance for the past two years. "This trend is similar to the T10 trend," she points out.

Term insurance sales are growing in Canada in terms of the number of policies, iA's Philippe

➜

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Jean Salvadore

Cleary points out. He cites industry figures that indicate that the number of new policies issued in Canada in 2021 climbed 8 per cent for T20, versus 1 per cent for all term insurance products combined. "In the term insurance market, longer terms, such as T25 and T30, are also prospering." He adds that the number of T25 policies issued grew by 41 per cent during this comparison period, versus 13 per cent for T30.

The year-over-year situation, however, reversed in the first quarter of 2022. Cleary shared LIMRA results just before press time: "The results are different from 2021: the number of new policies sold declined."

T20 sales increased 54 per cent at Empire Life in 2021 compared with 2020, Mike Stocks points out. He says this is one of the fastest growth rates in the industry in this segment. The key drivers of this growth include increasing average insurance coverage, and the fact that the pandemic has bolstered purchase intent, he explains.

Luc Bossé

Empire Life also saw robust growth in T10 sales, which climbed 32 per cent in 2021 compared with 2020, Stocks notes. He cites a LIMRA finding that T10 sales declined 4 per cent in 2021 versus 2020. He explains that the mortgage coverage trend has benefitted T20 more than T10.

At Beneva, François Cloutier observes that the T20 market generally grew in 2020 and 2021. The opposite is true for T10 during this period, he says. "At Beneva, we have achieved very significant growth in our T20 sales in 2021, almost a 30 per cent increase, as well as T10 (up 8 per cent)."

Beneva is also seeing a shift in sales from T10s to longer terms, such as T20s. "This is due to mounting household debt and property costs," says Cloutier, adding that "mortgage terms are being extended and thus the duration of protection needed."

Katrina Lee-Kwen

For similar reasons, the zeal for longer-term term insurance products does not surprise **Jean Salvadore**, Senior Director, Life and Living Benefits at **RBC Insurance**. She says a 25-year amortization period for a mortgage is the most common, because it makes payments more manageable. "To protect the family's biggest asset, most clients would choose a longer term, T20 or longer," she points out.

Younger clients tend to have more debt and are looking for affordable, longer term policies, Jean Salvadore continues. The T20 strikes that balance, in her view. "High interest rates and high home prices may impact the amortization period of mortgages. If it takes a longer duration of time to repay the mortgage/ loan, it may be necessary to have a longer term insurance to protect your assets and your family," she says.

Anny Plamondon

Preeti Varu, Product manager at **Equitable Life**, has also seen the mortgage amortization period lengthen. "As house prices have skyrocketed, amortization periods for mortgages have been increasing. Where it was common to have a 20-year mortgage before the 1990s, there is a trend now of longer amortization periods with mortgages having amortization periods of 25 years. As amortization periods lengthen, I believe a longer-term duration like Term 30 could start increasing in popularity," she says.

Varu also notes that insurers seem to be selling more T20s than T10s. The fact that the term market is very price sensitive explains this difference, she says. "For T10 and T20 when you compare overall costs, it is relatively close. For example, a 35-year-old male for $100,000 pays $10.47/month for T10 and $12.73/ month for T20. For a monthly cup of coffee, someone can double the length of their coverage. That's significant for a couple dollars difference."

At Sun Life, Mark Arruda says the insurer has designed term products with a longer coverage period as an alternative to bank mortgage insurance. "The flexibility of our T20 over traditional mortgage insurance is that the face amount will not automatically decrease. This provides ongoing protection as mortgage needs change but other living expenses remain," he explains.

T10 or longer duration?

"Millennials currently make up a large proportion of the workforce, in addition to representing the majority of first-time home buyers," says **Luc Bossé,** Vice President of Sales and Marketing at **Assumption Life**. "Millennials are faced with much higher real estate prices than previous generations. As a result, a 25-year amortization period remains a preferred choice. Although a 20-year term is very popular to help cover long-term debts, it is simply not enough to meet their needs," he explains.

At Assumption Life, the T25 has grown considerably, Bossé continues. "This is no coincidence. With the rising cost of properties and, consequently, the increase in the debt/income ratio, the vast majority of clients are looking for longer terms, such as T20 and T25, to cover their needs," he says.

Following major improvements implemented at the beginning of the year, Assumption Life's numbers are growing relative to the industry, Éric Bossé points out. "The increased demand for longer terms and the continued success of our FlexTerm product have led us to integrate a decreasing option. This new feature will be launched in June," he says.

"We've seen consistent T20 sales results as a mix of our term insurance sales." says **Katrina Lee-Kwen**, Senior Vice President, Non-participating Insurance Solutions and Individual Customer Digital Strategy, **Canada Life**. "However, we are beginning to see clients move away from T10 into longer term lengths," she notes.

As a result, Canada Life's My Term product now offers terms from 5 to 50 years. "The response to our expanded product offering has been profound," Lee-Kwen says.

She is seeing customers shift to longer terms since the launch of this product. "However, Term 20 specifically continues to maintain a similar share of our term business, and this is consistent with the market," Lee-Kwen adds.

Anny Plamondon, Vice President, Individual Insurance and Consulting Services of **Groupe Cloutier,** mentions that the MGA's sales of T20s are down because the market has evolved. In contrast, Groupe Cloutier is selling a lot of convertible T10 insurance.

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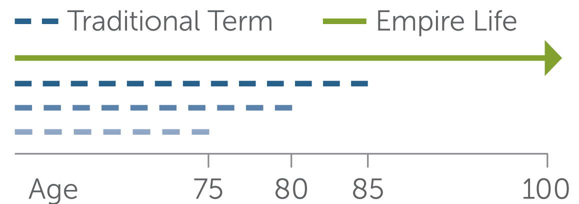

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Offered by most insurers, this product lets client swap their T10 for a longer term product.

Plamondon goes so far as to say that selling T20 is like putting the client in a box. In contrast, convertible T10 lets advisors track the client's changing needs. They simply check up on them before the end of the five-year period.

Anny Plamondon points out that the market has adapted to customer needs. "Term may originate from a mortgage need, but it may well be something else in four years." She explains that a T20 holder who needs longer protection can opt for yearly renewable term (YRT) coverage. This product "lets you stretch the coverage by a year or more at a reasonable cost," she says. Companies that offer YRT term insurance include Canada Life, iA, **Manulife** and RBC Insurance. Plamondon believes the future of the term market lies in flexibility and term diversification rather than price.

Pandemic boosts technology

Christian Laroche, President, Quebec Operations, **IDC Worldsource Insurance Network**, points out that despite high inflation coupled with a stock market correction, insurance sales are vigorous. "That's always the case when there's a recession: We sell more insurance."

The Web is a strong growth engine for IDC. The MGA sent its advisors 18,000 leads (recommendations generated by online customer requests). Most came from the **ClicAssure.com** comparison site, and by IDC's campaigns on networks such as **Facebook**. Of those leads, 58 per cent concerned a credit or term insurance request. "I sell T20 most often," Laroche says.

"I've always sold a lot of term insurance, and it's held up for several years," Laroche continues. "Now, with the median home price going up, the average premium for T20 and T30 insurance is also rising. A term policy that I used to sell for $800 to $900 a year to cover a mortgage costs more today. I also saw significant growth in permanent insurance sales during the pandemic."

Christian Laroche

Laroche says the increase began when IDC acquired the MGA **Aurrea Signature** in January 2020. His sales force then began working with a more affluent clientele, a niche that tends to prefer permanent insurance. "IDC had already been experiencing an uptick in this sector for a few years," he adds.

The pandemic has also influenced the overall insurance market, according to **Phil Marsillo**, president, **IDC Worldsource Insurance Network**. "We have seen an increase in insurance sales since the pandemic started. As clients saw what was happening to either themselves or people around them, they were more open to the conversation about life insurance," he says.

"I also believe that with people being home and more accessible, and with the use of technology it all helped with individuals getting the appropriate coverage," he adds.

Martin Labarre

In fact, many insurers attribute their term insurance sales growth to their new digital pricing and underwriting capabilities.

Changes brought about by a new digital platform have spurred UV Insurance's growth in term products, Julie Michaud notes. "Our most recent changes include simplified issue up to $500,000 in Immediate underwriting, introduced in 2021, with the option to add a two- or five-year Credit Insurance Rider, also in simplified issue. With the September 2021 rate review and the speed of issuance, we have seen an upward trend in T20, despite the introduction of a T25 Superior+ product in March 2022," she points out.

"Clients can also add a T10 on T20s through stacking, now available in My Universe," Michaud adds. Stacking means the ability to add different life insurance terms to the same term insurance policy using the My Universe electronic application. This option, increases flexibility considerably, she says.

"The term market has been very competitive in the past 12 months with carriers across the industry making changes to their pricing to remain competitive and meet the increasing demand for life insurance that was caused by the COVID19 pandemic," says Mike Stocks of Empire Life. "Specifically, millennials became the demographic segment that was most interested in purchasing life insurance during the pandemic where prior to the pandemic they were the least interested group. Our focus is on the middle market with the family protection market being a key target audience. We are currently ranked second in the market on price for this segment," he explains.

Again, technology has played a big role. "Our electronic Fast & Full Life App (F&F) is also a leader in the market with 90 per cent of our applications submitted via F&F and over 50 per cent of our application volume being settled in 5 days or less," he points out.

Philippe Cleary also had high praise for his digital underwriting platform, EVO. He notes that it has recently been modified to improve clients' and advisors' experience. "Over 53 per cent of policies are currently issued instantly at the point of sale. We also recently lowered the price of our term life insurance products to our clients' great advantage," Cleary says. "When you look at new sales in terms of numbers of policies, the T20 is the top seller in Canada. So it's a very important product for clients and advisors, and a market that is very competitive."

Martin Labarre of **Desjardins Insurance**'s underwriting and product development department confirms that technology is a driver of term insurance business. "Underwriting relief is a trend, as is the implementation of predictive models and the relaxation of medical testing requirements for higher amounts. We are currently positioning our offer of those services," he says.

Like most of his competitors, Labarre highlights T20 as a growth market. "Insurance needs are increasing because of inflation, and there are a lot of unmet insurance needs in the population. Enrollment (underwriting) relief is supporting that growth," he adds.

Amélie Jodoin, National Vice President, Business Development, Individual Insurance at **Humania Assurance**, says the insurer will offer a new T20 product through its partner and online practice **Emma**. She thinks the T20 market has been saturated for years. Even so, she is noticing an upward trend with

simplified products. "We are seeing demand rising for various term insurance terms, compared with permanent insurance, for products offered through platforms," she points out.

This is an excellent avenue for new advisors, she continues. "Advisors who want to develop sales platforms are mostly starting out by offering temporary products." She mentions that advisors who hold Emma permits can sell all the Humania products.

Emma is a life and health insurance and financial planning firm registered under the name **Emma Financial Services.** Emma distributes the products of several providers, including Humania, and offers its own products, insured by Humania Assurance. In 2020, Humania developed the Emma Life Insurance product with its partner. In the same year, the Ontario firm **Specialty Life Insurance** launched a range of term insurance products in collaboration with Humania.

In April 2022, Emma co-founder and president **Félix Deschâtelets** announced the closing of a $6 million financing round, which he intends to use to build new products and develop markets. **Luge Capital**, **Investissement Québec** and **Tactico** participated in this round.

Emma's CEO spoke to *Insurance Journal* about the factors that create fertile ground for the company's growth. "With the pandemic, people realized that life is fragile. People's interest is propelling our sales. The increase in the real estate market brings other questions. [The purchase of a] first home creates a need for life insurance," he explains.

The increase in traffic to his site has allowed Emma to complete its financing round, Deschâtelets adds. The funds will be used to offer its insurance products in all Canadian provinces, and eventually in the territories. At press time, 70 per cent of Emma's business was in Quebec and 30 per cent in Ontario. The gap is narrowing, he says, adding that "we expect our business volume in the rest of Canada to exceed Quebec's."

Deschâtelets says his business represents a total of $2 billion in life and health insurance coverage. He declined to specify the premium volume, but says 70 percent is generated by term insurance such as T10 and T20 plus. He did not include T100 insurance in his calculation because it is a permanent insurance product.

"Nine out of ten clients ask for T10 or T20 insurance," Deschâtelets says. For now, these products are sold through brokers. The in-house product that Emma is currently offering in partnership with Humania is yearly renewable term to age 65. Following the imminent launch in partnership with Humania that Amélie Jodoin mentioned, the company will also offer in-house T20 and T10 products.

Amélie Jodoin

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Keeping up with today's insurance customer

Reuters Events, in an online panel discussion with industry executives, examined recent trends in digitalization, and looked at consumer expectations in 2022.

BY KATE MCCAFFERY| IMAGES BY DCSTUDIO ON FREEPIK

The presentation, entitled *Evolving Customer Expectations: How to Keep Up with the New Insurance Customer* included insights from **Mark Hardy**, vice president of direct life and health and **TD Insurance**, **Laura Doddington**, senior vice president and managing director at **Aviva Canada**, and **Cari Watson**, senior vice president of marketing and customer experience with **Westland Insurance Group**.

Moderated by founder of **InsurTech360** and **InsurTech Innovators**, **Christopher Frankland**, the panel discussed consumer's fast-changing expectations and how companies need to adapt their decision making and processes. They discussed how companies can go about capturing the right data in the first place, and also how companies are balancing digital processes with the human elements needed to make a great customer experience.

More, they say things will go wrong and they challenged those gathered for the presentation to consider whether their teams are enabled to have a discussion with the customer when the technology doesn't deliver.

Knowing the company has a process, Hardy says, and an approach to such conversations is key, "as opposed to expecting perfection out of technology, which is a bit of a mug's game."

The presentation also provided advice to those trying to improve their processes and keep consumers engaged for longer in their company's respective digital experiences.

Organizational transformation

How organizations look at data and support the customer experience will, in a lot of cases, require some personal and organizational transformation.

Where companies historically looked at data from an actuarial point of view, a data science point of view, while marketing and operations each had their own view as well, an end-to-end view of the customer's data, and consistent use of it, regardless of the department accessing it, they say is very important. "Once you start doing that, I think that's when you start to unleash the power of the data," says Doddington. "If your marketing team is thinking about data and customer needs the same way as your digital teams, the same way as your pricing teams, that's where you can really start to build those great experiences."

When building platforms too, she says it's important to take a broader view. "It's really about a wholesale change in the way we think about insurance and the way we think about customers," she says. "Just because we did something 20 years ago, if we now digitize that thing, it doesn't (necessarily) make it any

> *If your marketing team is thinking about data and customer needs the same way as your digital teams, the same way as your pricing teams, that's where you can really start to build those great experiences.*
>
> — Laura Doddington

better. How do we actually challenge what we've been doing and really make it better for customers?"

The cultural transformation and the personal transformation needed on the part of people leading this change includes being willing (and allowed) to admit when something is not working.

"Probably the biggest challenge is being willing to change what you're doing based on what you hear," Doddington says. She adds that if, in testing, an idea you once thought to be brilliant is found to be unworkable (if customers hate it), it's necessary to be ok with changing or scrapping the idea altogether.

"If you've got 10 people who've told you something isn't serving their needs, be willing to actually listen to that feedback rather than finding excuses as to why they're wrong or why they don't really understand," she says. "I think that's really important. Coming to it with a really open attitude," is critical, she adds.

Similarly, Hardy says it's necessary to apply the same thinking, even to projects and initiatives that may have been wildly successful in the past. "I basically need to burn it to the ground and start over because expectations are moving that quickly," he adds. "How do we set an environment, create a culture that continues to deliver in that?"

They say foundational work is also needed to get digital delivery right: "Are you going to focus on the customer? If so, what does that look like?" Hardy asks. Next, he says companies should determine how processes align with that journey – not with the systems recently purchased or with how the company is presently organized. "How does the process align to the customer?"

Capturing the right data the first time

To be used most effectively, data also needs to be captured by design. "The important piece is actually to say, 'Ok, which data is important in the process?' There are methods of doing that," Hardy says. He adds that people should ask themselves what the data is telling them and consider whether or not there are tests that can be deployed to prove that. "If it's true, that's good. If it isn't, you need to get more customer insight," he adds.

"Are you capturing the right data? It can be really easy for everyone to say yes, I really want to use data. But actually, if you don't build that into your design in the first place, you won't have the data you want," Doddington says.

The human element

Finally, they say balancing the technology demands and the human element is a struggle for insurers. "There's perhaps a tendency to throw technology at everything and try to solve all of the problems with a chatbot," joked Frankland. "Obviously though, there's still a critical role for people in the industry. How do insurers find that balance?"

Watson says although it might be preferable to have all customers go through the same digital channels, it is important too, to provide options. If the digital experience is your primary experience because it tends to suit most client interactions, also make a phone number obvious and available, and make sure that the teams answering the phones are informed and able to pick up where the client left off in their digital journey.

"Helping employees be confident and capable, very quickly, using guided workflows and some of those data-driven prompts I think it's a really powerful way to blend the two," she adds. "I really feel like it gives employees superpowers. If you can marry the two and really focus on some of those internal uses of digital and data to give employees all the insights they need to be able to really connect with the consumer or the client and be able to deliver what they're looking for in the moment."

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Not every risk will fit through your digital funnel

In fielding questions from those gathered to hear the virtual presentation, Watson and Doddington point out that it is unrealistic to expect that all interactions will be digital.

If companies are looking to deliver in the digital channel, they should be aware that not all risks are going to fit. “Keeping them in the digital channel, end-to-end, for everyone, probably isn’t realistic,” Watson says.

To help, she suggests that companies by design create a way to identify that at the beginning of the process. “As soon as possible on that journey, really be able to help people identify if they belong in that path,” she says. “If you can really design that to be at the beginning of the process, first of all, I think (that) is important.”

From there, Doddington says there are a few things that can keep those who are on a digital journey from abandoning efforts to engage with the company, in cases where a straight through digital process has been created: Having good advice will help keep customers on track, as will having a digital chat that is actually equipped to answer questions. (If using a chatbot, they suggest also making a live chat outlet available when the chatbot isn’t working.)

“Not 100 per cent of insurance interactions can or should be 100 per cent digital,” Doddington agrees. “There are times when it’s just not appropriate.”

In working in the digital sphere, the experts had a wealth of other advice, as well:

- Use plain language – insurance is complex, not intuitive and not something that people are necessarily familiar with. “Really using plain language. Use consumable and understandable language. I think it’s critical in terms of people then feeling confident in the decision that they’ve made,” Watson says.

- Provide a lot of context help. If clients, customers or prospects have a question, give access to an answer within the digital experience so they can proceed.

- Explain why you are asking certain questions to give clients confidence about how their information is going to be used.

- Minimize the data points needed. “If they have to go look things up in their legal documents, or if it’s information they don’t know, or maybe aren’t confident that they’re giving an accurate answer, they’ll disengage from that process as well,” Watson says.

- Third party data inputs are also important for helping clients persist through the experience.

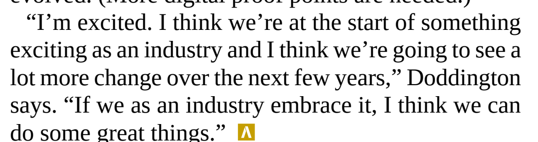
- Conduct research. “It’s really important to go out and conduct that ethnographic research. Generally, it doesn’t have to be a huge sample size in order to extract really relevant and powerful content,” Watson says. “Go out and speak to target clients and understand how it is that they experience that product or service. What do they find frustrating? How do they feel about the asset they’re trying to insure? Why is that important to them? Getting at some of those nuanced factors can really help to build in that extra layer of not just a utilitarian experience, but one that’s actually emotionally resonant.” She adds that it is critical to bring the two pieces – data and user research – together to be effective. “Sometimes you can learn more from asking 10 people about their experience than you can learn from 10,000 data points,” Doddington agrees.

- Colleagues drive the business; their experience should matter too. Hardy says it makes great business sense to focus on the employee experience, as well, as they are the ones ultimately driving the customer’s experience. He says colleagues should enjoy the experience with the customer, “as opposed to trying to struggle through the system and keep the customer engaged in a conversation.”

- Include your front-line staff in development and research. “There’s some math to making sure you’re focusing on the right problems, but I think having open ears and listening to all of those non-data inputs are actually important. I can’t overemphasize the value of the colleague or the employee in that situation,” Hardy says.

Overall, the group gathered say the industry is still at the beginning of this journey and must quickly update their mindsets, processes and technology to stay relevant. Although customer expectations have changed dramatically and continue to change at a rapid pace, what hasn’t changed, Watson says is trust. It’s necessary, even as the ways trust is established have evolved. (More digital proof points are needed.)

“I’m excited. I think we’re at the start of something exciting as an industry and I think we’re going to see a lot more change over the next few years,” Doddington says. “If we as an industry embrace it, I think we can do some great things.”



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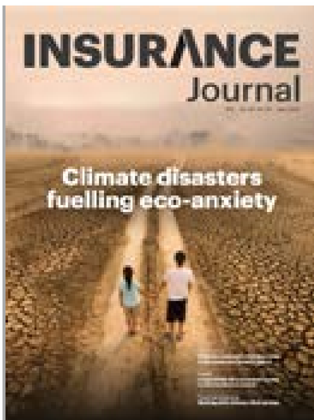

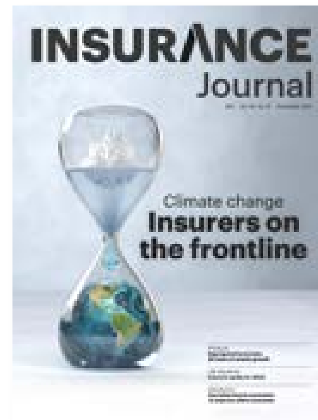

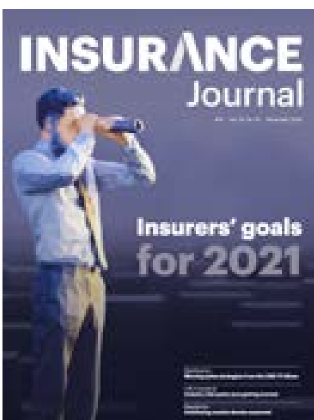

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TELEMEDECINE

A lifeline in a storm?

On January 30, 2020, the World Health Organization (WHO) declared an international health emergency. The COVID-19 crisis soon evolved into a pandemic. People everywhere and organizations across the board had to adapt quickly. The health sector, on the front line, has had to respond to growing demand and new challenges.

BY SABRINA FEKIH | PHOTO BY TIMA MIROSHNICHENKO

One of the main changes in the medical sector is process digitalization. Teleconsultation is one solution that has strongly emerged in response to health restrictions. Its ability to relieve congestion in health care facilities has spurred its popularity.

According to findings released by **McKinsey & Company**, overall telehealth use (office visits and outpatient care) was 78 times higher in April 2020 than in February 2020. By July 2021, telehealth had stabilized at levels 38 times higher than before the pandemic.

"Our claims-based analysis suggests that approximately 20 percent of all emergency room visits could potentially be avoided via virtual urgent care offerings, 24 percent of healthcare office visits and outpatient volume could be delivered virtually, and an additional 9 percent 'near-virtually,'" the firm says.

A study conducted by **Dialogue** and **Environics** found that 56 per cent of Canadians are more health conscious than before the pandemic, and want to take better care of themselves (82 per cent). Some 66 per cent believe that virtual care is the future of healthcare. All the same, the choice of platform can be daunting, especially given the recent cyberattacks primarily targeting healthcare organizations.

New players

To meet the demand for telemedicine, physicians have had to digitalize their practices. However, "very few healthcare providers actually had mature platforms that they could use to offer that kind of care," **Dr. Brett Belchetz**, co-founder and CEO of virtual healthcare solutions provider **Maple** told *Insurance Journal.*

The company saw demand for its online platform for caregivers go through the roof. "At the time the pandemic struck, we actually had about 500 to 600 healthcare providers on a wait list to work on our platform," Belchetz explains.

Maple, whose platform is used by nearly four million Canadians, is not the only private company that thrived during the pandemic. **Inkblot**, whose platform offers various mental health services, saw a 470 per cent increase in consultation volume between 2020 and 2021. The number of people who obtained services ballooned by more than 124 per cent.

Dr. Rachel Toledano, a psychologist and vice president of clinical services for Inkblot, says that age is no obstacle. "A virtual session is going to be difficult for a four-year-old, for example, but as long as they're able to stay online and engaged in the session, it can be virtual." Explains. The success of Inkblot's platform impressed investors, including **Green Shield Canada**, which acquired the company in March 2021.

Insurers are eagerly embracing these types of platforms. **Sun Life** is a major shareholder in Dialogue, a Montreal-based company that provides virtual care to employees of more than 25,000 Canadian companies.

A recent study by Dialogue and Sun Life estimates that by 2025, telemedicine platforms could save governments up to $1 billion a year, or $52 on average for each visit that would otherwise take place in standard public care. "Companies that offer Dialogue telemedicine as part of their group benefits see on average a 32% Return on Investment (ROI)," the study says.

As providers proliferate on the market, insurers' partnerships with tech firms are multiplying. **Marthe Cloutier,** a group insurance plan advisor at **Medavie Blue Cross**, told *Insurance Journal* that her employer offers six digital services with almost as many providers. "Habits have changed in the last year. There are more and more electronic offerings being promoted by employers," she says. "We've seen more virtual consultations, but would we have seen as many without the pandemic?" Cloutier believes that these tools and the resulting developments are here to stay. "I don't think we'll go back to what we had before the pandemic. We don't plan to stop our offerings."

Dr. Belchetz notes that demand seems to have stabilized. "Most of the numbers that I'm seeing are around 40 to 50 per cent of visits, which isn't quite as high as the peak of 70 per cent in April 2020, but is an absolute transformation from what we saw before the pandemic," he says.

Mental health issues

Covered by group insurance plans, virtual services are attractive because they offer almost instantaneous appointments from the comfort of home, often at a lower cost. They also provide treatment for conditions that many Canadians hesitate to report.

A Sun Life survey released in March 2021 found that nearly 60 per cent of Canadians experience mental health problems. Yet more than half (54 per cent) do not receive medical support. The reasons include cost (25 per cent) and embarrassment (23 per cent). More recently, the **Observatoire sur la santé et le mieux-être au travail** (OSMET) and Medavie Blue Cross carried out a longitudinal study that found that one in three people

Dr Brett Belchetz

reported psychological distress. "With virtual therapy, people can get informed and chat with therapists," Marthe Cloutier explains.

Maple says demand for its mental health specialist consultations has skyrocketed by more than 1,800 per cent between 2020 (pre-pandemic) and 2022. For Inkblot, "the major issues are related to anxiety, depression, trauma, bereavement, and chronic fatigue, leading to mental exhaustion and burnout," Dr. Rachel Toledano says.

Associations are reporting similar distress levels. The community organization **Écoute Entraide**, which offers a psychological distress hotline, has seen its call volume soar since the start of the pandemic. **Jacques Charland,** who runs the organization, told Insurance Journal that the number of volunteers has doubled. From 3,336 calls for the year 2019-2020, his team answered 8,575 calls for 2020-2021, at an average of 714 calls per month. This is 2.5 times more calls than the year before, or a 39 per cent increase since the pandemic began.

People ages 36 to 55 still make the most calls, and women outnumber men (57 per cent versus 42 per cent). While back in 2019-2020, calls were mainly linked to psychosocial issues, loneliness has been the main driver since the pandemic.

These figures are in line with the results Inkblot observed. "We saw very significant challenges in mental health and anxiety across different groups of people," Dr. Toledano says, adding that "people of colour and those in management roles are more affected."

This awareness of mental health disorders is also having an impact on health care reimbursements by insurance companies. Insurers are "accepting more and more specialists, whereas before they only covered psychologists," Rachel Toledano points out.

Marthe Cloutier

The psychological suffering exacerbated by the pandemic and isolation is stoking disability claims. "For some of our clients, mental health disability has climbed to 40 per cent," says Marthe Cloutier.

Physical health also affected

Although the pandemic has certainly shone a spotlight on mental health, the impact on physical health is just as palpable. A recent study released by Dialogue finds that one-quarter of Canadians (25 per cent) claim that the pandemic has worsened their overall health. About three in 10 report worsened sleep (31 per cent) and reduced physical activity (36 per cent).

Experts pin the physical health problem on changes in habits, including reduced physical activity and increased psychological disorders (which have physical repercussions). Maple has seen a dramatic increase (+550 per cent) in demand for consultations with dermatologists and naturopathic medicine professionals compared with the pre-pandemic period. "One specialty we didn't think would be so busy, but actually is very, very much is endocrinology," says Dr. Brett Belchetz.

Marthe Cloutier thinks the impact of chronic diseases needs to be considered. Managing these diseases is a priority, she says, because "they are one of the main expenses in group plans." In fact, Medavie Blue Cross has a new diabetes management solution in its digital toolkit, developed in partnership with **Roche Canada**. "We have a lot of chronic diseases right now with COVID-19 and sedentary lifestyles, changing habits and poor dietary practices," she continues.

The sedentary lifestyle imposed by social distancing measures and confinement is raising the spectre of "an unintended increase in the risk of chronic diseases such as cardiovascular disease, obesity, diabetes and cancer," **Statistics Canada** researchers note.

Canadians' physical health may also be affected by lingering symptoms of COVID-19, known as long COVID. In July 2021, the Chief Public Health Officer of Canada, **Theresa Tam**, said that "most laboratory-confirmed COVID-19 patients continued to experience one or more symptoms within 4-12 weeks (83%) and beyond 12 weeks (56%) after diagnosis."

MAGAZINE SUPPLEMENT

- **Telemedicine: Provider-insurer partnerships multiplying**

This article is available to **PRO Level** subscribers on insurance-portal.ca

Building a success incubator

With one-on-one coaching, Chris Venn of Financial Horizons Group, aims to help advisors expand their success in the high net worth market.

BY SUSAN YELLIN

The world of insurance distribution has been changing, and **Chris Venn**, for one, wants to make sure the managing general agency he's recently joined – **Financial Horizons** – is on the leading edge, especially when it comes to advisor coaching and training.

"We are building a program that will functionally turn Financial Horizons into a success incubator for advisors," said Venn, Financial Horizons' new head of Advanced Markets. "It's how you give advisors the processes, the tools, the insight, perspective and discipline in a framework that lets them take it on quickly, to roll it out efficiently and tuned into how they want to run their business so they can get the success that they want. It's how to support them rather than them working for us."

In an interview with Insurance Journal, Venn says he's witnessing insurance carriers continuing to distance themselves from the distribution channel. Venn's new position will allow him to work one-on-one with advisors themselves to increase the MGA's advanced markets capabilities.

Venn says he's looking at how distribution is evolving, giving Financial Horizons the chance to raise the bar higher, particularly when it comes to providing successful counsel to high net worth advisors.

"I want to know what success looks like for the advisor and then I help them get that," says Venn, noting that success to some advisors means working fewer hours while to others it's building a better team. "Whenever you help advisors reach their particular level of success almost invariably their production goes up. Sometimes advisors become more focused on a niche market. If you really look after the things that matters to that advisor, then they become more successful all around."

For his part, some of these actions will be directed on a one-on-one basis with the advisor, while others will be conducted in group settings and based on content given to advisors. Financial Horizons already has about 7,000 advisors it works with in Canada and Venn says it's his job to nurture a success mindset.

It all starts with being committed to putting the independent business owner-advisor first and then delivering successful advice.

The new competitive landscape

"Advisors are going to go after the firms that can help them be successful the way they want. And I think that's the new competitive landscape for MGAs: who is going to help the advisor be as successful as possible? I want to make sure we do a helluva job at that."

Coaching is critical these days. Surveys conducted by *The Insurance Journal Publishing Group* last year indicate that many advisors don't get the mentoring and coaching they want and find their sales drop.

If advisors aren't getting the kind of coaching they need from insurers, then the opportunities are ripe for MGAs to step in, says Venn. Financial Horizons wants to offer some direct ideas to help advisors succeed, including subject matter expertise, emphasizing advisors in high net worth firms, taking on opportunities advisors aren't familiar with and bringing expertise to the table.

Coaching support

"Coaching has a huge impact. I don't think it's delivered much from MGAs as it could be and that's one of the things we'll be bringing because it will help advisors get to where they want to go faster."

Venn says American advisors seem to be keener on bringing in coaching support than Canadian advisors, but he is starting to see a shift. American firms also seem to be about five years ahead in developing new practices or new ways of doing business, but that gap may be closing.

When it comes to industry consolidation and acquisition, Venn says there are many views on whether this is good or bad. But he notes it creates innovation and competitiveness, both of which are ultimately better for the advisor and the client.

In addition to programs to help with success and growth, a big differentiator in the market is getting to know the advisor, says Venn. Building programs that assist in this important feature is what really sets MGAs apart from each other.

"I haven't seen people bringing forward the notion of caring about the advisors [the way Financial Horizons is]," he says. "I haven't seen it like this in other places before. I guess that's why I'm excited about my new position."

Chris Venn

Lack of succession planning could be a critical misstep for business owners

Financial advisors can help entrepreneurs plan earlier, so that they have more options when they leave their businesses.

BY SUSAN YELLIN | IMAGE BY VECTORJUICE

Many an entrepreneur has turned a business into more than just a place to go to work every day. But handing down their business to the next generation is not something these entrepreneurs usually keep top of mind. This lack of planning is considered a potentially critical misstep especially for those who want to pass on their business to the next generation.

Surveys indicate that fewer than 10 per cent of business owners have a formal plan in place as to what to do with their business, whether it's passing it down to their children or selling to a third party, said **Nick Short**, national vice president Insurance Distribution at **Canada Life** during a recent webinar hosted by the insurer.

> *Information is power. If you can put yourself in a trusted, advisory role you can share information.*
>
> — Steven Albiani

"Everybody is worried about handling the softer issues: can the parent identify which child will take over the business and are they willing to say that out loud?" If more than one family member is involved, where do the responsibilities lie?

The reality is, said **Heather Hansen**, family law partner at **McCarthy Hansen & Company LLP**, that people wish they had done the correct planning many years ago and only now realize they have made a number of mistakes.

Intergenerational wealth

"In this generation and in a way that is more profound than ever before, we are seeing not simply the accumulation of wealth during a marriage, but also this passing down of intergenerational wealth. That creates its own unique set of challenges," Hansen told a recent Canada Life webinar. "The reality for many Canadian families, particularly those operating a business is that we really do need to inject into those conversations this idea of what happens if there is a marriage breakdown," an issue that not only affects the business owner but also the rest of the family expecting to come into the business.

But partnering early on with financial advisors and lawyers can give both the owners and the advisors time to delve into difficult topics – whether it's family law or a business issue – before these topics end up in court.

Estate planning is a complex and evolving issue, said **Steven Albiani**, CFP, managing partner with **Stratum Advisory Group Inc.** Albiani said some owners have done a lot of planning, but over time their wealth has changed and issues like wills need to be updated as issues and families themselves change.

Albiani said every family is different with some business owners having no family succession plan at all. So financial advisors need to help their clients revisit issues they may not have even thought about.

"Information is power. If you can put yourself in a trusted, advisory role you can share information," he said.

A relationship of trust and confidence

A major concern is how to develop a relationship of trust and confidence, said Hansen. Most business owners do what they believe is important to continue building their company, including taking risks.

In a perfect world, said Hansen, business owners would go out first and get the benefit of advice from advisors and lawyers. But when she steps in, she often has to figure out how the business owner will navigate a separation or divorce on top of being able to run their business.

Lawyers help fix the value on the valuation date – an exercise she said may only be aspirational rather than practical. Pre-nuptial agreements are a good idea, said Hansen, but noted this could lead to other tensions.

Family tensions

Albiani said businesses have to learn how to manage their tax bill, including capital gains exemptions, estate freezes and family trusts. Parents may want to leave equal shares to all their children but in many cases the adult children who have the most value are working in the business. There can be resentment among those who are in the business and providing earnings to other siblings who are not working with the company, especially if all siblings have equal shares.

Fabiano said some family businesses are turning to trusts, incorporating and looking at other strategies to defer and save tax, noting that life insurance is one of the best ways to fund the tax liability. While people sometimes look at insurance as something they don't need, Fabiano said it's his role to educate them on how best to use insurance.

But sometimes it's challenging to get clients to actively participate in these issues, said Hansen.

Unintended consequences

Just as harmful as the absence of planning, she said, is when clients come up with their own ideas, creating unintended consequences for themselves, their businesses and their children, said Fabiano.

Instead, Hansen suggested comprehensive assistance. "Plan often, plan early…broaching with clients the idea of including family law legal advice [in the case of divorce]. Don't take it into your own hands. And no funny business."

Financial advisors should be getting their business clients to plan earlier to give themselves more options, give them time to think about how much they will need to contribute to retirement planning and how to divvy up their business, said Fabiano.

"Financial advisors are in a great position to quarterback that process. Get clients thinking about it early…embrace all the professionals and be prepared to work together."

by JIM RUTA

Beware the coaching traps

Question: There seems to be a conflicting approach to building a life insurance business properly. What should I know?

Common coaching today depends on building a growing "annuity" of trailing commissions to work properly. Unfortunately, because of very different compensation, this strategy doesn't work in the life insurance business.

That's the Coaching Trap - business advice that has the opposite effect expected. Here are just a few coaching traps in the life insurance business:

1. **THE "MAXIMUM CLIENT COUNT" TRAP:** With 2,000 hours annually and each client needing 15 hours for proper service, you can only have 2,000 /15 or about 130 clients to do the right job for your clients.
   This is a trap because insurance doesn't work with 130 clients due to the limited a long-term insurance cash flow. Lower client maintenance is the compensation. Some top insurance agents like George Sigurdson have thousands of insurance clients.
   Avoid the trap by not holding back on prospecting and clients.
2. **THE "CLIENT SEGMENTATION" TRAP:** If you can only serve so many people, it makes sense to dole out your service proportionate to your compensation. And, we have A, B, and C clients.
   No one wants to be your C client. And if 20% are your A clients, then 80% just get B and C service. That waters down your brand and you reduce the recommendations you get. There's the trap.
   Instead, because insurance requires less service you can give all your clients 5-Star service or at least give them the service they want. You never know where otherwise C clients are connected and from where your next jumbo case will come.
3. **THE "REPLACEMENT CLIENT PROSPECTING" TRAP:** Investment advisors are coached to replace little, low compensation clients with bigger, higher compensation clients. It's a trap.
   Life insurance prospecting is NOT about finding 10 new clients per year to replace the bottom 10. It's about constantly working a list of 200 or more good prospects and finding 10 new clients each month. Avoid this trap and prosper.
4. **THE "PLAN FIRST" TRAP:** Financial planning is good but insinuating it into the beginning of the process means that prospects plan while exposed to insurable threats like death or disability that could explode the whole plan before it's in place.
   Life insurance is an essential financial security product, not a financial extra. It appropriately comes before a plan so that a client can plan while protected, not plan while exposed to those insurable threats. Enhance their peace of mind and avoid the trap.
5. **THE "JACK-OF-ALL-TRADES" TRAP:** Comprehensive financial planning across all disciplines requires extensive expertise to do very well which is what is expected. Sadly, it defies the capacity of most advisors.
   Consider this advice from a top producer: "To be a good financial planner you need to be a good banker, good trust officer, good tax accountant, good estate and tax lawyer, good estate planner, good investment advisor, good property and casualty insurance agent, and a good life insurance agent. I just don't know many people who are smart enough to do it all well."
   Pretending you can do it all leads to the "Poser Syndrome" where your performance declines because your subconscious doubts to deliver as you promise holds you back. Focus and avoid this trap.
6. **THE "ADVISE, DON'T SELL" TRAP:** Sales is a dirty word in much coaching. In an investment business built around planning, it's supposed that you only present options from which prospects choose their favourites. No selling necessary.
   But money is a greed sale. People have favourites and choose them. People aren't picking life insurance favourites. Life insurance is still sold. Considering the client's best interests first requires professional sales skills. Not selling in the life business is a deadly trap you must avoid.
7. **THE "BIG CASE" TRAP:** If you only have a few clients and you want to drive your income higher, you need a big case to make that happen. "If you chase a big case and you don't get it, you won't have any new business in the mill. And, if you chase a big case and you do get it, you still won't have any new business in the mill. Either way, you'll be left with no new business in the mill and that is never a good thing" said a top agent once. You always want new business in the mill. Not having it is a trap.
   Big potential paydays distract us, make us less effective and less productive overall, and we subconsciously exchange effort for hope. Hope is never a good business strategy.
   Avoid the trap by working a variety of new business sizes. Your extra activity makes the law of big numbers work for you and you'll sell more big cases too.

Be careful of the coaching you take on. Be sure it relates to your insurance business. Avoid or escape these coaching traps and you will release your full potential.

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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 4 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.

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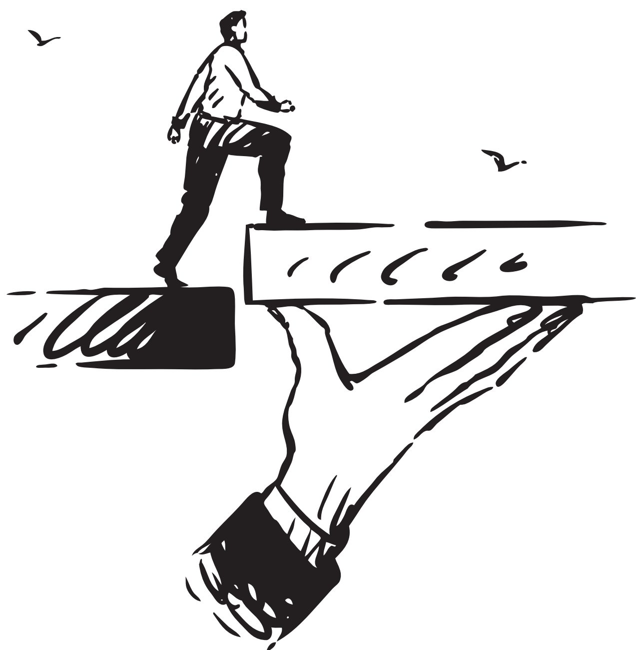

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