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CAFII ALERTS WEEKLY DIGEST: March 10-14, 2025

March 14, 2025

The CAFII Alerts Weekly Digest is intended to provide a curated compendium of news on insurance, regulatory, and industry/business/societal topics of relevance to CAFII Members – drawn from domestic and international industry trade press and mainstream media – to aid in Members' awareness of recently published media content in those areas.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

CIBC Names Harry Culham Its Next CEO As Victor Dodig Plans To Retire In October

By Andrew Willi, The Globe and Mail, March 13, 2025

https://www.theglobeandmail.com/business/article-cibc-names-harry-culham-its-next-ceo-as-victor-dodig-plans-to-retire/

Canadian Imperial Bank of Commerce CEO Victor Dodig will retire at the end of October and hand the top job to Harry Culham, head of the bank's capital-markets business.

Mr. Dodig has been chief executive officer at CIBC CM-T +1.91%increase
for 11 years. He rebuilt the bank's balance sheet, did the largest acquisition in CIBC's history by acquiring a Chicago-based lender for $4.9-billion and expanded the domestic retail platform. His departure was widely expected and will take place after a year when CIBC's stock posted the best performance among the Big Six banks.

"This felt like the right time, with the right leadership team and the right captain ready to take over," Mr. Dodig said in an interview.

"The bank is on a trajectory to do much more."

Mr. Dodig turns 60 this year, which he said was a factor in his decision to step down. He started at CIBC in 1985 as a teller, while attending the University of Toronto, then earned an MBA from Harvard University and worked at McKinsey, Merrill Lynch and UBS before rejoining the Toronto-based bank in 2005.

"Victor's tenure as president and CEO has been marked by a relentless focus on the client and an unwavering commitment to transforming CIBC," Kate Stevenson, chair of the CIBC board, said in a press release.

Mr. Culham will become chief operating officer April 1, then succeed Mr. Dodig as CEO on Oct. 31, the bank's fiscal year-end. Mr. Dodig will remain at CIBC as senior adviser to the board and new CEO until the end of April, 2026.

Mr. Culham emerged as the winner of a three-horse race that played out smoothly and publicly over the past year, a contrast to previous CIBC succession battles that led to the losing candidate departing abruptly. The other CEO candidates, head of Canadian retail banking Hratch Panossian and Shawn Beber, who runs CIBC Bank USA, are expected to remain in their roles.

"Our strategy is working, it's one of connectivity across the bank," Mr. Culham said. "It's a strategy around helping clients achieve their ambitions, and when you look out five or 10 years, the strategy won't be a whole lot different."

CIBC's board signalled that Mr. Culham was the leading contender last March by giving the former currency-trading trainee additional responsibilities for the bank's strategy, its asset-management business and as head of its Caribbean division.

More stories below advertisement

CIBC is the country's fifth-largest bank, with 48,000 employees. Over the past decade, the bank expanded the services it offers middle-class customers with moves that included acquiring Costco's Canadian credit-card business, with more than $3-billion in assets, in 2021.

In 2017, CIBC launched a digital-banking platform called Simplii Financial. On Tuesday, Ms. Stevenson said Simplii is part of Mr. Dodig's legacy of "transformative investments in digital banking and technology."

CIBC is the third major Canadian bank to name a new CEO in the past three years, and made the transition with far less drama than rivals.

In 2022, Bank of Nova Scotia broke with tradition by bringing in an outside executive, former Finning International CEO Scott Thomson, as its new leader. Last year, Toronto-Dominion Bank announced that Ray Chun would take the top job, then moved up his start date as the lender dealt with the fallout from failures in its U.S. anti-money-laundering systems.

Mr. Culham started his career in finance in 1989 as a trainee from the University of British Columbia, working on CIBC's foreign-exchange desk. He went on to work in fixed income, commodities and currency businesses at UBS in Asia, then in London as a senior executive at Dresdner Bank AG and Merrill Lynch. He rejoined CIBC in 2008 and took the reins at its capital-markets division three years later.

Mr. Culham will continue to be the head of that division while serving as the bank's chief operating officer.

Mr. Dodig will retire from CIBC with a holding in the bank valued at $50.7-million on Oct. 31, 2024, the end of the bank's most recent fiscal year. In 2024, Mr. Dodig made $13.6-million in total compensation, up from $11.2-million the previous year.

CIBC paid Mr. Culham $10.3-million last year, up from $8.4-million in 2023.

With Mr. Dodig's pending retirement, Royal Bank of Canada's Dave McKay is the longest-serving bank CEO in Canada. He has been head of the country's largest bank since 2014.

Easier Access To Insurance Licensing In Quebec For Out-Of-Province Representatives

By Alain Thériault, Insurance Portal, March 13, 2025

Following the regulatory consultation held from June 13 to September 10, 2024, the amendments to the Regulation respecting the issuance and renewal of representatives' certificates have received ministerial approval, the Autorité des marchés financiers (AMF) revealed in its L'info-qualification bulletin, published on March 12, 2025. The regulation applies to representatives authorized to practice in the following fields: life insurance, group insurance of persons, property and casualty insurance, claims adjustment, financial planning, and mortgage brokerage.

The objective of the consultation was to modernize career entry into the insurance sector. This consultation by the AMF sought, among other things, to facilitate the recruitment and support of trainees.

Another objective was to make it easier for candidates from other provinces to obtain a license to practice in Quebec. "As of March 26, 2025, adjustments to Section 53 of the regulation will simplify the certification process with the Autorité des marchés financiers for representatives who have gained experience in a Canadian province other than Quebec," the bulletin states.

Under certain conditions, a qualified candidate who has practiced for at least 24 months within the 36 months preceding their application for a Quebec certificate may be exempt from the probationary period.

The regulator emphasizes that the candidate must successfully complete the minimum training and the examination prescribed by the AMF to demonstrate mastery of the required competencies, as required by the legislation governing representative activities.

Read the full article (subscription required): https://insurance-portal.ca/entrepreneurship/easier-access-to-insurance-licensing-in-quebec-for-out-of-province-representatives/?utm_source=cakemail&utm_medium=email&utm_content=full_daily_en&utm_term=bulletin

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OSFI Revising Capital, Crypto, Climate Rules

Regulator Details Array Of Policy Plans For Federally Regulated Financials

By James Langton, Investment Executive, February 20, 2025

https://www.investmentexecutive.com/news/from-the-regulators/osfi-revising-capital-crypto-climate-rules/

Federal financial regulators have introduced new guidance on banks' cryptoasset exposures, proposed changes to their capital rules, and signalled plans to revise the climate disclosure requirements.

On Thursday, as part of a series of regulatory announcements, the Office of the Superintendent of Financial Institutions (OSFI) released final guidance that sets out its approach to the treatment of banks' crypto holdings in terms of both regulatory capital and liquidity requirements — and, in separate guidance, it also detailed the regulator's expectations for disclosing these exposures.

The new guidance on crypto disclosure will take effect in the first quarter of 2026, replacing existing requirements that were released in 2022.

At the same time, OSFI also issued its latest proposed changes to the capital adequacy rules for a 60-day consultation period (ending April 22).

In a media briefing, Angie Radiskovic, assistant superintendent and chief strategy and risk officer at OSFI, said that the proposed changes aim to clarify existing capital rules and improve the consistency of their application.

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Specifically, it's proposing changes to more closely align aspects of the rules with the Basel III framework, and updating the definition of income-producing residential real estate exposures. The consultation also reflects the regulator's decision, announced Feb. 12, to halt the implementation of one of its final reforms under the Basel III reforms that were adopted in the wake of the financial crisis.

Last week, OSFI said that it has paused planned increases in the "output floor" — a measure that would tighten capital requirements on the large Canadian banks — indefinitely, citing uncertainty about whether regulators in other jurisdictions will be adopting the final Basel III reforms in their markets, and concerns about the competitive impact on the banking industry in Canada.

Finally, the regulator also said that it is revising its guidance on climate risk to align with the Canadian Sustainability Standards Board's (CSSB) final standards, which were released back in December 2024.

OSFI said that the revised guidance, which will be released in late March, will align its requirements with the CSSB on the disclosure for so-called "Scope 3" greenhouse gas emissions — implementing these requirements in fiscal 2028, and disclosing off-balance sheet Scope 3 emissions in fiscal 2029.

"Although the alignment with the CSSB provides additional transition relief for the disclosure of Scope 3 greenhouse gas emissions, we expect federally regulated financial institutions to continue to make progress in understanding, measuring, and managing their climate-related risks," OSFI noted.

OSFI also said that, later this year, it will consult on disclosure expectations for greenhouse gas emissions from off-balance sheet assets.

OTHER CAFII MEMBER-RELEVANT NEWS

Prolonged Trade War Could Start To Bite Chunks Out Of Canadian Big Bank Profits

But Which Of The Big Six Are Most At Risk From Erosion Of Economic Conditions?

By Steve Randall, Wealth Professional, March 14, 2025

https://www.wealthprofessional.ca/news/industry-news/prolonged-trade-war-could-start-to-bite-chunks-out-of-canadian-big-bank-profits/388598?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250314&_hsenc=p2ANqtz--ynDKaRsU_swCAuYuJcNTNN0cLTACBdbboBBHXOsQuvW0HjoslNcKMfszzraH9pSaZdQf8kV9GcsxRsLlTAcJMd13Anw&_hsmi=351928340&utm_content=&utm_source=

Canada's big six banks are considered robust with well-diversified loan books that help them stave off financial pressures. But what happens if the trade war escalates, weakening the Canadian economy and pushing up unemployment?

In that scenario, financial institutions may start to suffer from factors such as erosion of their retail lending business and other commercial activities, according to a new analysis from S&P Global Ratings.

The report notes that large banks hold significant commercial and corporate loans (making up 32% of their total loan book) and much of this lending is to sectors that are not directly impacted by tariffs. But unsecured lending in the retail space could be risky if economic conditions deteriorate.

Among the Canadian banks designated as D-SIBs (domestic systemically important banks), the report says that those with higher exposure to the Canadian market are more likely to suffer great stress than those with a geographically diversified loan book. Although it notes that overall, consolidated at 70%, Canada's big six have a high percentage of domestic loans in relation to their total loans.

BMO has the lowest domestic share of total loans at below 60%, while TD and Scotiabank are nearer 70%, RBC and CIBC are near 80%, and National Bank is closing in on 90% although has a smaller share of domestic retail loans of the others except for BMO.

Wealth management revenue could drop
While credit quality is a major concern if the economy takes a downward trajectory, revenues of the Big Six are also considered by the analysis, including lending activities but also the banks' other activities.

Again, reliance on domestic revenue is high, ranging from around 70% for RBC and TD, down to 40% for BMO and Scotiabank, less than 30% for CIBC, and around 10% for National Bank.

If the Canadian economy stalls but the US economy remains strong, those banks with higher US loan books should see weaker domestic revenues offset by their revenues south of the border.

Beyond lending, the report highlights how weaker equity markets could impact wealth management and investment banking revenue generated in Canada, while those banks with larger capital market businesses could benefit from greater trading activity amid volatile markets.

Overall, S&P Global Ratings' analysis of the Canadian D-SIBs finds that longer duration tariffs are expected to constrain profits but the stress should be manageable and the firm's outlook for the Big Six banks remains stable.

Financial Market Risk Outlook Sours In 2025: OSFI

Markets Face Multiple Risks This Year, All Of Them Heightened Relative To 2024

By Kevin Press, Investment Executive, March 13, 2025

https://www.investmentexecutive.com/news/from-the-regulators/financial-market-risk-outlook-sours-in-2025-osfi/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning&hash=6466E5007934F1Z&oly_enc_id=6466E5007934F1Z

Financial markets face a more complex risk environment this year than they did in 2024. The Office of the Superintendent of Financial Institutions' (OSFI) Annual Risk Outlook, released Thursday, lays out four areas of concern: market integrity and security, wholesale credit, funding and liquidity, and real estate lending and mortgages.

"Consumers and businesses remained resilient as economic growth slowed and unemployment increased [last year]," OSFI said in its report. "While that resilience reflects underlying strengths in our financial system, vulnerabilities remain. Debt levels are elevated, and economic growth is facing headwinds."

Markets are threatened by a cocktail of geopolitical tension, advances in technology and a greater reliance on third parties that "create vulnerabilities to the integrity and security of Canadian institutions and the financial system," OSFI said.

Bad actors, some of them state-sponsored, continue to grow more sophisticated in their money laundering, fraud and cyberattack capabilities. OSFI said this trajectory will continue, thanks to advances in artificial intelligence and other technologies.

Private and public-sector institutions have to be more vigilant than ever.

"We observe elevated levels of ransomware, exploited software vulnerabilities and data breaches globally," OSFI said. "Cyberattacks are constant."

Credit losses haven't been a significant issue recently, but that may change this year amidst geopolitical tension and sometimes acrimonious trade negotiations. OSFI noted an increase in private credit firm dealings with federally regulated institutions. "This can introduce additional risks to the industry such as more lenient deal terms with potentially less stringent underwriting standards," it said.

Dampened risk appetite

Global affairs and a rocky macroeconomic environment have the potential to influence the level of risk that investors are willing to take on this year, OSFI said. The state of things is sufficiently fragile that should this happen, we could see "liquidity shocks," according to the report.

"If geopolitical and macroeconomic uncertainty worsen and trigger material levels of interest rate, foreign currency or credit volatility, wholesale funding markets could tighten quickly, with reduced access and increased issuance spreads and hedging costs," OSFI said. "Dysfunctional capital markets would have detrimental effects on the global financial system."

Finally, borrowing rates remain high enough that homeowners facing mortgage renewals are likely to see an increase in carrying costs. "As of November 2024, 36% of all outstanding mortgages that have yet to experience a payment increase since origination will be up for renewal by the end of 2026," according to OSFI.

The regulator expects a rise in delinquencies across the country. The pain is likely to be worst in and around Toronto and Vancouver.

"Changes to the economic environment, such as increases in unemployment rates and uncertainty driven by potential U.S. trade protectionism, could lead to more vulnerable segments of the market being unable to service their mortgage debts," OSFI said.

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Can AI Humanize Insurance?

How The Industry Can Reframe The Conversation Around Technology

By Gia Snape, Insurance Business, March 13, 2025

https://www.insurancebusinessmag.com/ca/news/technology/can-ai-humanize-insurance-528431.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250313&_hsenc=p2ANqtz-9f2T1JIZXphv5Ip696uKUU3gQR1nhFoJLUiIWTYOvoC6GPhalIsWlEs7EIuZAg-i6JfRWW2cprpIEOt1NGPXxcgCg89g&_hsmi=351767278&utm_content=&utm_source=

Artificial intelligence is reshaping industries, but in a field like insurance, where relationships and trust are paramount, can AI actually make the experience more human?

It's a question that weighed on Jeff Sutton (pictured), senior vice president sales and marketing at Markel Canada, as his organization explored the use of large language models and incorporating various data sets to improve decision-making, enhance our understanding of the business, and drive greater efficiency.

Like many insurance companies, Markel Canada is embracing AI to enhance, not replace, the expertise of its underwriters. According to Sutton, the company is leading with the belief that AI, particularly generative AI, can strip away the mundane and free up professionals to focus on what truly matters: judgment, relationships, and service.

"There's a real war for talent, and as a specialty insurer, Markel Canada relies heavily on the expertise of its underwriters," Sutton told Insurance Business. "They assess complex risks that don't fit neatly into standard models. We want them focused on high-value tasks, making the best use of their expertise and limited bandwidth."

AI and tapping into the "lost art" of insurance

The insurance industry thrives on nuance, and specialty underwriting in particular is an area where decisions require experience and professional judgment. Unlike personal lines insurance, where AI can more easily automate standardized processes, specialty insurance deals with complex risks that don't fit neatly into algorithms.

So, where does AI fit into specialty insurance? The goal, according to Sutton, is to make underwriters more efficient, helping them reach better decisions faster without manually gathering and consolidating data. "With evolving tools, underwriters can better understand risk exposures and price accordingly for long-term sustainable growth," he said.

This is also why Sutton underscored the importance of maintaining human relationships in an industry built on trust. He argued that AI should enhance those interactions rather than create further distance between brokers and underwriters.

"I believe Gen AI has the potential to humanize insurance by consolidating and querying information, but the critical step is still the human interaction, something that's becoming a lost art in the Canadian P&C industry," Sutton said. "We're so relationship-focused (but) we've lost the art of picking up the phone."

While technology can provide invaluable insights, he stressed it's the personal conversations that truly strengthen relationships. Markel Canada has taken deliberate steps to reinforce this, according to Sutton, going as far as placing orange rotary phones in offices to encourage more direct conversations.

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"We're trying to break people out of the habit of emailing back and forth. Just pick up the phone and call. That's how relationships deepen," said Sutton.

Trust and transparency – hurdles to AI adoption in insurance?
The challenge with AI in insurance is not just about implementation but perception. A new KMPG report showed that while AI adoption is accelerating in insurance, distrust for the technology remains.

The global survey revealed 46% of insurance leaders still have reservations about AI's reliability, and only 25% fully trust AI within their companies. A majority (82%) of those surveyed acknowledge the need for robust frameworks, policies and processes to ensure regulatory compliance and responsible AI implementation.

The idea of AI making decisions on claims or underwriting policies triggers skepticism, especially when the stakes involve financial security and livelihoods. If AI can summarize data, analyze risks, and manage communications, where does that leave the human workforce?

Sutton acknowledged this quandary but sees it as an opportunity to reframe the conversation. "We have to be very careful about how we integrate AI. It's not about replacing people. It's about making them better," he said. "The expertise that underwriters bring to the table cannot be replicated by AI. AI can assist, it can enhance, but it will never replace the judgment and experience required to do this job well."

One of the fundamental questions AI raises is whether it can truly make insurance feel more personal. The industry, for all its complexities, is about protecting people and businesses from uncertainty.

The danger is that AI could strip away the human element, turning insurance into a purely transactional experience. But Sutton said insurance companies can take steps to prevent this.

"What we're seeing is that AI, when used properly, actually allows for more meaningful interactions," he said. "If underwriters aren't drowning in paperwork, they can spend more time talking to brokers and clients. That's how you build trust."

AI Adoption In Insurance Accelerates, But ROI Pressures Loom: KPMG Report

Trust In AI Also Remains A Challenge

By Josh Recamara, Insurance Business, March 13, 2025

https://www.insurancebusinessmag.com/ca/news/technology/ai-adoption-in-insurance-accelerates-but-roi-pressures-loom-kpmg-report-528400.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250313&_hsenc=p2ANqtz-9aoHZRXO8d6vg3A1NCa-DsVnHiW9AUS139hRm_CyPj7UnKDascoleUYRdFQYfK3whQIVC-g0Zk8jIPekXCCRGCckbdtQ&_hsmi=351741243&utm_content=&utm_source=

A study by global professional services firm KPMG has indicated that insurers have high expectations for AI adoption, although there is pressure to demonstrate immediate ROI, particularly from shareholders.

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The study found that 66% of the respondents anticipate a moderate to very high return on AI investment, with all respondents believing firms that embrace AI will gain a competitive edge.

Meanwhile, AI spending is expected to increase, with all the respondents planning to allocate a greater portion of their budgets to AI. Of these, 66% expect to spend up to 20% of their global budgets on AI, while 34% plan to invest more than 20%.

Trust in AI remains a challenge, as 46% of leaders express reservations about its reliability, and only 25% fully trust AI within their companies. However, 82% acknowledge the need for robust frameworks, policies and processes to ensure regulatory compliance and responsible AI implementation.

How is AI affecting insurance processes?
According to the study, AI is impacting insurance processes in several ways. In underwriting, AI automates risk segmentation, integrates electronic health records, and uses predictive analytics to refine policy pricing and assessment.

Meanwhile, life insurers are incorporating wearable data and wellness tracking to personalize policy pricing and incentivize healthy behaviors. AI also enhances claims automation by identifying fraud, analyzing documents such as death certificates, and streamlining payouts using machine learning.

In longevity modeling and compliance, AI helps assess life expectancy, detect disease onset, and optimize risk stratification, enabling insurers to refine pricing and payout structures.

Leadership goals for AI adoption are currently focused more on operational efficiency rather than broader strategic value. To help insurers navigate AI adoption, KPMG outlined three phases of AI value: enable, embed, and evolve.

What are the three phases of value?
According to KPMG, the "enable" phase emphasizes building AI foundations by appointing responsible executives, creating AI strategies, identifying high-value use cases, increasing AI literacy, and ensuring regulatory alignment. This phase also involves launching AI pilots, utilizing cloud platforms, and leveraging pre-trained models with minimal customization.

Meanwhile, the "embed" phase integrated AI into the business' workflows. Under this phase, there will be a senior leader that will drive enterprise-wide workforce redesign, re-skilling and change, embedding AI into the company's operating models, cautious of ethics, trust and security concerns.

The research also outlined the "evolve" phase, which focuses on transforming business models and ecosystems by leveraging AI alongside emerging technologies such as quantum computing and blockchain. The objective is to address large-scale challenges, enhance enterprise value, and prioritize ethics, trust, and security. Workforce training is also emphasized to foster innovation.

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Managing The Many AI Risks In Banking

Transparency, Bias Monitoring, And Strong Governance Are Essential

By Kenneth Araullo, Insurance Business, March 11, 2025

https://www.insurancebusinessmag.com/ca/risk-management/news/managing-the-many-ai-risks-in-banking-528170.aspx?utm_medium=email&_hsenc=p2ANqtz--3x1l1TIspksKxutZmjg1X3vsQCTOxTg_-1BRPbkGoZWv-cbnTR2TivLvJls4eGDde8AOTD6cW25C-jlaxeOXFN9gCxw&_hsmi=351476837&utm_content=351476837&utm_source=hs_email#querystring%23?hsmemberId=83982452&utm_source=&utm_medium=20250312&utm_campaign=&utm_content=&tu=

Artificial intelligence (AI) is reshaping the banking sector, offering increased efficiency and innovation. However, as banks integrate AI into their operations, concerns over data privacy, regulatory compliance and ethical risks are becoming more prominent. Financial institutions must navigate these challenges while ensuring that AI-driven decision-making remains transparent and accountable.

The rapid adoption of AI has raised new questions for risk managers, regulators and industry leaders. As AI technology advances, banks must develop strategies to mitigate potential risks while maintaining a competitive edge. Alex deLaricheliere, banking subvertical leader at WTW, discussed how AI is changing the sector and the key risks financial institutions must address.

"The speed at which AI is being adopted presents challenges for technology, enterprise and operational risk managers at banks," deLaricheliere said. While the benefits of AI – such as operational efficiencies, improved customer experiences and innovative products – are well known, the risks remain less understood.

"Many risk managers are concerned about whether their organisation's AI usage has been adequately stress-tested."

As AI technologies continue to evolve, it is essential for risk managers to identify and quantify future risks.

For banks, the urgency to implement AI must be weighed against the risks inherent in its rapid adoption. According to deLaricheliere, the key risks associated with AI in banking include legal and security risks, ethical concerns, and challenges related to quality and accuracy.

AI risks for banks

Data privacy and security remain a significant concern. AI systems require large amounts of sensitive customer data, increasing the risk of data breaches, hacking and misuse of information.

"While these risks are not new, AI amplifies the exposure," deLaricheliere said. "Continuing to keep up with data privacy and compliance with stringent regulations will not be an insignificant task."

AI also introduces intellectual property (IP) risks. Banks rely on AI to automate processes and improve decision-making, but this reliance raises questions about ownership and protection of IP, as well as potential infringement issues.

"Banks face several potential IP-related challenges, and these risks must be carefully managed to avoid legal, financial and reputational damage."

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Regulatory compliance is another area of uncertainty. "Banks are navigating a complex regulatory environment while ensuring AI technologies comply with standards for transparency, accountability and ethical use," deLaricheliere said.

"There's a fear of inadvertently breaching regulatory standards if AI systems don't meet compliance requirements, especially in areas like anti-money laundering (AML) and know-your-customer (KYC)." The evolving nature of AI regulations presents an ongoing challenge for financial institutions.

Ethical and Accuracy Concerns
Bias in AI models is a widely recognised risk. "AI can introduce bias, particularly when trained on historical data that reflects societal inequalities," deLaricheliere said. "This could result in discriminatory outcomes, such as biased lending decisions or unequal access to financial services."

The public's perception of AI-driven decision-making is another concern. "Risk managers are particularly focused on how customers react when they feel that AI is making financial decisions without clear explanations."

AI's potential to generate misleading or inaccurate information – known as "hallucinations" – is another critical risk.

"In a highly regulated sector like banking, where accuracy and reliability are crucial, this is a particularly acute risk that can manifest itself in the form of poor financial decisions, fraud detection failures, compliance violations and a loss of customer trust," deLaricheliere said.

Banks also face risks related to vendor reliance and automation. As they increasingly use third-party AI tools, they take on vicarious liability, which can lead to service disruptions or regulatory non-compliance.

"As banks increasingly rely on third-party vendors for AI tools and to automate various processes, they increase their vicarious liability. These liabilities can have far-reaching implications, ranging from service disruptions to regulatory and compliance issues."

Mitigating AI risks in banking
To address these risks, deLaricheliere advocated for a balanced approach that combines technology with strong risk management strategies, ethical frameworks, transparency, and regulatory alignment.

A robust governance framework is essential. "Banks must establish clear policies for AI usage, including roles and responsibilities, and create an oversight committee to monitor AI initiatives," he said. "Strong governance ensures that AI aligns with organisational goals and is deployed responsibly."

Mitigating bias requires continuous monitoring. "Regular bias audits of AI models are necessary to identify and address potential discrimination," deLaricheliere said. "Using diverse datasets and employing techniques to ensure fair outcomes in decision-making processes is key."

Transparency in AI decision-making is another priority. "Banks should strive for transparency by utilising explainable AI techniques, providing customers with clear explanations of how AI affects their financial decisions."

From a regulatory perspective, banks must stay informed about evolving AI regulations and ensure compliance with legal requirements. "Engaging with regulators to understand expectations and collaborating on best practices will be critical," he said.

"The absence of clear guidelines from regulatory authorities presents an ongoing challenge, so banks must remain proactive in their approach."

AI is transforming the US banking sector by enhancing efficiencies, improving customer interactions and driving financial innovation. However, challenges related to data privacy, bias and regulatory compliance remain.

"The next few years will likely witness widespread AI adoption, reshaping the financial landscape for both institutions and consumers alike," deLaricheliere said. "Banks must strike a balance between innovation, ethical considerations and risk management to fully realise the benefits of AI."

Trump Tariff Uncertainty Will Whack Insurers

The "Will-He-Or-Won't-He" Debate Has Created An "Uncertainty Economy" That Will Raise Costs For Insurers No Matter What Trump Ultimately Decides

By Paul Carroll, Insurance Thought Leadership, March 10, 2025

https://www.insurancethoughtleadership.com/six-things-commentary/trump-tariff-uncertainty-will-whack-insurers?utm_source=ActiveCampaign&utm_medium=email&utm_content=Trump%20Tariff%20Uncertainty%20Will%20Whack%20Insurers%20%20Plus%3A%20Behavioral%20Insurance%20Reshapes%20Risk%20Models%20and%20AI%20Transforms%20Assessment%20of%20Storm%20Risk&utm_campaign=Six%20Things%203%2011%2025&vgo_ee=StGCPeaA9Sm%2BtP8nNkdZbQonbdQBBQVv8qgEWAr9wjuFepdysu0CsA%3D%3D%3ArPBfnifJhjrWQsQXAsjYIwvXglBKwLMN

Just when it seemed that auto insurers had caught up with the surge in car prices that followed COVID-19's disruptions, what I'm calling "the uncertainty economy" has tossed a hand grenade into the industry. Even if everything about U.S. tariff policy became crystal clear tomorrow — and it won't — major damage has already been done.

The president's threats of double-digit tariffs on all imports, followed by all the waffling on what he'll do and when, is freezing the world of business. What to invest, where to invest, whom to hire, where to hire, what geographies to sell into: All those decisions depend on the rules of the road, and nobody knows what they are.

Trump could, of course, clear up the situation by disavowing his bold tariff plans entirely. The stock and bond markets are certainly signaling that he should. But backing away from tariffs would be an unfathomable loss of face.

Anything short of a total repudiation of a transition to a tariff-based economy will leave us in this uncertainty economy. Prices for cars and parts will float higher even before underlying costs increase, simply because of the possibility that Trump's tariffs could make prices soar. Prices for lumber and other imported supplies that are major factors in home insurers' replacement costs will climb, too. Insurers will face losses on policies currently in force, and already restless policyholders will be shocked when they see what a new policy or a renewal will cost them.

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And those are just the disruptions happening in the near term. If Trump follows through on the extreme form of his tariff plan that he often broadcasts, he will reorder the global economic system that has existed for the past century, in the process disrupting for years the supply chains that insurers rely on.

To sort through all the variables here, I sat down on Friday with Michel Leonard, the chief economist at the Insurance Information Institute.

Michel says the current situation should have some parallels with the COVID-19 pandemic, given the effect it had on supply chains, especially for autos.

"For motor vehicles, we will inevitably see a significant drop in underlying growth, even if tariffs are suspended indefinitely, because the uncertainty is already present," Michel said. "During COVID, replacement costs for motor vehicles — both personal and commercial — rose around 60%, largely due to used auto prices. I could see this happening again, following a similar timeline.

"Ultimately, I believe we'll... end up with a cosmetic renegotiation — remember, the current North American free trade agreement was negotiated by President Trump. The real question is timing — whether it takes one month, three months, or six months. Insurance underwriters and industry professionals should be prepared for increases that could approach those COVID-era numbers for motor vehicles, the longer this situation persists.

"And these double-digit increases in tariffs on lumber, auto parts and other materials don't just mean higher replacement costs – they mean many materials aren't available through the supply chain."

Michel said he remains an optimist about the economy, in general — though, given how fast things have been changing, we noted for this version of our quarterly chats that we were speaking at 1pm EST on Friday, March 7.

"As of this first quarter, I believe we still have enough GDP momentum to weather what we're seeing now, even if these conditions continue for a full quarter," he said. "However, the risk of GDP contraction rather than growth is certainly present.... My current concern is market sentiment."

He sees inflation "hovering between 2.5% and slightly above 3%" but says the Fed won't be able to do much about inflation driven by tariffs. "Higher interest rates can drive down demand," Michel says. "However, when inflation is driven by tariffs or other factors related to consumption issues, raising interest rates doesn't work."

He cautions that other countries seem to be taking Trump's threats much more seriously and reacting much more negatively than they did during Trump's first term, even though much of his language about trading partners is similar.

"I've been shocked by how seriously other countries are taking these developments on protectionism," Michel said.

When I asked if he saw any historical parallels to Trump's attempt to reverse a century of increasingly free trade, Michel said:

"What we're facing is potentially comparable to Margaret Thatcher's first two years as prime minister in the U.K. [which began in 1979]. When Thatcher came in, she cut government spending, privatized industries, and moved extremely rapidly. She was actually on track to lose her position until the Falklands War came about and allowed her to recover politically. During this period, the U.K. experienced one of the deepest recessions since World War II.

"That's the kind of economic pain we could be talking about here, but potentially on an even larger scale because it's the U.S. The agenda we're seeing now is even more transformative."

He says there is the potential for surging unemployment and a major market correction.

"I haven’t given up," Michel says. "I’m still an optimist. But the potential implications go far beyond simple replacement costs, and that's what makes this situation particularly challenging."

I'll add that I believe Trump will have to back off his tariff plan. He just doesn't have the support for it at any level outside of the circle he controls in Washington, DC.

His rich backers during the campaign certainly heard him talking about putting tariffs on every country, but they say they thought he was either blustering or was simply staking out an extreme position to gain an edge in negotiating.

Right-wing economists don't support him. The Wall Street Journal editorial page has run headlines about Trump's "Dumb Tariffs" and "Dumbest Possible Tariffs." Even Stephen Moore, a longtime ally whom Trump once nominated for a seat on the Fed, said recently that the tariffs aren't a good idea for now.

Polls show that the public at large mostly dislikes tariffs... and that's just at the theoretical level. To the extent that tariffs are imposed, they will raise prices and cause supply disruptions and bring the costs home to people. Trump's supporters argue that tariffs will encourage manufacturers to move production to the U.S., and that's surely true, at least to an extent, but it takes an awful lot longer to build a plant and staff it up than it does to raise a price. Besides, the U.S. isn't the only country that can raise tariffs; the U.S. will lose overseas markets as other countries retaliate. In any case, I don't see how Trump can sustain support for tariffs for many months or even quarters while waiting for any benefits to kick in.

He's certainly winning the public relations battle at the moment. He's benefiting from the normal surge of enthusiasm from supporters in the early days of a term. He's also unleashed a barrage of appearances on television, and he's benefited from the stunning pace of activity by Elon Musk and DOGE to cut government programs that Trump supporters dislike. But I think that PR wave is cresting.

DOGE has had to back off on many of its cost-cutting claims. Cabinet members are pushing back on Musk's slash-and-burn tactics when their departments are involved. Judges are ruling in some cases that Musk has overstepped the bounds set by the Constitution. Musk himself has lost some of the Iron Man mystique now that Tesla, the main source of his wealth, has seen its stock price fall 50% since its post-election peak. And, increasingly, we'll all see what the DOGE cuts do to service at federal agencies, to recipients of the aid that is no longer being provided, to the tens of thousands or hundreds of thousands who have been fired (many of them Trump voters) and so on.

If someone doesn't pay their mortgage one month, they may save a few thousand dollars, but that's just the first part of the story. So far, we've just seen claims about the DOGE savings. Some will be welcomed, at least by Trump voters, but some will not. There is another part of the story coming.

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And, of course, the stock market has been plummeting. The Dow Jones Industrial Average is down 2,700 points since Feb. 19, or 9.4%, including a nearly 900-point drop on Monday, almost entirely because of the uncertainty about Trump's trade war and the related possibility of a recession. The market is maybe the most important point, because Trump seems to care deeply about how the stock market reacts to him.

But how does this all end? I simply don't know. I'm quite sure the trade war isn't sustainable politically, but I don't see how Trump can back away.

We'll just have to wait and see. In the meantime, we'll have to keep swimming in all the uncertainty.

Cheers,

Paul

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