



NEWSLETTER **I** Brought to you by the RIMS CANADA COUNCIL

GREETINGS FROM RCC CHAIR JACQUELINE TOERING

For most of us, the summer brings welcomed warmth, longer days of sunshine and blue skies. For others, the summer season brings the worry of climate change and the threat of wildfires in our communities and to our families and friends. We remain positive in our hope that this wildfire season will be better than the last and that people remain safe and well and, of course, you find time to enjoy time off with any summer vacation.

Recognizing how full our lives are with work, play, family and friends, I want to extend a RIMS Canada heartfelt THANK YOU to all volunteers, past, present and future for everything you do in support of our local and national RIMS Canada members. We could not do it without you and our community benefits from your involvement. We are better together.

We recently sent a call out for RIMS Canada Council (RCC) volunteers. Thank you to all who responded! Please



join me in extending a warm RCC welcome to our newest members: **Virginia Tutino** (QRIMA) - CEA Vice Chair, **Eddie Tettevi** (SKRIMS) - CEA Brand Ambassador and **Sara Mikolich** (ORIMS) - NCC Vice Chair. Watch for more on our newest RCC volunteers in the next newsletter.

It is also the time of year for the chapter boards' annual general meetings (AGM). The

chapter boards may be changing up their composition at this time welcoming new members and saying goodbye to others. Thank you to the chapter volunteers for supporting your local chapter. If you have not attended your local chapter annual general meeting, I would encourage you to do so. The AGMs are amazing places to connect with your local risk communities, the industry,

learn more about your local chapter, hear what has been going on, what is to come and to get involved.

Some other news to share about comings and goings:

- **Kevin Bates**, our RCC RIMS Board Liaison, has recently stepped off the RIMS board. Kevin accepted a position with SwissRe Australia/New Zealand as their CEO. He has been a big part of RIMS Canada in the last year and a half, and we are grateful for his support and insight.
- **Debbie Savoury**, our RCC Secretary, has also had to step away to focus on some major work projects she is leading for her employer, Marine Atlantic. Debbie was an integral part of the RCC Executive and she will be missed. We thank her for her support and valuable contributions.
- **Will Gilchrist**, RIMS Director of Member and Chapter Engagement, has left RIMS for a new opportunity. Our sincere thanks and appreciation to Will for his support over the years. We wish him every success as he continues in his journey.

Since our last newsletter, I attended RISKWORLD in San Diego, which was a tremendous

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GREETINGS FROM RCC CHAIR JACQUELINE TOERING

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success with higher-than-ever attendance. There was a captivating plenary speaker line-up that included a futurist, a leader of one of the largest global insurance companies and a Shark Tank investor. RIMS kept attendees engaged throughout the conference with great content and networking opportunities and events. The RIMS president and RIMS board really brought their best to the stage creating great enthusiasm and energy.

We always try to bring Canadians together at the global conference with our RIMS Canada Night and appreciate every opportunity to reconnect. RIMS has been a great support to help us execute and we always appreciate the recognition of our members and the amazing work of our chapters. Both SKRIMS and ORIMS won awards this year – a Chapter Award and the inaugural DEI Chapter Leadership Award, respectively. SKRIMS member **Chelsea Andrusiak**

was also honoured as the Rising Risk Professional of the Year! The future is bright for us Canadians, but we cannot forget the trailblazers that have paved a way forward for us to excel and thrive in this profession. The RCC is also grateful that during the conference, one of our own was posthumously inducted into the RIMS Hall of Fame, **Joe Restoule**. RIMS Canada will honor Joe and his significant contributions to our community with an annual RIMS Canada Student Conference award.

Our RIMS Canada Conference has been gaining momentum post-pandemic and continues to evolve with last year's aptly named "RISK EVOLUTION" held in Ottawa, which was a resounding success with 1,457 registered attendees, shattering all previous attendance records! Conference attendance has been trending upwards since 2022 and we have been reshaping the information exchange with new

Thought Leader Theatres – short 20-minute educational sessions in an informal setting. These sessions were so popular with our attendees (standing room only), that they will now become a regular fixture for future conferences.

As you may already be aware, [this year's RIMS Canada Conference](#) is in Vancouver from October 6-9. It is the first full year of our new national conference model and promises to be the BEST conference yet! The National Conference Education Committee have a great line up of education sessions, including renowned plenary speakers Kevin Vallely, Jay Kiew, Jody Wilson-Raybould and Jonathan Montgomery. The Opening Night Reception will be held at the Vancouver Convention Centre, located in city's stunning downtown waterfront amid a dramatic mountain backdrop.

The 2024 RIMS Canada Conference will also bring some of the RISKWORLD innovation

to Vancouver with the introduction of Wordly, which allows attendees to enjoy real-time captioning during sessions in 50 different languages – including French! During the sessions, attendees can connect to their personal device to listen to live audio or read captioning in their preferred language.

Leading up to the event, attendees, speakers, exhibitors and sponsors can spread the word about the RIMS Canada Conference by using [the social platform Snoball](#). Users can click on the link here to share information about the event through social media channels, email, text message and more. In addition, [social media influencer Luis Soto](#) will be joining us at the conference. Watch for his posts, share, like and help spread the word.

I look forward to seeing you in the Fall in Vancouver!

Jacqueline Toering

Chair, RIMS Canada Council

 **RIMSCAST**
The Top Risk Management Podcast



Change Management and Strategy with Jay Kiew, RIMS Canada Conference 2024 Keynote

Jay Kiew, change navigation strategist and keynote speaker at the 2024 RIMS Canada Conference, discusses the importance of change and change management and how risk and insurance professionals can develop plans and strategies for our volatile age.

[Listen on Apple Podcasts](#)



JOE RESTOULE: Remembering a Risk Management Giant

by Alyssa DiSabatino, *Canadian Underwriter*

Loyal, generous, optimistic, gregarious, a visionary — this is how the risk management community will remember Joe Restoule, co-founder and president of the William H. McGannon Foundation, who passed away on Mar. 29 following a battle with cancer.

Well-known and greatly admired in the community, the industry's been outpouring with tributes for Restoule, who served McGannon Foundation for more than 20 years.

April Savchuk, secretary and director of communications at McGannon Foundation remembers his passion for students. Every year, the foundation invites post-secondary recruits from its student involvement program to attend the RIMS Canada Conference.

"On the first night, we have a dinner. It's quite formal. It's just the board and the students. And it's our first [face-to-face] introduction to them," says Savchuk. "We talk about our backgrounds, and we try to learn from them what they're interested in, as far what their career might look like.

"You could see Joe at the head of the table with his eyes sparkling, because he would be so lit up, he would be so pumped up, and so proud to meet these students."

Restoule was also an advisory board member for the Risk

Management and Insurance program at University of Calgary's Haskayne School of Business, where he frequently guest-lectured.

Anne Kleffner, professor and chair of the risk management and insurance program at Haskayne, remembers a time when Restoule—along with a colleague he'd previously introduced her to—came to present in her class.

"[He] just made risk management absolutely seem like the best thing ever—and why wouldn't everybody want to be in risk management?—because it was so interesting and challenging and you get to travel and it's important," she recalls. "Anyway, after that class, I think everybody did."

His spark and dedication, Kleffner says, "was truly extraordinary."

Restoule was also vital in selecting and mentoring Mohawk College's insurance students as they attended industry conventions, says Mary Martin, insurance and business program professor at Mohawk College's McKeil School of Business. "His legacy will live on in the Mohawk Insurance students and myself who had the wonderful opportunity to meet him."



Still, Restoule's impact on students is perhaps best told by students themselves—many of whom emphasize his kind character, and the passion with which he advocated for their professional development.

"Joe had a presence about him. When he spoke, you wanted to listen because you know that you were going to learn something valuable," says Michelle Baillie, a 2022 McGannon Student Involvement Program participant.

"Joe treated all the students like we're already professionals and that we had something to offer the insurance industry...He was a true mentor and wanted to enrich our lives with all that the insurance industry had to offer."

Emily Jung, 2022 McGannon Student Involvement Program participant and scholarship recipient says, "At a time where students

may struggle to find their place [or] calling, Joe enabled us to feel recognized, encouraged and confident in our aspirations. Although his lively spirit will be missed dearly, his legacy and impact on our community will be felt forever."

FUTURE LEGACY

Though his presence will be missed, the industry will honour Restoule's legacy—particularly, his focus on the mentorship of young P&C professionals.

Kleffner emphasizes Haskayne's program will continue to "plant the risk management flag" where possible in his honour. The school is even pursuing having risk management implemented as part of the core bachelors of commerce curriculum. That's something that would raise the profile of the program and surely please Restoule, Kleffner says.

As for McGannon Foundation, "we will do Joe proud, and we'll continue to carry the torch," says Savchuk.

Perhaps best summed up by Denny Matthew, 2022 McGannon Student Involvement Program participant, "May we honour Joe's memory by carrying forward the light he brought into the world, and may we strive to emulate his boundless compassion and unwavering positivity in all that we do." ■

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THE 2024 RIMS CANADA CONFERENCE COMES TO VANCOUVER

This year, the RIMS Canada Conference will take place in Vancouver from October 6 to 9 at the Vancouver Convention Centre. The event promises a lineup of top-notch keynote speakers, including:

- **Jay Kiew**, Change Navigation Strategist
- **Jody Wilson-Raybould**, Lawyer, Author and Former Member of Parliament, and Minister of Justice and Attorney General
- **Jonathan “Jon” Montgomery**, Olympic skeleton racer and television host of The Amazing Race Canada
- **Kevin Vallely**, Explorer, Architect and Author

The RIMS Canada Conference will also feature engaging panel discussions and insightful education sessions led by risk management experts on topics that include artificial intelligence, cyber and technology risk, claims management, strategic and enterprise risk management, ESG, career development, and more.

By networking with fellow risk management professionals and exhibiting partners, attendees will come away with new resources and techniques to address everyday challenges, do their jobs better and more efficiently, and demonstrate risk management value for their organizations.

For more information and to register for the 2024 RIMS Canada Conference, visit www.rimscanadaconference.ca. ■



 **RIMS CANADA**
CONFERENCE
VANCOUVER | OCTOBER 6-9, 2024

ONTARIO CHAPTER WINS INAUGURAL RIMS DEI AWARD

The RIMS Diversity, Equity and Inclusion (DEI) Chapter Leadership Award was established to recognize chapters dedicated to advancing DEI programs within the risk and insurance communities and encourage other chapters to embark on their own DEI journeys. Chapter winners demonstrate their exceptional commitment to DEI by dedicating time, resources and thought leadership to promote diversity, equity and inclusion within their membership and beyond.

In recognition of its efforts to further diversity, equity and inclusion, the winner of the inaugural 2024 DEI Chapter Leadership Award is the **Ontario Chapter (ORIMS)**. The chapter was honoured for its achievement at this year's RISKWORLD in San Diego.

Over the past year, ORIMS strived to not only deliver specific DEI events, but to ensure that DEI values are incorporated into all the chapter's work. The chapter has established a diverse, five-person DEI Committee to develop original content, host panel discussions, share thought leadership, and spur thoughtful and engaging conversations around DEI.

The committee also coordinates with other ORIMS committees to ensure that all programming is inclusive and considered through a DEI lens, reflecting a full range of voices and communities. The committee is led by ORIMS DEI Board Director Desmond Marryshow, who succeeded previous director Ann Hildreth in June 2023.

The chapter has developed and organized a variety of initiatives to promote DEI in the risk and insurance industry. For example, the ORIMS DEI Book Club regularly selects and discusses books by Canadian authors from diverse backgrounds in an effort to promote a human-centered approach to DEI through storytelling. The book club regularly publishes reviews of the material in *Pulse*, ORIMS' quarterly digital magazine, to share insights with the entire chapter.

In August, the book club also hosted a lunch discussion with Michael Bach, founder of the Canadian Centre for Diversity and Inclusion (CCDI), CCDI Consulting and Pride at Work Canada, and author of the bestsellers *Birds of All Feathers: Doing Diversity and Inclusion Right* and *Alphabet Soup: The Essential Guide to LGBTQ2+ Inclusion at Work*.

Throughout the year, ORIMS developed a number of panel discussions on DEI-related topics. These included an International Women's Day Panel featuring discussions with women leaders in risk management and insurance; a session at the RIMS Canada Conference on how DEI can improve risk management processes; a webinar highlighting the experiences and contributions of the indigenous business community in Canada in

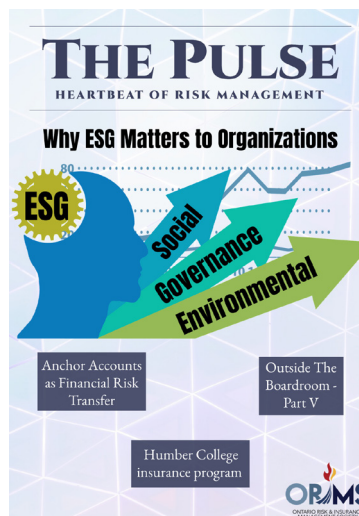


conjunction with Canada's National Day for Truth and Reconciliation; and a webinar on how to support psychological safety and belonging in the insurance workplace as part of Mental Illness Awareness Week & World Mental Health Day. The events were well-attended and meaningful conversations and engagement on these and other DEI topics continued on social media with additional contributions by DEI Committee members.

ORIMS has also collaborated with outside organizations on DEI efforts, including providing sponsorship support to the annual Dive In Festival, a world-wide event that focuses on diversity and inclusion in the insurance industry. The chapter's contribution allowed ORIMS members to participate in over 200 webinars on many diverse topics from all around the globe.

The chapter has also worked to attract diverse talent to the industry by building partnerships with post-secondary universities and colleges across Canada, such as Mohawk College, Humber College and Fanshawe College, and participating in events with groups like Link Canada, which advocates for LGBTQ2+

professionals in the insurance industry. ORIMS is also exploring future events and initiatives with the Canadian Association of Black Insurance Professionals and the Canadian Mental Health Association. ■



Q&A RISK PRO

Debbie Carpenter
Senior Risk Manager, Manulife



How did you get into risk management?

I came from an underwriting background (property & casualty) and knew that my technical skills could be useful from a risk management perspective. After gaining some broking experience so I could translate “insurance-ese” into everyday terms, I put my post-secondary energy economics education to work at a mining company as a risk analyst.

What is your biggest challenge as a risk professional?

Trying to be realistic on an organisation’s reliance on controls. Yes, they should be robust and reliable, and should be regularly tested, but sometimes stuff happens. Knowing when to accept things as they are is helpful in this situation.

What is one item you cannot live without?

Tough one – my siblings, my spice rack and my phone all tie for first place.

Who would you choose to be if you could switch places for a day?

Me, but at different times in my life – past and future. I want to see if I would still see things the same way knowing what I know now. I don’t necessarily want details on Future Debbie, just want to know that she’s still laughing sarcastically at things that are out of her control.

What is your favourite local restaurant?

As a Torontonion, I’m spoiled for choices, but my hands-down favourite is Ital Vital, a Caribbean vegan joint. Most people hear

“vegan,” and think no flavour. Not so at Ital Vital – the seasoning in the cooking is phenomenal, and the way traditional Caribbean dishes have been reimagined from a plant-forward perspective? Chef’s kiss...

Who inspires you?

No question, my parents. They’re Jamaican ex-pats that left home in their late-teens/early-20s and moved to United States and Canada – completely different countries that were less welcoming to Black folks in the 1960s and 1970s. They had some horror stories but are built of stern stuff. The didn’t just survive, they thrived.

What is the biggest risk you have taken?

Moving from Alberta to Toronto many, many, many years ago with only three months’ expenses saved up, and complete faith in my ability to keep my career trajectory going upwards. I appreciate Alberta for chiselling a “can-do” attitude into my psyche.

What is the best advice you have ever received?

My parents were adamant about having an emergency fund and “vex (angry) money.” “Vex money” is an amount set aside for getting yourself out of irritating situations. Think of it as petty cash for annoyances.

What is the one fun fact about yourself that people should know?

I absolutely love trivia and used to be on a professional trivia team that competed against other local teams weekly. ■

NEXT GEN SPOTLIGHT:

Sally Liu

Sally Liu is an up-and-coming insurance analyst at CIBC where she is responsible for developing climate-related loss estimations using catastrophe modeling and optimizing CIBC's insurance coverage, beside many other risk and insurance related projects. Prior to joining CIBC, she was a Master of Financial Risk Management (MFRM) candidate at Rotman, University of Toronto with a passion for applying risk methodologies to solve business challenges.

Sally believes the MFRM program is an ideal platform to advance her knowledge in risk management. The program offers an outstanding and welcoming academic environment, equipping her with thorough training in cutting-edge financial techniques. Engaging with industry professionals and drawing from their expertise provided her with invaluable insights and resources. As an operational risk data analyst at CIBC, she collaborated closely with the data analytics team and the corporate risk and insurance team on flood risk modeling and forecasting flood exposure on CIBC properties during the MFRM industry project, immersing herself in solving real-world risk challenges.

Before attending Rotman, she graduated from UBC Sauder, majoring in Finance and Business Analytics. Her academic journey was complemented by co-ops across the tech, investment banking and accounting sectors.

Sally has also applied her skills in high-stakes environments, such as the

2024 PRMIA Risk Challenge.

Representing Rotman, her team advanced to the World Final Round by analyzing the Silicon Valley Bank failure and presenting at the MATLAB headquarter in the United States. The PRMIA Challenge was more than just a competition; it was a transformative experience that expanded her horizons, deepened her understanding of risk management, and cultivated valuable connections that will enhance her professional journey.

Outside of work, she has been an avid player of one the famous Chinese instruments—the guzheng—for more than 10 years.

Sally's journey demonstrates the power of perseverance, continuous learning and embracing challenges. She encourages everyone to step out of their comfort zones and seize opportunities that push their limits. By committing to growth and giving your best effort, you can unlock your full potential and achieve remarkable success. ■



Vincent Bastarache

Vincent Bastarache est actuellement avocat au Barreau du Québec depuis 2023 après avoir complété son stage au sein d'un cabinet d'avocats régional réputé. Ayant effectué ses études au baccalauréat en droit à l'Université de Sherbrooke en régime coopératif, il a ainsi eu l'opportunité d'accomplir plusieurs autres stages au préalable, notamment au sein d'une firme d'investissement montréalaise et de différents cabinets d'avocats, dont l'un des plus importants sur le plan national.

Son intérêt marqué envers le monde des affaires, ainsi que son désir de développer une expertise multidimensionnelle dans son domaine de prédilection, l'a incité à poursuivre des études universitaires au deuxième cycle à l'Université de Sherbrooke et à obtenir un diplôme d'études supérieures spécialisées en droit des affaires et risques de l'entreprise (DARE). En relation avec ce dernier programme, qui se veut majoritairement axé sur la pratique plutôt que la théorie, Vincent a entamé un dernier stage au sein d'une grande entreprise québécoise activement présente sur la scène internationale afin de mettre en pratique ses connaissances nouvellement

acquises, notamment en matière de protection des renseignements personnels, cybersécurité, fiscalité internationale, prévention et règlement de différends, approvisionnement, responsabilité sociale et gestion des risques de l'entreprise.

Selon Vincent, alors que l'image première que peut émaner de la perception de la profession d'avocat par une personne est celle assimilable à un « gestionnaire de crise », le rôle de ce professionnel en tant que « conseiller prévoyant » peut passer sous le radar. Ce dernier rôle est néanmoins tout aussi important et primordial au bon fonctionnement d'un projet donné, quelle que soit la forme qu'il peut prendre. ■



HOW CYBER EXTORTION IS TRENDING FOR CANADIAN BUSINESSES

by Jason Contant, *Canadian Underwriter*

Canadian and American companies experiencing a cyber extortion event hit record numbers and unprecedented ransom demands in 2023, according to a report released last week by global brokerage Marsh.

But despite cybercriminals growing bolder in their ransom demands, an increasing number of companies are refusing to pay, according to the June 11 report, *Ransomware: A Persistent Challenge in Cyber Insurance Claims*. The report analyzed more than 1,800 cyber claims submitted to Marsh in Canada and the United States last year.

Less than one-quarter (23%) of Marsh's clients in the two countries impacted by a cyber extortion event in 2023 paid the ransom, the brokerage says in a press release. The 77% that refused to pay reflects a rapidly growing trend—in 2021, only 37% of Marsh clients rejected cybercriminals' demands.

Overall, 21% of Canadian and American clients that purchased cyber policies reported an event in 2023, consistent with the percentage over the past five years (16% to 21%). However, a record 282 extortion events were reported to Marsh, a 64% increase from 2022.

Ransomware remains a top concern for organizations given its increased frequency, sophistication and potential severity, even though it represents only 17% of all cyber claims filed, Marsh's report says.

"Indeed, the median ransom demand soared to \$20 million in 2023 from \$1.4 million, while the median payment made was \$6.5 million, reflecting the effectiveness of extortion negotiations," Marsh says in the release.

In 2023, events were driven by factors such as increased sophistication of cyberattacks, privacy claims and the MOVEit event, highlighting supply chain vulnerabilities, Marsh says.

The global MOVEit data breach affected more than 100,000 people in Nova Scotia, who had personal data stolen, including social insurance numbers, addresses and banking information. This included up to 100,000 people in the province, as well as 13,000 active employees with regional centres for education and the province's francophone school board.

Hackers also stole personal data from about 25,000 Halifax Water customers, 17,500 water and tax bill accounts from the Region of Queens Municipality, and data from the provincial pension agency.

Not surprisingly, specific industries have been targeted more often than



others. "The top five industries among Marsh clients to be affected by cyber events has remained consistent: in 2023, they were healthcare, communications, retail/wholesale, financial institutions and education," the report says.

Canada has seen a number of cyberattacks recently involving these industries, such as those impacting the Toronto District School Board, London Drugs, the B.C. government and libraries, and bookstore Indigo.

Along with ransomware claims, overall cyber claims reporting also increased in 2023, Marsh says. Still, since rising rapidly in 2020, the number of reported ransomware events has remained under 20% of total reported cyber claims from Marsh clients for the past two years.

"This means that privacy claims and system attacks leading to unauthorized access and potentially exposed data without an extortion component comprise a much larger share of cyber events reported by Marsh clients than do those with an extortion component," the report says.

In general, organizations should have a cyber resilience strategy that incorporates a view of cyber risk across the enterprise, including its potential economic and operational impact, and taking account of cybersecurity at vendors and other third parties. Companies also should undertake regular tabletop exercises and response evaluations, Marsh advises. ■

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CANADA'S TOP FINANCIAL RISKS FOR 2024-2025

According to the Office of the Superintendent of Financial Institution's (OSFI) Annual Risk Outlook for 2024-2025, 2025, the following are the top risks facing the Canadian financial system over the next fiscal year:

REAL ESTATE SECURED LENDING AND MORTGAGE RISKS

Of the mortgages outstanding as of February 2024, 76% will be coming up for renewal by the end of 2026. Canadian homeowners who will renew their mortgages during this time period could potentially face a payment shock. This payment shock will be most significant for homeowners who took out mortgages when interest rates were lower in 2020 to 2022. Households that are more heavily leveraged and have mortgages with variable rates, but fixed payments will feel this shock more acutely. We expect payment increases to lead to a higher incidence of residential mortgage loans falling into arrears or defaults.

Mortgages that have already experienced payment increases due to renewal or product type, such as adjustable-rate mortgages, are already showing higher rates of non-performance. Should residential real estate markets weaken, this could lead to higher defaults, lower recovery rates, and, therefore, higher credit losses for institutions.

Variable rate mortgages with

fixed payments (VRMFP) are of specific concern. Some of these mortgages are negatively amortizing, meaning the scheduled mortgage payments no longer cover the full interest costs or the principal. In these situations, lenders offset the shortfall by increasing the remaining outstanding principal. While most institutions report the shortfall as extended amortization periods, the contractual mortgage term does not change unless and until the mortgage is refinanced.

This means that borrowers with uninsured VRMFP will need to address higher outstanding principal balances, and are, therefore, at risk of suffering a significant payment shock. Borrowers have the option to make large lump sum payments or endure large monthly payment increases in the mortgage to return to their original contract term. Alternatively, if the circumstances warrant, borrowers can refinance their existing mortgage, however this may not eliminate monthly payment increases.

VRMFP make up about 15% of outstanding residential mortgages in Canada. If mortgage rates remain elevated, the financial commitment required by borrowers to return to their contractual amortization (for example, lump sum payment, mortgage payment increase) may put financial strain on many of those households.

With the current interest rate environment, loan-to-income and loan-to-value ratios of new

mortgage originations are at near record low levels. Changes to the economic environment, such as weakening labour markets and declining rates, could reduce the payment shocks outlined above. However, the effects of potentially higher unemployment rates could increase the debt strain on households and contribute to higher losses for institutions.

WHOLESALE CREDIT RISKS

Wholesale credit risk, including risk from commercial real estate (CRE) lending as well as corporate and commercial debt, remains a significant exposure for institutions. Economic uncertainties and changes in these markets are impacting the risk environment. Current interest rate levels have produced challenging refinancing conditions for some commercial and corporate borrowers and the conditions could negatively affect wholesale credit markets in the coming year.

Higher interest rates, inflation and lower demand have put CRE markets under pressure. We expect these challenges to extend into 2024 and 2025.

The office sub-segment of the CRE market is facing additional changes associated with the move towards hybrid work environments leading to rising vacancies and declining asset values. Lower quality office buildings face more

acute risks while higher quality older properties have also experienced pressure from reduced demand for office space.

While office properties face challenges from changes in working environments, other CRE assets also face challenges. The construction market continues to show signs of a slowdown as developers face unfavorable economic conditions. There are also signs that the industrial sector is facing headwinds following a period of strong growth.

Corporate and commercial credit profiles have weakened, driven by higher borrowing and operating costs resulting in declining profitability. Canadian business insolvencies continue to trend higher than pre-pandemic levels. Highly leveraged borrowers remain particularly vulnerable to refinancing challenges.

These factors contribute to heightened refinancing, investment, and credit risk in the wholesale credit sector for institutions.

FUNDING AND LIQUIDITY RISKS

Liquidity and funding conditions remain sensitive to an uncertain

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CANADA'S TOP FINANCIAL RISKS FOR 2024-2025

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financial market landscape. The expected and actual path of global interest rates will influence the risk appetite of market participants.

Liquidity shocks are a persistent concern and can arise if depositor behaviour shifts dramatically. Intensifying digitalization of the banking environment means that deposit outflows can arise more abruptly and intensely than some market participants expect. Deposit competition has increased over the past year as higher interest rates provide opportunities for depositors and other investors to seek the best possible returns. This has an impact on depositor behaviour and could affect bank deposit persistency and the assumptions deposit-taking institutions make when estimating funding costs. Access to wholesale funding and repo markets remain open, however, at current interest rates. Interest rate changes also impact valuations of high-quality assets held for liquidity at institutions and could reduce the capacity of markets to provide liquidity and contribute to market stability in periods of stress. Changes in depositor behaviour, funding costs and valuations also impact the management of interest rate risk in the banking book.

Funding and liquidity risk remains linked to credit risk as deteriorating conditions can negatively impact securitization markets. This can trigger increased liquidity risk for institutions that rely on securitization as a key source of funding. Severe credit deterioration could also have a negative impact on access to wholesale funding for impacted institutions.

In addition, risk related to intra-day liquidity, which refers to an institution's ability to make payments and settle obligations during the business day, can result from problems with the way counterparties interact. The near real-time nature of the risk can exacerbate liquidity stress at impacted institutions and impede the smooth functioning of payment systems. Liquidity shocks can also be triggered when collateral calls between market participants increase suddenly due to market volatility or an institution-specific event.

Overall, a competitive and market-sensitive funding environment, combined with digital advancements, heighten the challenges institutions would face in the event of a liquidity shock.

INTEGRITY, SECURITY AND FOREIGN INTERFERENCE

As the pace of social and political conflict increases globally, so do risks to institutions. A major geopolitical event could disrupt markets and create instability for institutions. The escalation of political tensions and the polarizing effect of geopolitical issues have the potential to make Canadian institutions a target for politically motivated attacks.

We are concerned with threats to institutions' integrity and security ranging from fraud and money laundering to cyber security and foreign interference. With advances in technology, financial institutions are facing more sophisticated and frequent threats to their security and operational resilience. Geopolitical instability increases the likelihood of risk materializing

because geopolitical conflict can motivate hostile foreign nations, affiliated threat actors, or criminals to destabilize our institutions for the purposes of financial gain or the advancement of interests.

Institutions that have integrity and security vulnerabilities, gaps, or issues could be subject to reputational harm, financial risks, or a cyber or national security risk, including foreign interference. These issues could lead to regulatory compliance measures that fall under OSFI's or the Minister of Finance's authority.

OTHER KEY RISKS

OSFI considers risks related to deposit-taking institutions, as well as those that are unique to the insurance and pension industries. For example, the impact of a large earthquake and changing weather and flood patterns on the property and casualty industry, as well as changes to life expectancy, impacts both life insurers and pension plans.

OSFI also assesses many other risks posed by cyber and technology, climate, third party outsourcing, and transmission risk from the less-regulated or unregulated financial sector. We continue to monitor the number and severity of disruptive events arising from these risks. These events underscore the importance of operational resilience at institutions and pension plans. The direct costs and, more importantly, the reputational impacts of prolonged disruptions or outages can negatively impact the resilience and stability of an institution and create risk. ■

EDITORIAL POLICY

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