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

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

CAFII ALERTS WEEKLY DIGEST: March 31 – April 04, 2025

April 04, 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.

TABLE OF CONTENTS

Other CAFII Member-Relevant News ... 2
WTW Report Spotlights The Importance Of Scenario Building And Impact Analysis ... 2
What BOXX Insurance Canada's President Encourages Cyber Brokers To Do More ... 3
Ten Charts That Explain The Economic Stakes In This Election ... 5
Big Six To Suffer From Trade Turmoil ... 9
Mortgage Fraud Falling Overall, But Rising Among First-Time Buyers ... 10
'Ghost Brokers' Are A Growing Liability For The Industry, Warns Insurance CEO ... 13
RBC's Strategy To Withstand Economic Uncertainty In A Trump World Involves Using Scale To Invest ... 15
Redefining Risk Via Continuous Underwriting ... 17
How Financial Institutions Can Improve Their Governance Of Gen AI ... 19
Upcoming CAFII Relevant Webinars & Events; And Related Education Content ... 22
CAILBA 2025 National Conference ... 22
CLHIA's Compliance And Consumer Complaints Conference ... 23

OTHER CAFII MEMBER-RELEVANT NEWS

WTW Report Spotlights The Importance Of Scenario Building And Impact Analysis

Emerging Threats And Evolving Regulations Are Highlighting The Power Of These Components

By Josh Recamara, Insurance Business, April 01, 2025

https://www.insurancebusinessmag.com/ca/risk-management/news/wtw-report-spotlights-the-importance-of-scenario-building-and-impact-analysis-530488.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250401&_hsenc=p2ANqtz-8I2peLDFk3MdAlbJLvsd9l4HwPIGu11HTnLprTQhT3DrSvbQxGqbeQoAlLqpQfA4NWqZpVT2zVilwPhWomXN7oBp59iQ&_hsmi=354558701&utm_content=&utm_source=

Scenario building and impact analysis have become essential components of risk management, particularly as regulatory bodies place greater emphasis on stress testing and scenario planning, according to WTW.

Well-developed risk scenarios help businesses anticipate potential adverse events, detailing where and how they might occur and their likely consequences. This process is instrumental in assessing the financial, operational, and continuity impacts of risks, as well as evaluating how insurance can mitigate exposure.

Despite the importance of scenario development, many organizations conduct deep-dive analyses primarily for cyber risks, such as simulated "black hat" or "red flag" days, while other high-priority risks remain static. Outdated or broad scenarios can reduce the effectiveness of risk assessment, leaving businesses exposed to emerging threats.

A structured approach to scenario planning enhances risk awareness and enables businesses to refine their mitigation strategies. Without a clear understanding of the frequency and severity of potential events, organizations risk overlooking critical vulnerabilities, leading to gaps in insurance coverage and risk transfer strategies.

Keeping risk scenarios relevant

As businesses navigate an evolving landscape marked by mergers, acquisitions, regulatory changes, and geographical expansion, ensuring risk scenarios remain relevant is a challenge. The solution lies in structured scenario development and impact workshops, which provide a framework for prioritizing, analyzing, and refining risk scenarios.

The process begins with identifying key risks. Businesses must prioritize high-severity, low-frequency risks and emerging threats by leveraging both internal and external data. This includes assessing risks specific to the business, monitoring emerging threats that are gaining regulatory attention, and reviewing past incidents both within the organization and across industries.

Once key risk scenarios are identified, workshops bring together teams from across the organization, including risk, legal, regulatory, IT, and operations. These discussions help evaluate financial and operational impacts, identify potential control failures, challenge assumptions about response and mitigation, and assess the role of insurance in risk transfer.

Documenting risk scenarios provides clarity on potential control failures, financial consequences, and insurability. A detailed impact analysis outlines worst-case financial impacts, expected losses for moderate scenarios, and the

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

percentage of insurable financial impact. This ensures businesses can evaluate the adequacy of existing coverage and make informed decisions about risk transfer strategies.

What BOXX Insurance Canada's President Encourages Cyber Brokers To Do More

He Acknowledged The Fear Or Hesitation Around The Strategy

By Gia Snape, Insurance Business, April 01, 2025

https://www.insurancebusinessmag.com/ca/news/cyber/what-boxx-insurance-canadas-president-encourages-cyber-brokers-to-do-more-530543.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250401&_hsenc=p2ANqtz-9fJHqBxk-SpQ6yompfoLmJAy0UtMK8-VfrkFmXJylo67c_C7Uez16M_5tPkUXkWNTGJUq_9IRoZjngR96eaCD5WfYJyw&_hsmi=354606706&utm_content=&utm_source=

The cyber insurance market is evolving at a pace with which many brokers may struggle to keep up. With new threats emerging daily, the pressure is on to provide clients with policies that fully address their risks.

Jonathan Weekes (pictured) has spent years in the brokerage space and now finds himself on the underwriting side once again, this time as the newly appointed president of BOXX Insurance's Canadian operations. Having worked closely with brokers at HUB International, he understands their challenges and the need for clear, open communication.

"The one thing I would encourage brokers to do is to communicate regularly with the underwriting community," Weekes told Insurance Business.

"We generally do a pretty good job in cyber because it's such a small community. But I think there's always that hesitation to speak openly and freely with underwriters because there's that fear of underwriters making changes to their strategy or their appetite."

Open communication – the key to a healthy cyber market

Brokers often act as intermediaries between clients and insurers, yet they frequently find themselves navigating an inherently reactive industry. Weekes pointed out that the insurance sector relies on past trends to price risk, but cyber insurance doesn't operate on a fixed model; it is a moving target.

For brokers, this means keeping up with these changes, understanding how policies are evolving, and ensuring clients aren't left with outdated coverage. More than ever, brokers must push carriers for transparency in how they are adapting to new risks.

But Weekes stressed that communication has to be a two-way street. Underwriters need to listen to brokers, who are on the front lines with clients. They see the pain points, the gaps in coverage, and the practical challenges clients face when a claim arises.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

"I tell my underwriting colleagues, listen to your brokers," said Weekes. "They're the first line of communication with clients. If we don't have those lines of communication and we aren't going to listen to their feedback, we won't be able to innovate our products."

While the cyber insurance market continues to evolve, he said, the fundamentals remain the same: brokers who stay informed, communicate effectively with underwriters, and help clients understand their own risk will be the ones who succeed.

Emerging cyber threats brokers should know about

The sheer unpredictability of cyber risks requires brokers to be more proactive in their approach. It's not enough to rely on outdated policy wordings or assume that insurers will adjust quickly.

Staying informed on emerging threats is also critical. One threat that has drawn Weekes' attention is supply chain risks. "The CDK breach, which impacted quite a few auto dealers across Canada, is a really good example of how a single IT or technology vendor can ultimately impact several organizations, if not an entire industry," he said.

That attack, along with others like the CrowdStrike outage, showed how fragile businesses are when a critical service provider is compromised. Brokers need to ensure their clients understand these risks and that their policies account for them.

The industry's response to these evolving threats has been mixed. Some insurers have tightened terms, while others have broadened coverage, only to later scale it back when losses pile up.

"As a former broker, now in the underwriting side, I almost regret how much I pushed for these policies to be expanded and broadened over the years," Weekes said. "But I do believe that cyber insurance policies are well-positioned to cover most of the losses or potential losses that our clients are hoping to transfer risk for."

Coverage alone isn't enough. The best brokers aren't just selling policies; they're working with clients to understand how they can mitigate risk before a claim even happens.

BOXX, for example, has built its business on a model that includes prediction and prevention as much as indemnification. For Weekes, this is where brokers can add significant value, guiding clients through the process of strengthening their security posture and reducing their exposure to cyber threats.

Weekes also mentioned that BOXX is constantly refining its offers in response to the broker feedback and its assessment of the market.

"You'll find over the next few months, likely towards the end of Q2 and into Q3, we'll be making continuous micro adjustments to our product to ensure we're keeping up with trends based on claims data that we've collected and based on industry data in general," Weekes said.

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

Ten Charts That Explain The Economic Stakes In This Election

Pocketbook Issues Were Set To Dominate The Campaign Conversation In 2025. Then Came Along A Trade War

By Mark Rendell and Matt Lundy, The Globe and Mail, April 01, 2025

https://www.theglobeandmail.com/business/article-ten-charts-that-explain-the-economic-stakes-in-this-federal-election/

The 2025 federal election was always going to be about the economy. After years of inflation, soaring housing costs and growing red tape, Canadian voters seemed ready to punish the incumbent Liberals and their unpopular leader Justin Trudeau. Then Donald Trump returned to the White House and Mr. Trudeau exited the stage.

The election will still be fought along economic lines, but the ground has shifted. The U.S. President's aggressive use of tariffs to strangle Canadian industries and rejig the global trading order has made the election about diversifying trade, protecting workers and rethinking Canada's position in a fragmenting world. Cost-of-living issues remain top of mind. But they have been overlaid by new concerns about a trade war-induced recession and the longer-term viability of key Canadian industries.

Here are the key economic issues that will define the race throughout this month.

Trade

The last time trade with the United States topped a federal election agenda was the 1988 contest between Brian Mulroney and John Turner. Now, with the U.S. President menacing Canada with tariffs – imposing duties on steel, aluminum and automobiles, with more tariffs to come – trade has once again become the defining campaign issue.

The key question is who is best placed to handle Mr. Trump's erratic and hostile trade policy – whether that's fighting back or negotiating an updated continental trade pact. The United States-Mexico-Canada Agreement, which replaced NAFTA in 2020, is up for renewal next year and the Trump administration is likely to accelerate that process and drive a hard bargain.

The second issue is trade diversification. Canada sends around 75 per cent of its exports to the U.S. and has done so for decades, despite Ottawa signing 15 free trade agreements covering some 50 countries. With low-tariff access to U.S. markets no longer guaranteed, Canadian companies may need to look further afield in the coming years. Watch what the candidates say about strengthening commercial ties in Europe, Asia and elsewhere, and their plans for building transportation, port and pipeline infrastructure to get Canadian products to tidewater.

A cross-party consensus has emerged around the need to reduce interprovincial trade barriers. This initiative will necessarily be led by the provinces, but whoever takes power in Ottawa will play a crucial role convening the discussions and coaxing premiers to open their markets to one another.

Productivity

Before the trade war, arguably the main topic of discussion in Canadian economics was productivity – namely, how to improve it. The country's gross domestic product per capita, after adjustments for inflation, is roughly the same today as it was in 2017.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

It's been a rough stretch for the economy, from shocks arising from the COVID-19 pandemic and higher interest rates that weighed on growth, to a population surge that's bulked up the denominator in the per-capita calculation. Still, labour productivity – as measured by real GDP per hour worked – has been slipping for much of the past two years. Bank of Canada deputy governor Carolyn Rogers has gone so far as to label the situation an "emergency."

Economists have seized on several culprits for the slump, including excessive red tape and meagre levels of business investment.

Housing

The housing market has been slumping for years – first because of higher interest rates, and lately because would-be buyers are scared off by the trade war. Still, from the vantage point of many Canadians, not much has changed: Prices and rents are prohibitively expensive in much of the country and construction is too weak to ease the supply crunch.

Canada Mortgage and Housing Corporation has estimated the country needs to build 3.5 million more homes than projected by 2030 to bring affordability back to levels in the early 2000s – or put differently, more than doubling the usual pace of construction. Needless to say, Canada is nowhere near that pace. Last year, developers broke ground on roughly 245,000 units, down from a recent peak of 271,000 units in 2021.

The federal Liberals brought in a series of measures to boost construction, but those efforts have been constrained by tighter monetary policy. Beyond the interest rate cycle, there are several factors weighing on home affordability, from excessive municipal development charges to sharply higher material costs. Fixing the crisis will require a deep commitment from all levels of government.

Inflation and interest rates

Inflation is a government killer. People despise rising grocery, gas and housing prices. Over the past two years, voters around the world have punished incumbent governments of all political stripes for the surge in inflation, and interest rates, that happened in the wake of the pandemic.

Since topping a four-decade-high of roughly 8 per cent in the summer of 2022, the pace of inflation has fallen back to normal. Annual Consumer Price Index inflation has been running close to the Bank of Canada's 2-per-cent target since last summer and the central bank has cut interest rates seven times in a row. But slowing inflation doesn't mean falling prices. Most goods and services remain much more expensive than before the pandemic while wages haven't caught up for many workers. Interest rates remain higher than people had become accustomed to in the period between the 2008/2009 financial crisis and the pandemic.

Conservative Leader Pierre Poilievre built his successful 2022 leadership campaign around the issue of inflation and the fact that he identified it as a problem long before many economists and central bankers. New Liberal Leader Mark Carney, meanwhile, spent a large chunk of his career managing inflation as the head of the Bank of Canada and Bank of England (whose raison d'être is keeping prices stable). With cost of living still top of mind, and a trade war likely to cause another jump in prices, voters will have to decide who to trust to help keep inflation in check.

Employment

For much of the past two years, Canada's labour market has delivered spotty results. The economy is churning out jobs – just not enough for all the newcomers joining the labour force. As a result, the unemployment rate – which hit a record

Back to Table Of Contents

low of 4.8 per cent in mid-2022 – rose to nearly 7 per cent by late 2024. It's been especially tough for young people and new immigrants to find jobs.

More recently, there were signs of optimism. The jobless rate has ticked lower since November, part of a broader swell of economic momentum as the Bank of Canada eased borrowing rates. But that momentum could stall, owing to the trade war. Thus far, there are various anecdotes of layoffs in sectors directly targeted by the Trump administration, such as metals. It could, however, get a lot worse as the U.S. ramps up tariffs on Canada.

The uncertainty alone is forcing a corporate rethink. A sizeable share of companies surveyed by the Bank of Canada in February said they were scaling back their hiring and investment plans because of the tariff threats.

Fiscal position
The Liberal government blew the bank responding to the COVID-19 pandemic, and was slow in getting its finances back in order. Facing a new economic crisis, in the form of a trade war with our neighbour, Ottawa's fiscal capacity will be once again tested. An economic slowdown could hit government revenues at the same time Ottawa ramps up support measures for businesses and workers. Increased defence spending seems imperative. Taken together, this is a recipe for larger deficits than previously projected, whichever party takes power.

Canada is in a comparatively good position by international standards. The country's gross debt – which stood at 106 per cent of GDP in 2024 – is middle-of-the-road and nothing to be celebrated. But at only 14.6 per cent of GDP, the country's net debt, which accounts for assets, such as funded pension plans, is very low. Canada has also been running smaller deficits than most of its G7 peers. However, it's hardly been a picture of fiscal restraint; Ottawa spent the windfalls it received and ran sizeable deficits even while the economy was overheating and inflation was running amok.

Neither Mr. Carney nor Mr. Poilievre is running on a platform of fiscal austerity. With some variation, they've both promised to cut income taxes for middle-income Canadians and pledged to scrap the GST on new homes, while promising to maintain spending on social programs. Mr. Carney also scrapped the Liberal plan to increase the capital gains tax inclusion rate for businesses and wealthy individuals. Both say they'll save money by trimming the civil service and finding efficiencies, but the math remains fuzzy.

Competitiveness
Mr. Trump's economic agenda is all about hoovering up foreign capital, and drawing other countries' businesses and jobs into the United States. For Canada to push back on this, it needs a more competitive business environment. That means trimming the thicket of regulations that, while often well-intentioned in the pursuit of environmental, health and consumer protection goals, is choking off business investment and dampening corporate dynamism.

A Statistics Canada report from February found the number of regulatory requirements faced by Canadian businesses jumped 37 per cent between 2006 and 2021. That red tape has imposed a real burden on the economy, the study said. It estimated that the growth of regulations trimmed 1.7 percentage points off GDP growth in the business sector and lowered business employment growth by 1.3 percentage points. Had the total number of regulatory requirements remained steady at 2006 levels, business investment would have been an estimated 9 per cent higher while new business creation would have been 10 per cent higher.

The Liberals are promising to expedite approvals for projects such as high-speed rail, pipelines and electricity grids, while the Conservatives are promising preapproved "shovel ready" zones and a national energy corridor to speed up the

Back to Table Of Contents

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

construction of mines, power plants, data centres and pipelines. The Conservatives are also looking to boost investment by allowing individuals and companies to avoid paying taxes on capital gains for the next two years if the gains are reinvested in Canadian companies, and letting people put an additional $5,000 into their Tax Free-Savings Accounts if the money is invested in Canadian firms.

Personal finances

It's been a rough time for personal finances. Even with inflation back to around 2 per cent, many families are clearly struggling with permanently higher costs. Over the 12 months through January, consumers made about 138,000 insolvency filings, similar to a peak before the pandemic. (Keep in mind, the population at the end of 2024 had grown by 3.6 million over five years.) And while borrowing rates aren't as steep as they were a year ago, the average household is still spending roughly 14 cents out of every after-tax dollar on debt payments.

The federal parties are making a clear bid for voters' wallets, with the Liberals, Conservatives and NDP proposing broad income-tax cuts for millions of taxpayers. Individuals could save hundreds of dollars annually from the proposed cuts, according to the parties' calculations. The NDP would cut the GST for certain items and services, such as home heating, among a slew of proposals from the parties.

Immigration

For many years, Canada's immigration system – built on a points system that favoured newcomers with high earnings potential – was the envy of other developed economies. But in recent years, its reputation has taken a beating as the population soared. In 2023 alone, the country expanded by nearly 1.3 million people or 3.2 per cent, the fastest growth since the Baby Boom. And this growth was largely driven by temporary residents, such as international students and foreign workers, who now total three million.

The federal Liberals have been widely criticized for overseeing a population boom during a housing crisis, and for kowtowing to corporate pressure by easing access to low-wage foreign labour. The government has taken several steps to cut back on migration to Canada, largely centred on restrictions for issuing study and work visas. It has also cut its targets for permanent resident admissions. Last year, the population grew 1.8 per cent – still higher than the historical average, but a noticeable deceleration from 2023. The Liberals' goal for the next two years is to essentially freeze the overall population, achieved by a steep reduction in temporary residents.

Mr. Carney said he favours keeping immigration caps in place "until we've expanded housing." Prior to the campaign, Mr. Poilievre said he would tie immigration levels to home construction, but hasn't offered specifics of those numbers.

Energy

The past decade hasn't been good for pipeline builders. The Energy East pipeline, which would have brought oil from Alberta to Quebec, was cancelled by TC Energy amid complaints by the company about regulatory hurdles. The Northern Gateway and Keystone XL pipelines were respectively killed off by the Canadian and U.S. governments. Only the Trans Mountain pipeline expansion was pushed through, after Ottawa acquired the project from Kinder Morgan for $4.5-billion and spent another $30-billion finishing it.

Mr. Trump's tariff threats have reignited interest in pipeline construction, with the goal of diversifying markets for Canadian energy. As it stands, the industry is almost wholly reliant on the U.S. market, with some 97 per cent of crude oil exports and 100 per cent of natural gas exports heading to refineries in the U.S. The twinning of the TMX pipeline and the construction of a massive LNG facility in Kitimat, B.C., will get more Canadian energy to tidewater. But more energy infrastructure is needed if Canada is going to break its overwhelming dependence on U.S. markets.

Pipeline politics appear to be shifting. Alberta Premier Danielle Smith noted a "sea change" in attitudes toward pipeline construction amongst her fellow premiers. Even Quebec Premier François Legault suggested his pipeline-phobic province might be amenable to new construction. Both the Liberals and the Conservatives have grasped the mood and are promising to expedite pipeline approvals. Whether companies can be coaxed into building them remains to be seen.

Mr. Poilievre had hoped to fight the election on the issue of the consumer carbon tax, however Mr. Carney scrapped it on his first day in office. The Liberals and Conservatives are still divided on energy issues, with the Liberals saying they will proceed with proposed emissions caps for oil and gas producers and the Conservatives saying they will get rid of it.

Big Six To Suffer From Trade Turmoil

Recession To Drive Higher Loan Losses, Weaker Earnings, Fitch Says

By James Langton, Investment Executive, April 01, 2025

https://www.investmentexecutive.com/news/research-and-markets/big-six-to-suffer-from-trade-turmoil/?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN&hash=6466E5007934F1Z&oly_enc_id=6466E5007934F1Z

The big Canadian banks will take a hit from the escalating trade war, which will lead to higher credit losses and weaker earnings, says Fitch Ratings.

In a new report, the rating agency outlined the expected impact of sharply higher U.S. tariffs on the big banks — forecasting that the deteriorating economic outlook will hurt the banks' bottom lines.

Fitch now expects Canada to go through a recession this year, with higher inflation and rising unemployment — which will translate into weaker loan volumes and credit performance and softer consumer spending.

"The initial round of U.S. tariffs is likely to have a near-term direct impact on Canadian banks' commercial loans. Banks with greater exposure to industries vulnerable to increased tariffs, such as the industrial, agricultural, automotive, construction, energy or mining sectors, face more risks," it said.

If the expected recession turns out to be deeper, or longer, than expected, "it will increase risks to mortgages and Canada's housing market," it added.

While the previous trade conflict of 2018-2019 didn't impact the banks' asset quality, or earnings, that "was partly because U.S. tariffs on Canadian goods were more targeted, tariff rates were lower, and the conflict was resolved in a relatively short period," Fitch noted.

Now, it's assuming that the effective tariff rate on Canadian imports to the U.S. in 2025 will rise to 15% from 0.1% in 2023, and that Canada will retaliate.

The looming conflict and the spike in uncertainty due to rapidly shifting U.S. policy has already "soured the business environment," the report noted, with small business confidence hitting an all-time low in March.

The credit performance of the Canadian banks' unsecured retail loan portfolios deteriorated in the first quarter, amid rising impairments in commercial loan books, Fitch noted.

"We expect lumpiness in the impaired loans ratio over the next few quarters as banks work to resolve these loans," it said. "Banks typically restructure commercial loans faster than consumer loans and reduce sector exposure to quickly contain credit deterioration."

If a more severe recession results, the banks would "face higher mortgage impairments that would take longer to resolve, especially if accompanied by a housing market downturn."

That said, the big banks have solid balance sheets, including strong asset quality, stable funding, and "ample" capital to guard against the fallout from a recession, but the "uncertainty caused by the impending tariff-induced recession increases credit risk," it noted.

"If impairments at Canadian banks rise to a level that results in significant losses that pressure earnings, this would not have a direct impact on rating sensitivities in the short term. However, if earnings pressure becomes structural over the long term, Canadian banks have less ratings headroom," it concluded.

Mortgage Fraud Falling Overall, But Rising Among First-Time Buyers

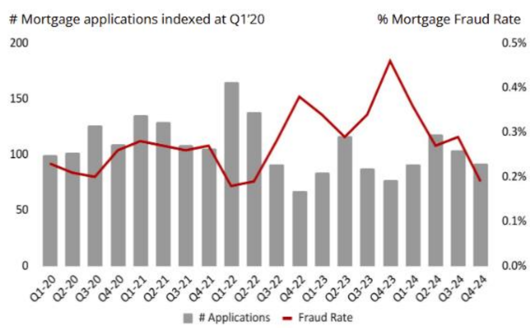
Mortgage Fraud Is Trending Lower In Canada After Peaking Last Year, But New Data From Equifax Shows First-Time Buyers Are Increasingly Behind The Remaining Risk.

By Steven Brennan, Mortgage Industry News, March 31, 2025

https://www.canadianmortgagetrends.com/2025/03/mortgage-fraud-falling-overall-but-rising-among-first-time-buyers/

According to Equifax Canada's latest Market Pulse Report, the national mortgage fraud rate dropped to 0.2% in Q4 2024—a level not seen since Q2 2022.

MORTGAGE APPLICATIONS & FRAUD RATE



Source: Equifax Canada

"The mortgage fraud rate has remained relatively low, with application fraud significantly down by 37.6%," said Cherolle Prince, Director of Fraud Consulting at Equifax Canada.

Despite the overall decline, Alberta, Ontario, and Quebec continue to report higher-than-average rates of mortgage fraud compared to other provinces.

The data also shows that consumers without an existing mortgage—many of them prospective first-time buyers—were nearly twice as likely to commit mortgage fraud as current mortgage holders (0.31% vs. 0.19%).

As fraud declines, market recovery brings new challenges
This decline in mortgage fraud comes as Canada's housing market shows early signs of recovery.

According to Equifax, new mortgage originations surged 39% in Q4 2024, driven in large part by renewals and refinances, which accounted for more than half of all activity.

But while volumes are rising, affordability remains a serious challenge—especially for borrowers renewing at rates much higher than those secured during the pandemic.

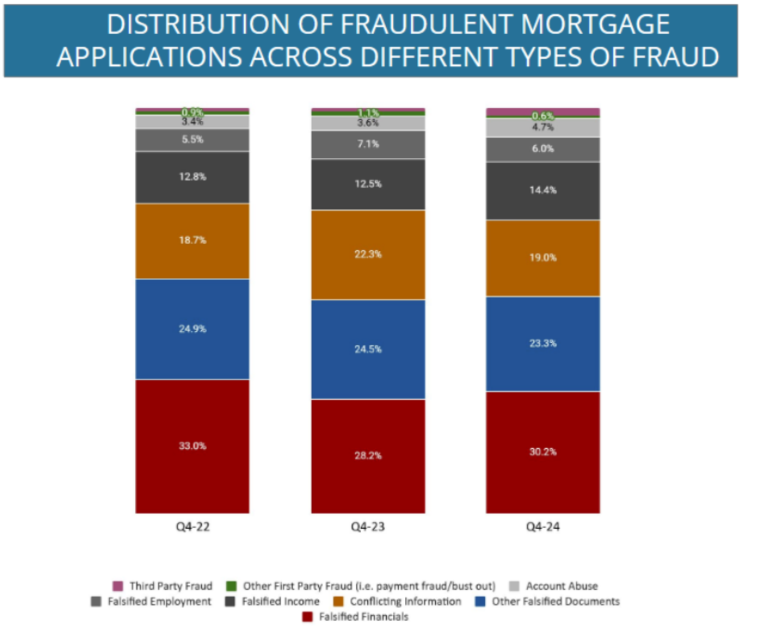
At the same time, financial stress among mortgage holders is mounting. Delinquency rates hit record highs in Ontario and British Columbia, underscoring the pressure faced by many households despite the broader market rebound.

Primary drivers of mortgage fraud
Falsified financial documents continue to be a key source of concern in mortgage application fraud, according to Equifax.

"When we look at some of the reasons behind mortgage fraud, we see that falsified financials and income information is an ongoing major concern," Prince explained.

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

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com



Source: Equifax Canada

Equifax's latest findings highlight the types of fraud most commonly seen in mortgage applications—and who is most likely to commit them:

- Falsified financials accounted for 30.2% of mortgage fraud cases in Q4 2024, up from 28.2% in Q4 2023.
- Misrepresentation of financial information, where applicants submit fake pay stubs, employment letters, account statements, tax slips, or provide false down payment information, accounts for over 95% of fraudulent applications.
- Other falsified documents made up 23.3% of cases, followed by conflicting information (19.0%) and falsified income (14.4%).

"These findings reinforce our message that lenders need to focus attention on verifying financial documents," Prince added.

Will lower rates continue to support mortgage growth?
Looking ahead, there's optimism that falling interest rates will help fuel continued growth in the mortgage market through 2025.

However, the path forward may not be smooth for all borrowers. Many homeowners facing mortgage renewals could be hit with payment shocks, especially those who secured ultra-low rates during the pandemic.

As previously reported by Canadian Mortgage Trends, around 60% of outstanding mortgages are set to renew by the end of 2026, and about 60% of those renewals—or roughly 40% of all mortgages—are expected to face higher interest rates, according to research from the Bank of Canada. That's left many households preparing for elevated costs, even as interest rates begin to decline.

"We do know that borrowers who are looking to renew now may be faced with some challenges as their payments could be higher at renewal," Prince noted.

While easing interest rates and stable inflation are supporting renewed mortgage activity, external risks like U.S. tariffs could weigh on consumer confidence and economic growth. Should conditions worsen, some of the renewed credit demand could shift toward higher-risk borrowers, Equifax added.

'Ghost Brokers' Are A Growing Liability For The Industry, Warns Insurance CEO

Cheap Insurance Isn't Just A Consumer Risk - It's An Industry Threat

By Bryony Garlick, Insurance Business, March 28, 2025

[https://www.insurancebusinessmag.com/ca/news/breaking-news/ghost-brokers-are-a-growing-liability-for-the-industry-warns-insurance-ceo-530221.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250331&_hsenc=p2ANqtz-__IwcmcYV1l8sT4YZdWQRQqWJV6kBYRad6lPJod2dz5U67wThyIx3psPWykbFkEZJGq1iCLb6QVnWhB0lKyoBjGt1tiQ&_hsmi=354378918&utm_content=&utm_source=https://www.insurancebusinessmag.com/ca/news/breaking-news/ghost-brokers-are-a-growing-liability-for-the-industry-warns-insurance-ceo-530221.aspx?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20250331&_hsenc=p2ANqtz-__IwcmcYV1l8sT4YZdWQRQqWJV6kBYRad6lPJod2dz5U67wThyIx3psPWykbFkEZJGq1iCLb6QVnWhB0lKyoBjGt1tiQ&_hsmi=354378918&utm_content=&utm_source=]

Unlicensed scammers are posing as brokers, using social media and forged policies to trick consumers into buying fake insurance - leaving them uninsured and financially exposed.

The spike in digital fraud has brought a surge in ghost broking: scams where fraudsters impersonate legitimate insurance professionals to sell fake or manipulated policies. According to Aviva Canada, fraudulent claims jumped 39% between 2022 and 2023. These scams often target vulnerable consumers through online ads, particularly on platforms like Facebook, where deceptive offers can look legitimate.

Patrick Ballantyne (pictured), RIBO CEO and CISRO Chair, has seen the damage these fraudsters can cause. He takes issue with the very name "ghost brokers," arguing it gives these individuals more legitimacy than they deserve.

"It's too bad we call them ghost brokers because they're not brokers at all," Ballantyne said. "They're something else altogether. It feels like fraud to me. They're not brokers in any way, shape or form, and by calling them that, I feel like we're doing a disservice to all those legitimately licensed brokers."

Why are ghost brokers a threat?
Ghost brokers employ a range of tactics to mislead consumers. In some cases, they forge documents that appear to be legitimate insurance policies. In others, they manipulate genuine ones—altering details or cancelling policies after the consumer has paid. Victims are often unaware they lack coverage until it's too late.

"Consumers can really be left with invalid coverage, with financial losses," Ballantyne said. "They go to great lengths to fool consumers."

With online platforms providing easy access to potential victims, social media has become a common hunting ground for ghost brokers. Ballantyne noted that certain demographics may be more vulnerable than others, especially when targeted through seemingly harmless Facebook ads or online forums.

"I think it is most commonly seen [online] as a Facebook ad or something like that," he said.

How consumers and regulators are fighting back

In response, regulatory bodies and industry organizations are expanding their efforts to protect the public. Education is a central strategy, with campaigns like Fraud Prevention Month helping raise awareness about how consumers can detect and avoid fraudulent brokers.

"Consumer awareness is absolutely the key thing here," Ballantyne said. "It's an annual campaign that really helps to educate consumers, to help members of the public be a bit more mindful, recognize, reject, and ultimately report what might be fraud."

Organizations such as the Canadian Insurance Services Regulatory Organizations (CISRO) are equipping consumers with tools like the "Insurance Fraud Checklist," which offers practical steps for identifying and reporting fraud. These include verifying the broker's licensing status and understanding the terms of their insurance policy.

"It outlines how consumers are best able to recognize and avoid and report insurance fraud," Ballantyne said. "Whether it's through verifying licensing, understanding the policy, or protecting their personal information."

Verification remains one of the simplest and most effective safeguards. Ballantyne urged consumers to confirm a broker's credentials before committing to any agreement.

"At RIBO, we have a search tool on our website where you can determine whether somebody is properly licensed with us," he said. "That is probably the number-one thing a consumer could do to protect themselves."

Regulatory bodies are also reinforcing their oversight through national associations. While CISRO oversees brokers and agents, the Canadian Council of Insurance Regulators (CCIR) focuses on insurers. Together, these organizations create conduct guidelines and promote fair treatment of consumers.

"Our collaboration begins with the promotion of appropriate conduct," Ballantyne said. "Whether it's through a code of conduct or agreed-upon expectations for those operating in the sector."

For those wanting to go a step further, Ballantyne recommended using the Canadian Insurance Regulators Disciplinary Actions Database (CIRDA), which tracks regulatory decisions and sanctions across the country.

"You can see whether or not somebody you're dealing with has been sanctioned in any way," he said.

Urge for caution

Even with these resources, the lure of low-cost insurance still draws people in. Ballantyne cautions that unusually cheap offers should be treated with skepticism.

Back to Table Of Contents

"If it seems too good to be true, it probably is," he warns. "A broker or an agent will be expected to meet with the client—either online or in person—understand their particular situation, where they live, where they're driving, if they're driving to work, if there are kids involved."

Ultimately, the responsibility lies with both consumers and regulators to make sure only licensed professionals are handling insurance matters.

"If somebody is just telling you, 'I can get you auto insurance' for whatever amount, and it seems a lot cheaper than what you might be getting quotes for, there is likely a reason for that," Ballantyne says. "It's an indicator that you should be looking into [them]."

RBC's Strategy To Withstand Economic Uncertainty In A Trump World Involves Using Scale To Invest

By Tim Kiladze, The Globe and Mail, March 27, 2025

https://www.theglobeandmail.com/business/article-rbcs-strategy-to-withstand-economic-uncertainty-in-a-trump-world/?login=true

Canada's largest bank is counting on its financial heft to continue thriving in an increasingly chaotic world, using its scale to withstand economic shocks and to fund the spending necessary to keep pace with the technological revolution.

Long a stalwart of the Canadian banking industry, RBC has emerged as the sector's clear leader in recent years and investors have rewarded it with a premium valuation relative to its Big Six peers.

Yet that success is at risk of being undercut by the economic chaos unleashed by U.S. President Donald Trump's tariff strategy. Despite the threat, RBC's executives projected calm at an investor day Thursday in Toronto, arguing that the financial institution has a diversified business mix that will allow it to absorb major economic jolts – the same way it did during the 2008-09 global financial crisis.

RBC has also planned ahead and, as mandated by the federal banking regulator, used its success to prepare for a downturn. "We've been building reserves for nearly three years," chief risk officer Graeme Hepworth said, referring to the bank's buffers that offset loan losses.

RBC remains so confident about its prospects that it will continue to spend heavily on technology investments, which totalled $5-billion in fiscal 2024. Chief executive officer Dave McKay said such outlays are necessary because the sector is experiencing a "shift to hyper-personalization and an AI arms race."

But Mr. McKay acknowledged in an interview that there's no telling how ugly the global trade war could get. Even if RBC has the financial strength to absorb loan losses, plunging consumer confidence can keep clients from spending on new products.

Already there are signs that the mortgage market is freezing again, despite indications that it was finally thawing as interest rates started to fall. “Consumer confidence is highly correlated to the mortgage industry,” Mr. McKay said in an interview. “When you’re worried about your job and prosperity, you’re going to pull back.”

However, he stressed that alarm bells aren’t ringing. So far, big-ticket items have been impacted, but smaller purchases remain robust because, as he explained, “people still have to live.” So far, RBC hasn’t seen a major drop in credit-card spending.

Looking forward, RBC sees plenty of potential to expand in Canada. “There is still significant room for us to grow,” Mr. McKay said on stage at the investor day. This strategy counters a common assumption among investors and analysts that the Canadian market is already heavily saturated, and there are few domestic acquisition opportunities left after RBC closed its acquisition of HSBC Bank Canada last year. (HSBC Canada used to be the country’s seventh-largest bank.)

RBC is also optimistic about growth in transaction banking, particularly in the U.S., and recently launched its RBC Clear platform that allows business owners to manage their working capital much more efficiently.

The Clear investment complements RBC’s artificial intelligence capabilities, which have been a focus of the bank for the past decade. While tech giants such as Alphabet tend to be most closely associated with the AI boom, RBC has invested heavily in the space and was even recently mentioned by Nvidia founder Jensen Huang at a conference.

To illustrate how this AI investment will pay off, on Thursday RBC showcased tools it has developed in-house, such as a platform that scans client e-mails and client accounts to help investment advisers prepare for client meetings in five minutes, instead of 45 minutes previously.

Beyond technology, RBC believes it has another advantage if the economy worsens: A focus on wealthier, and less risky, clients. In the Canadian retail banking arm, which drives RBC’s earnings, the weighted average credit score for clients is 797, which is deemed “very good” by Equifax, and in wealth management, 87 per cent of its clients in Canada and the U.S. are deemed high-net-worth or ultra-high-net-worth.

For years, Canadian banks have talked about servicing high-net-worth clients because they deliver more revenue, but RBC is a true leader in this segment. “You may hear other banks talk about it, but I’m telling you, we’re winning with it,” wealth-management head Neil McLaughlin said at the investor day.

RBC, though, did establish some limits to its expansion, once again reiterating that it will not become a mass-market retail bank south of the border – something that got arch-rival Toronto-Dominion Bank into trouble in recent years.

“Retail is not going to be our focus in the U.S.,” said Greg Carmichael, executive chair of City National Bank, which is RBC’s everyday banking franchise south of the border.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Redefining Risk Via Continuous Underwriting

Continuous Underwriting Enables Insurers To Monitor Individual Risks And Portfolio Trends In Real Time And Alert Clients.

By Bill Deemer and Andrew Clark, Insurance Thought Leadership, March 27, 2025

https://www.insurancethoughtleadership.com/underwriting/redefining-risk-continuous-underwriting?utm_source=ActiveCampaign&utm_medium=email&utm_content=The%20AI%20Will%20See%20You%20Now%20%20%20Plus%3A%20Redefining%20Risk%20Via%20Continuous%20Underwriting%20and%20%20Flow%20%20Insurance%20Platforms%20Drive%20Growth&utm_campaign=Six%20Things%204%201%2025&vgo_ee=cFvxpocykEOseOSAMZTNhNZdrjQz7bvZ71Af7hIQvsEVqTdJMU9C3g%3D%3D%3A4INeYBuW9ZlwR6pOPW478qd%2BwuNZMvNO

As we introduced earlier in this series, here and here, the insurance industry is modernizing, leveraging data and technology to transform how risk is assessed and managed. Continuous underwriting enables insurers to monitor individual risks and portfolio trends in real time—without prohibitive increases in expenses.

The impact of these advancements extends far beyond individual insurance transactions or an insurer's loss ratio. This shift creates an insurance system that enhances safety, lowers costs, and strengthens financial stability. A well-functioning insurance mechanism fosters economic growth by reducing consumers' reliance on personal rainy-day funds, allowing capital to be reinvested into businesses, innovation, and economic expansion.

The insurance industry plays a crucial role in providing incentives to businesses and individuals to adopt better risk management practices. Those who manage risks effectively benefit from better pricing and terms, while higher-risk entities face difficulty securing the coverages they desire at an affordable rate. A key example of this transformation is seen in the workers' compensation market, where automation and improved workplace safety have driven a historic decline in claim frequency, leading to 11 consecutive years of rate reductions.

Traditionally, risk assessments occur at renewal—sometimes at every third or fifth renewal—or after a claim, allowing newly introduced hazards to go undetected until effective intervention is no longer possible. Continuous underwriting shortens the review intervals, allowing insurers to quickly identify deteriorating risk conditions and influence positive changes before losses occur. Businesses, property owners, and individuals have stronger incentives to adopt safer practices—such as better building maintenance, fire prevention measures, and cybersecurity defenses. Over time, these efforts reduce preventable losses, leading to safer, more stable communities.

As more businesses and individuals improve their risk profiles, insurance costs decline, making coverage more affordable for everyone. Small businesses—often burdened by high insurance costs—stand to benefit significantly, allowing them to invest more in growth and job creation. Additionally, with fewer catastrophic losses, the insurance industry's financial stability is strengthened, reducing market volatility and ensuring that coverage remains widely available, even in high-risk areas.

One of the most critical societal benefits of continuous underwriting is its ability to equip communities to anticipate and mitigate natural disasters. Instead of waiting until renewal to adjust policies, insurers can detect increased hazards—such as outdated infrastructure, poor fire mitigation, proximity to wildfire-prone vegetation, or rising flood risks—and work with policyholders to address these issues before disasters strike. This proactive approach leads to fewer

200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

uninsured losses, faster recovery times, and a more resilient economy in the face of climate change and an increase in extreme weather events.

With real-time assessments, consumers gain a clearer understanding of how their risk management choices directly affect their premiums and carrier options. Rather than facing sudden rate increases at renewal, policyholders are granted the opportunity to make improvements and see immediate financial benefits. This shift toward increased transparency in pricing and coverage decisions will create a fairer and more dynamic insurance marketplace.

As continuous underwriting becomes the industry standard, companies have incentives to adopt safer, more sustainable, technologically advanced practices. Investments in cutting-edge risk prevention tools result in the ability to secure broader coverage at a lower rate. This accelerates innovation across industries, from construction and manufacturing to healthcare and retail, benefiting society as a whole.

Many of these advancements include the growing use of loss prevention devices. Today, insurers are subsidizing or providing sensors that monitor and alert for temperature changes, water leaks, or gas buildups. In food service, smart handwashing stations instantly detect the presence of bacteria or allergens, reducing contamination risks. Surveillance and inventory tracking tools, such as smart tags, are preventing loss and theft. These technologies not only reduce claims but also improve overall safety and efficiency across industries.

As we look to the future, advances in technology and data accessibility will continue to reshape the insurance industry. In the past, obtaining a quote could take weeks via mail or fax. Today, it takes minutes through integrated agency management systems. The industry is building a more seamless, automated insurance marketplace, where policies are continuously updated based on real-time data.

Imagine a system where insurers adjust pricing dynamically, 24/7, based on real-time changes in a policyholder's risk profile. In such a world, consumers could automate coverage selection, seamlessly switching to the best-priced policy—just as financial markets respond to changes with immediate adjustments to stock prices. Regulatory challenges notwithstanding, this vision aligns with the increasing push for efficiency, fairness, and consumer empowerment in the insurance industry.

Continuous underwriting represents a transformative shift in insurance—one that will have profound benefits for society. By encouraging risk management, we are cultivating safer communities, lower insurance costs, and a more stable financial system. Businesses and individuals are better protected against unforeseen losses, and insurers have the tools to help prevent disasters rather than just responding to them.

Underwriting entities that embrace continuous underwriting will thrive, while those that resist may struggle to remain competitive. More significantly, the insurance industry has the opportunity to become a powerful force for societal progress—enhancing economic resilience, strengthening disaster preparedness, and empowering consumers for generations to come.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

How Financial Institutions Can Improve Their Governance Of Gen AI

A Comprehensive Scorecard Can Help Companies Redesign Their Risk Governance Frameworks And Practices For Gen AI And Harness The Power Of This Transformative Technology.

By McKinsey & Company, March 27, 2025

https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/how-financial-institutions-can-improve-their-governance-of-gen-ai?stcr=5FE64DC2BEE747E389DF267E7B20B4B6&cid=other-eml-alt-mip-mck&hlkid=0153a931f3544b3c8fd672d487f82655&hctky=15382209&hdpid=db274337-72bf-4480-b260-f17102ea5465

Gen AI is reshaping the financial-services industry, from how banks serve customers to how executives make decisions. For all the benefits the new technology offers, including workflow automation, software enhancement, and productivity gains, gen AI also poses significant risks. It can expose a financial institution to legal and reputational risks and increase its vulnerability to cyberattacks, fraud, and more.

Trying to harness the benefits of this technology while warding off the risks can feel like a tightwire act. The heightened concerns stem from how gen AI works. Traditional AI systems are built to manage tasks that are narrow in scope by using proprietary business data. By contrast, gen AI can create new content—often by using public, unstructured, and multimodal data—through a series of complex, multistep processes that can create more opportunities for misuse and error. Traditional AI-risk-governance systems aren't designed to oversee these additional layers of complexity.

Financial institutions will need to update their AI governance frameworks to account for this increased complexity and the greater points of exposure. This will mean incorporating model risk management (MRM) and new technology, data, and legal risks into their enterprise risk model. They will need to review their oversight of AI and then assess how best to manage gen-AI-specific models going forward.

Financial institutions will need to update their AI governance frameworks to account for the increased complexity and greater points of exposure related to gen AI.

In this article, we explain how financial institutions can update and continually monitor their AI governance frameworks using a gen-AI-risk scorecard and a mix of controls. In this way, they can better identify and mitigate potential risks from gen AI and other technologies long before those risks can cause substantial financial or ethical problems.

Upgrade gen AI governance

To account for gen AI and its potential effects on business, leaders will need to systematically review all risk areas touched by the technology. They should take stock of their oversight systems, gen AI models, and intellectual property (IP) and data use, plus a range of legal and ethical factors.

Oversight systems

In most current arrangements, a single group (such as an MRM committee) oversees all gen AI applications. This approach typically isn't a good fit for gen AI systems, because they often comprise a blend of different models and software-like components, each of which may need specialized oversight. For example, a gen-AI-powered chatbot that provides financial advice to customers may expose companies to a range of technological, legal, and data-related risks. Accordingly, financial institutions need to decide which gen AI components only require model risk scrutiny and which require a joint review with other risk cells. Close coordination across risk committees can ensure thorough oversight.

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Gen AI models
Risk leaders at financial institutions will need new models to manage gen AI risk across their companies. In the past, AI models were built primarily to do one specific task at a time, such as making predictions based on structured data and sorting data based on labels. Such tools might mine past loan data, for instance, to forecast the likelihood that an applicant might default on their loan or to identify optimal loan pricing.

With new multitasking gen AI models, banks can do more than just predict and categorize. They can devise and deliver personalized service, improve customer engagement, and enhance operational efficiency in ways that they couldn't with traditional AI. For example, gen AI models can automatically create new loan term sheets based on their analysis of similar, previously executed loans. This not only reduces manual work but also can speed up the closing process and improve the borrower's experience.

However, because gen AI models are trained on both public and private data, they can produce information or responses that are factually incorrect, misleading, or even fabricated—generating, for example, inflated income totals or an imagined history of bankruptcy for a customer querying a gen AI application about loan qualifications. These issues can be minimized using retrieval-augmented-generation (RAG) applications that combine external and internal data to ensure accurate responses. The RAG applications can include legally reviewed language about lending rules and can enforce strict conversation guidelines to help banks manage customers' interactions with gen AI tools.

With new multitasking gen AI models, banks can do more. However, because the models are trained on both public and private data, they can produce information or responses that are incorrect, misleading, or fabricated.

IP and data use
Gen AI tools can introduce liabilities involving inbound and outbound IP and its oversharing. For instance, a gen AI coding assistant might suggest that a bank use computing code that has licensing issues or that may inadvertently expose the bank's proprietary algorithms. Some gen AI applications operating in real time, such as ones used in customer service, require a mix of automated and human oversight to catch issues promptly.

Many financial institutions' data governance controls don't sufficiently address gen AI, which relies heavily on combining public and private data. This raises concerns about who is responsible for what data and how it's used. For example, when using gen AI coding assistants, questions and pieces of code from open integrated development environments can be included in the prompts and sent to external gen AI providers. But they might not be saved, and their influence on code recommendations could have legal implications.

Financial institutions should develop systems to track where data originates, how it's used, and whether it adheres to privacy regulations. Not linking credit decisions to their source data could result in regulatory fines, lawsuits, and even the loss of license for noncompliance. Companies need to keep records for AI-generated content, which can change based on what's entered.

Legal and ethical factors
Headlines abound about gen AI systems that have run afoul of regulations. Mostly that's because these models blur the lines between new content and existing content protected by IP laws. This creates confusion about who owns and licenses it. Additionally, when gen AI models are trained on sensitive data, such as customer information, more attention

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

is required for privacy and compliance. These models need careful monitoring so that they don't expose confidential information or perpetuate biases.

Transparency and "explainability" (the ability to understand how an AI model works and why it makes specific decisions) are also crucial, as the outputs of gen AI systems can sometimes be difficult to trace back to their origins. Financial institutions must establish safeguards to manage these risks throughout the model life cycle to ensure compliance with changing regulations and ethical standards.

Use a scorecard to manage gen AI risk

As financial institutions systematically review customer exposure; financial impact; the complexity of gen AI models, technologies, and data; and the legal and ethical implications, they can use a risk scorecard to determine which elements of their gen AI governance require updates and how urgent the need is. Teams can use the scorecard to evaluate the risks for all gen AI use cases and applications across the company (exhibit).

The scale used (scores of 5, 3, and 1, with 1 meaning low risk) reflects the degree of customer exposure and the level of human expert oversight in the inner workings of the gen AI application. It also reflects the expected financial impact, stage of gen-AI-application development, and more. Across these categories, oversight by human experts—particularly for high-stakes applications—is still the most effective way to ensure that gen AI systems don't make critical errors.

The scorecard can also be helpful to procurement teams in financial institutions that purchase rather than build gen AI applications; they can use it to assess their potential exposure to third-party risk and their comfort with the data and modeling techniques used by sellers of gen AI applications. While some factors may not be totally transparent to buyers, procurement teams can use a mix of vendor due diligence, technical reviews of underlying models, and contractual safeguards to assign risk scores to third-party software and make more informed purchasing decisions.

Introduce a mix of controls to govern gen AI risk

Using a risk scorecard can help financial institutions prioritize gen AI use cases based on the business need and risk/return profile of each case. Scorecards can also signal when problems arise. In both cases, the scorecard must also be supported by a risk management framework, or set of controls, for managing gen AI. Each type of control—business, procedural, manual, and automated—plays a critical role in ensuring the safe and efficient use of gen AI.

Business controls: Don't block; adjust

Financial institutions will need to design a structure that oversees gen AI risk without slowing down innovation. For example, an organization could use a centralized AI oversight committee in the early stages of adopting a chatbot or other gen AI application. Later, control could shift to a subcommittee or multiple committees. The point is to build in flexibility.

Companies will need to decide how risks fit into their operational models (whether centralized, federated, or decentralized) to better address new challenges posed by gen AI systems. Most financial institutions start with a centralized organizational model for gen AI risk and shift toward a partially centralized or fully decentralized model as their risk management capabilities mature. To move faster, some establish gen AI accelerators to create consistent approaches across departments.

Procedural controls: Stay nimble

For procedures such as handling credit applications, most financial institutions should update their MRM standards. The standards should reflect gen-AI-specific risks, such as how models handle changing inputs and multistep interactions. For instance, if a bank simulates a wide range of customer responses to a virtual assistant, the MRM will need to continuously adapt. Similarly, technology review processes should be streamlined to safely integrate gen AI systems into operations. All updates should include methods for monitoring how gen AI applications adapt over time to ensure that they remain accurate and compliant as they process new prompts and new data.

Manual controls: Keep an eye on the machine
Human oversight is essential for checking sensitive outputs and ensuring the ethical use of gen AI. For example, reviewers need to redact sensitive data before models process it. When it comes to the quality of gen-AI-generated responses, financial institutions should create “golden lists” of questions for testing the models.

They should also solicit lots of feedback from customers and employees. Systems can learn from these human evaluations. The feedback can inform the accuracy and appropriateness of various outputs—for instance, how a virtual assistant “speaks” to a customer should align with institutional values and goals. The outputs should be reviewed regularly and updated as needed to bolster the models’ learning capabilities.

Automated controls: Consider third-party tools
One of the benefits of technology is that it can, in some cases, manage itself. Automated tools can sanitize data at scale, flag unusual use, and start fixes in real time. For instance, many third-party applications can remove sensitive information from documents before processing. Other third-party tools can automate vulnerability testing for gen AI systems, which helps financial institutions quickly identify and address weaknesses. Gen AI models themselves can use a combination of traditional AI and newer technologies to check their own outputs—that is, models checking models—to ensure quality control at high speeds.

As gen AI becomes an even bigger part of financial institutions, risk leaders will need to rethink how they manage the related systems. They will need to move beyond traditional AI risk practices and include real-time monitoring, robust transparency, and stronger safeguards for data privacy and ethics. A comprehensive risk scorecard and a focus on four key sets of controls can help companies find the right balance between pursuing innovation and mitigating risk. More than that, taking a systematic approach to updating gen AI risk governance can help financial institutions unlock the transformative power of this new technology to improve decision-making, customer service, and operational efficiency—and do so responsibly.

UPCOMING CAFII RELEVANT WEBINARS & EVENTS; AND RELATED EDUCATION CONTENT

CAILBA 2025 National Conference

https://cailba.com/2025-national-conference/

When: April 30th - May 2nd
Where: Le Centre Sheraton, 1201 René-Lévesque Blvd W, Montreal, Quebec, H3B 2L7
Phone: 514) 878-2000

200-411 Richmond Street E, Toronto, ON M5A 3S5
☎ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

Le Centre Sheraton Montreal is a stylish landmark in the heart of downtown Montreal and just steps away from the iconic Bell Centre and the vibrant St. Catherine Street. A short stroll connects visitors to Montreal's famed 19-mile Underground City, a marvel of urban design filled with boutiques, restaurants, and passageways that come alive year-round. With its stunning skyline views and proximity to the historic charm of Old Montreal, Le Centre Sheraton is a gateway to discovering the city's rich heritage and dynamic energy.

CAILBA and our proud sponsors welcome you to join us as we host the CAILBA 2025 National Conference & AGM — offering an inspiring, memorable, and educational networking experience in a city that masterfully blends history with modern charm.

CLHIA's Compliance And Consumer Complaints Conference

https://www.clhia.ca/web/CLHIA_LP4W_LND_Webstation.nsf/page/AD9B1618FBC1C2E5852584EA006C7099

Release Date: 01/09/2020
Staff Reference: Ethan Kohn; James Wood; Margaret Campbell

When: May 14 - 16, 2025
Where: Charlottetown, PEI
Location: Delta Hotels Prince Edward

This conference is the only one in Canada dedicated to compliance and complaint handling functions in the life and health insurance industry. We offer a premier opportunity to support your clients as you network with industry leaders as they discuss their key issues.