



# OSFI's Annual Risk Outlook – Fiscal Year 2024-2025

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## Introduction

The Office of the Superintendent of Financial Institution's (OSFI) Annual Risk Outlook (ARO) for 2024 to 2025 includes an overview of the current risk environment, providing context for the top risks the Canadian financial system faces. The ARO also provides OSFI's responses that support us in fulfilling our mandate to contribute to public confidence in the Canadian financial system, which includes protecting the rights and interests of depositors, policyholders, financial institution creditors, pension plan members, former members and entitled beneficiaries.

The annex sets out our regulatory guidance priorities and supervisory industry strategies for federally regulated financial institutions (institutions) and federally regulated pension plans (pension plans) for the calendar periods from Q2 2024 to Q2 2025 fiscal year.

## Current risk environment

## **Elevated interest rates and market uncertainty**

Inflation has slowed globally, including in Canada, but has not yet reached its target. Tighter credit conditions and sustained higher interest rates have reduced aggregate demand and appear to have anchored inflation expectations. We expect that elevated interest rates and market volatility will result in continued higher borrowing costs, increased mortgage renewal/refinancing risk, decreased consumer spending and business investment.

Deposit-taking institutions are adjusting their approach to loan renewals, pricing strategies, and investment plans accordingly. For insurance and pension plans, high interest rates may help increase investment income and decrease the value of future liabilities. However, changing institution and consumer behaviour could have unexpected effects on actuarial experience, policy design, risk modelling, and other institutional decisions.

## **Rising household debt costs**

Canadian labour markets remain relatively strong, with unemployment hovering near pre-pandemic levels. Labour market strength has counterbalanced some risks, such as higher household debt levels. If labour markets weaken, the effects on credit quality could be material, and the landscape could change dramatically. There are signs higher mortgage payments are taking up a larger part of some households' income, leading to increases in the number of borrowers not being able to make payments on other loans and debts.

## **Wholesale credit stress and changing depositor behaviour**

Corporate credit and commercial real estate (CRE), particularly construction and development, and office sectors, continue to face stress and a high degree of uncertainty. While market-based and core funding liquidity sources are available, prior downturns and stress events have demonstrated that these conditions can change quickly. Lastly, we

observed marked change in investor and depositor behaviour and expectations as deposit competition increases, a factor that could draw deposits away from traditional savings accounts.

## Integrity and security amidst geopolitical uncertainty

Finally, geopolitical tensions, conflicts including state-on-state conflict, political crisis, democratic events, and global power rebalancing efforts continue to create global security and economic uncertainty. Uncertainty and tension can lead to activities, such as special economic sanctions, cyber attacks, foreign interference, or money laundering, that intensify integrity and security risks at institutions and eventually can manifest as financial risks. Canada and its allies have expressed concerns and are taking measures related to the increase in foreign interference, and OSFI is operationalizing coverage of its new mandate to account for risks associated with integrity, security, and foreign interference.

Regulatory and political uncertainty in markets that are consequential to Canadian institutions could also increase over the rest of the year. More than 54% of the global population (representing close to 60% of world GDP) will likely participate in national elections, including in the United States, Mexico, the European Union, and India, while globally there is a rise in authoritarian populism and the continuance of dictatorial regimes.

## 2024-2025 Top risks

This year's Annual Risk Outlook focuses on and details four risks in order of importance. Other important risks we are monitoring are also noted.



### Real estate secured lending and mortgage risks



### Wholesale credit risks



### Funding and liquidity risks



### Integrity and security amidst geopolitical uncertainty

## 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.

## OSFI response

OSFI continuously monitors the risk profiles of institutions' residential mortgage lending activities and regularly conducts examinations to ensure they follow sound underwriting standards and use prudent lending, portfolio, and account management practices.

We are developing institution-specific loan-to-income limits at the portfolio level for uninsured mortgages to prevent a buildup of highly leveraged borrowers. These actions will consider the size, nature, complexity, and risk profile of each federally regulated financial institution. It will balance sound risk management against the need for federally regulated financial institutions to compete effectively and take reasonable risks.

We do not expect these limits to be binding under the current interest rate environment. These institution-specific loan-to-income limits are supervisory actions. OSFI cannot disclose more details given the constraints and requirements under *Bank Act* regulations, known as the **Supervisory Information Regulations** (<https://laws-lois.justice.gc.ca/eng/regulations/SOR-2001-59/page-1.html>). We continue to engage with industry to ensure that institutions actively assess the risks posed by variable rate mortgages with fixed payments. This includes ensuring that adequate provisions and capital are in place to offset the increased credit risk, as well as promoting early intervention (prior to renewal) with borrowers vulnerable to payment shock.

In December 2023, we announced that we were **maintaining the minimum qualifying rate for uninsured mortgages** (</en/news/osfi-maintains-minimum-qualifying-rate-uninsured-mortgages>) at the greater of the mortgage contract rate plus 2% or 5.25%. This helps ensure borrowers can still make payments if they experience negative financial shocks, such as a reduction in income, an increase in household expenses, or an increase in mortgage interest rates. Going forward, we will maintain our internal review process to evaluate the calibration of the minimum qualifying rate, with assessments conducted at least annually. However, we have discontinued set announcement dates in December

and will only issue announcements if there are calibration changes. Consequently, corresponding revisions have been made to the relevant footnote in Guideline B-20 to align with this revised approach.

In March 2024, we published a Regulatory Notice that reinforces **OSFI's expectations on sound residential mortgage account and portfolio management practices** (</en/guidance/guidance-library/reinforcing-residential-mortgage-risk-management-practices>). Key areas include the need for robust risk monitoring of existing mortgages and proactive engagement with vulnerable borrowers. The Notice also underscores the inherent risks posed by variable rate mortgages with fixed payments and reinforces recent **OSFI actions to strengthen risk-based capital requirements** (</en/news/osfi-releases-capital-guidelines-updates-financial-resiliency>) in relation to residential real estate exposures, including expectations around provisions for expected credit losses.

## 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.

## OSFI response

OSFI continuously monitors wholesale exposures and lending activities to assess borrower and portfolio vulnerabilities, account management and underwriting practices, and loan loss provisioning.

These efforts will be enhanced by a new loan level data call on CRE exposures at deposit-taking institutions. This data will:

- increase our understanding of the prudential impact of market developments
- allow us to compare risk across institutions and identify higher risk exposures for discussion with institutions
- **support our supervision of the expectations ([/en/guidance/guidance-library/commercial-real-estate-risk-management](#))** outlined in the September 2023 CRE Regulatory Notice

We plan to broaden the scope of the data call to include all wholesale exposures in the future.

OSFI will continue to focus on monitoring institutions' exposures and risk management of wholesale credit risk through regular direct discussions, review of regulatory returns, risk reports, policies, and governance. Institutions should expect follow-up questions and potentially additional information requests for clarification arising from our monitoring efforts.

We are also completing supervisory reviews focused on account management practices, risk ratings, and downturn readiness. In the case of CRE, our supervisory reviews will also assess consistency with OSFI's expectations, as set out in the September 2023 CRE Regulatory Notice.

## Funding and liquidity risks

Liquidity and funding conditions remain sensitive to an uncertain 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 intraday 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.

## **OSFI response**

In 2024, OSFI plans to broaden and intensify its assessment of liquidity risk.

The approach will span key topics, with a focus on intra-day liquidity risk management, and liquidity and interest rate risk in the banking book management effectiveness in material foreign subsidiaries. OSFI will also deepen its line-of-sight into the operational aspects of contingency funding plans to better understand asset monetization decisions during stress events.

Intraday liquidity risk management work will be accompanied by industry consultations on the potential implementation of OSFI's intraday liquidity guidance, in calendar Q2 of 2024. Specifically, consultations will cover proposed updates to the Liquidity Adequacy Requirements Chapter 7 – Intraday Liquidity Monitoring that reflect payment system modernization changes and the introduction of formal intraday reporting requirements.

Furthermore, OSFI will continue to assess liquidity and funding risk vulnerabilities at individual institutions and require rapid remediation of material supervisory concerns.

Lastly, vulnerability to liquidity risk remains a heightened risk. OSFI expects institutions to continue improving reporting and operational capabilities to ensure they are effective, maintain data integrity, and are responsive to market disruptions.

# Integrity and security amidst geopolitical uncertainty

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.

Given that the financial sector has been identified as one of Canada's critical infrastructure sectors, and that the institutions OSFI regulates are heavily integrated into the lives of Canadians, we take these threats seriously.

## OSFI response

To address these new and growing risks, OSFI has been given an expanded mandate by Parliament, and has established a National Security Sector. This new sector is responsible for helping OSFI ensure that FRFIs address threats from foreign interference and threats to national security that affect federally regulated financial institutions. OSFI also created an Integrity and Security Risk Division to lead integrity and security supervision and policy.

In 2024, OSFI issued an [Integrity and Security Guideline \(/en/guidance/guidance-library/integrity-security-guideline\)](/en/guidance/guidance-library/integrity-security-guideline) with policy and procedure expectations for institutions. OSFI's guidance aims to help institutions and the Canadian financial system become more resilient to these threats. Institutions also completed an integrity and security questionnaire to assess their alignment with OSFI's integrity and security expectations. Additionally, we plan to work with institutions to provide them with information on the threat environment.

Public confidence in the Canadian financial system depends on its institutions acting with integrity and securing themselves against diverse threats, including foreign interference. We are building our capacity, and our partnerships with key stakeholders and partners, to leverage existing information and provide advice to monitor the threat environment as it relates to institutions.

## Other key risks

It is worth noting the interdependencies that the four ARO risks have on industries we regulate and supervise. For instance, a housing market downturn could cause stress in the mortgage insurance industry. Credit risks and market volatility could impact investment portfolios, asset liability management, and hedging strategies for all insurers.

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.

## OSFI response

In 2024 and 2025, we will selectively review institutions against our technology and cyber risk management guidelines. We will also continue our cyber resilience testing to identify control weaknesses and monitor threats from emerging technologies.

We have observed that more disruptions affecting institutions' critical operations are originating at third parties and their supply chains. Moreover, the emergence of a few dominant service providers increases the likelihood of a systemically disruptive event. We will continue to assess the effectiveness of institutions' business continuity and disaster recovery plans to enhance our understanding of systemic concentration risk, risk trends, and the effectiveness of financial institutions' preparedness for disruption. We will also consider any necessary adjustments to Guideline E-21 on Operational Risk and Resilience as we finalize the Guideline in the coming year.

## Annex I

This annex updates our near-term plan of guidance priorities for institutions and pension plans. The references below reflect calendar quarters and cover the periods from Q2 2024 to Q2 2025.

Our guidance priorities are divided into three streams: (i) risk management guidance for institutions, (ii) capital and accounting guidance for institutions, and (iii) guidance for pension plans.

In the upcoming year, we designate a priority set of regulatory expectations to help institutions focus on the right risks. This includes a streamlined guidance release agenda. It also includes a review of our regulatory framework with the purpose to rescind any out-of-date or ineffective guidelines.

The timelines indicated below reflect this initiative, as well as our strategic plans and risk priorities. Plans may be changed or amended due to external factors causing us to reconsider the dates for the guidance impacted.

## Risk management guidance for FRFIs

### Deposit-taking institutions and insurance companies

Timing (calendar)	Initiative	Purpose
Q3 2024	Final Guideline E-21 on Operational Risk and Resilience	Sets out expectations for operational resilience, while continuing to reinforce expectations for operational risk management.
Q4 2024	Final Guideline on Culture and Behaviour Risk	Finalizes expectations for governance and management of culture and behaviour risks.
Q1 2025	Consultation on regulatory compliance management	Public consultation on regulatory compliance management.

## Capital and accounting guidance for FRFIs

### Deposit-taking institutions and insurance companies

Timing (calendar)	Initiative	Purpose
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Timing (calendar)	Initiative	Purpose
Q2 2024	Draft revisions to the Liquidity Adequacy Requirement (LAR) Guideline	Public consultation on draft updates to Chapter 7 – Intraday Liquidity Monitoring Tools of the LAR Guideline, as well as changes resulting from the cessation of the publication of the Canadian Dollar Offered Rate (CDOR)'s remaining tenors.
Q3 2024	Draft revisions to the Life Insurance Capital Adequacy Test (LICAT) Guideline	Public consultation on draft updates to the LICAT Guideline to reflect a new methodology for segregated funds capital requirements.
Q3 2024	Draft Guideline on public disclosure of crypto assets	Public consultation on the disclosure of crypto asset exposures.
Q4 2024	Final revised LAR Guideline	Finalizes updates to the LAR Guideline.
Q4 2024	Final revised Mortgage Insurance Capital Adequacy Test (MICAT) Guideline	Finalizes updated MICAT Guideline on the capital requirements for multi-unit residential exposures.
Q4 2024	Final revised Life Insurance Capital Adequacy Test (LICAT) Guideline	Finalizes updated LICAT Guideline on the new segregated fund guarantee capital requirements, and other minor adjustments.

Timing (calendar)	Initiative	Purpose
Q1 2025	Final revised guidance on capital and liquidity treatment of crypto assets	Finalizes updated guidance for the capital and liquidity treatment of crypto asset exposures.
Q1 2025	Final Guideline on public disclosure of crypto assets	Finalizes Guideline on crypto asset exposure disclosures.

## Guidance for pension plans

No guidance for pension plans is expected to be released in the periods from Q2 2024 to Q2 2025.

## Releasing OSFI guidance – Pilot

Starting in Q3 2024, OSFI will pilot Quarterly Release Dates. On these dates, all guidelines, regulatory notices and consultations for that quarter will be released at the same time. The Quarterly Release Days will be held in the second month of the quarter on the third Thursday. Two weeks following the release, on the first Thursday of the third month of the quarter, OSFI will hold information sessions regarding the releases for the industries OSFI regulates and supervises. The dates are as follows and they have been added to OSFI's web site:

### Q3 2024

Quarterly Release Date – Thursday, August 22, 2024

Industry Day – Thursday, September 5, 2024

### Q4 2024

Quarterly Release Date – Thursday November 21, 2024

Industry Day - Thursday, December 5, 2024

## Q1 2025

Quarterly Release Date – Thursday, February 20, 2025

Industry Day – Thursday, March 6, 2025

This standardized approach offers predictability and continued transparency about OSFI's work while streamlining our approach to releasing guidance.

We will be reviewing this pilot approach in Q1 2025. The decision to continue this approach will be included in the 2025 Annual Risk Outlook.

This approach **excludes** announcements about the Domestic Stability Buffer (DSB), as well as the publication of the Annual Risk Outlook (ARO) and Semi-Annual Risk Outlook (SARO).

# Annex II

## OSFI's Supervisory industry strategies – Fiscal year 2024/25

This Annex summarizes OSFI's Supervisory Industry Strategies for each of pension, insurance, and banking. With all our supervisory work, we will apply a risk-based approach that considers the risk environment and our risk appetite.

### Pension

#### Priorities for 2024-25

Over the plan horizon, pension supervision will:

- maintain focus on monitoring and enforcing minimum funding, legislative, and supervisory requirements
- contribute to the migration of a new system supporting the supervisory framework for pensions
- conduct thematic reviews on funding, investment, and third-party risks
- support confidence in the pension industry by responding to enquiries from plan administrators, plan members, and industry stakeholders

### **Further details of supervisory priorities**

A top priority for the new fiscal year is development of the Overall Risk Rating (ORR) of plans under the new Supervisory Framework. In 2024-25, we will develop and test a new pension supervisory IT system.

For monitoring, we will continue to utilize our analytics systems to prioritize which valuation reports we review in depth. We will continue to review plan amendments and enforce sponsor remittances.

## **Insurance**

### **Priorities for 2024-25**

Over the plan horizon, insurance supervision will:

- continue to focus on prudence and conservatism in capital management practices, with emphasis on assessing how insurers establish their internal targets and key business practices that have implications for insurers' capital ratios
- intensify focus on operational resilience with activities targeted towards cyber resilience and third-party supplier risks for critical outsourced operations
- assess risk governance practices in the oversight of business risks

### **Further details of 2024-25 supervisory priorities**

Insurance supervision address five main areas during 2024-25:

- business risk

- financial resilience
- operational resilience
- risk governance
- administration of the *Insurance Companies Act* (ICA)

### **Business risk**

We will monitor the insurers' strategies and business plans as well as external risk factors to assess threats and vulnerabilities to insurers' business models. For internationally active insurance groups (IAIGs) where we are the group wide supervisor, we will support these assessments by hosting supervisory colleges. We will also participate in the supervisory colleges of international insurers operating in Canada.

### **Financial resilience**

We will conduct thematic reviews (also referred to as cross-sector reviews) on own risk and solvency assessment (ORSA) to assess the comprehensiveness of risks assessed, the extent of diversification benefits, and the breadth of scenarios considered when insurers establish their internal targets. We will also conduct a thematic review of internal reinsurance arrangements among large life insurance groups to assess effective risk transfer and the impact these complex programs have on setting internal targets.

We will continue to assess how the evolving housing market risk environment affects the financial resilience of mortgage insurers.

We will assess investment risk, asset liability management, and the implications of IFRS 17 policies on capital through targeted thematic monitoring throughout the year.

### **Operational resilience**

We will conduct thematic reviews on cyber resilience and third-party risk management of critical outsourced functions. We will continue to gradually roll out the intelligence-led cyber resilience testing (I-CRT) to the IAIGs.

### **Risk governance**

In response to changing business risks, we will conduct thematic assessments around insurer risk oversight over managing general agents (MGAs) who place and manage insurance risk on insurers' balance sheets. We will also conduct thematic reviews to assess the effectiveness of oversight of shifting auto insurance risks and the execution risk of complex technology and business strategies. We will also conduct a thematic review of the effectiveness of internal audit.

### **Administration of the ICA**

Lead supervisors conduct risk assessments and provide approvals for more than 700 transactions annually related to the functioning of the vested asset regime of branch insurers and related party reinsurance transactions (DA-21 regime).

We will support the risk assessment and transmittals for significant transactions related to new entrants, acquisitions, or capital deployment.

## **Banking**

### **Priorities for 2024-25**

Priorities for the banking teams are similar to those of the insurance teams. Over the plan horizon, banking supervision will:

- continue to focus on prudence and conservatism in capital and liquidity management practices, with emphasis on assessing how banks establish their internal targets and key business practices that have implications for banks' capital and liquidity ratios
- intensify focus on operational resilience with activities targeted towards cyber resilience and third-party supplier risks for critical outsourced operations
- assess risk governance practices in the oversight of business risks

In addition and similar to insurers, we will support the risk assessment and transmittals for significant transactions related to new entrants, acquisitions, or capital deployment.

### **Further details of 2024-25 supervisory priorities**

During 2024-25, banking supervision address four main areas:

- business risk
- financial resilience
- operational resilience
- risk governance

### **Business risk**

We will monitor the banks' strategies and business plans as well as external risk factors to assess threats and vulnerabilities to banks' business models. For systemically important banks (SIBs), we will host supervisory colleges for five of the six SIBs, which will support our assessments. We will also participate in the supervisory colleges of international banks operating in Canada.

### **Financial resilience**

For small and medium sized banks (SMSBs), we will conduct a cross-sector review of 2023 internal capital adequacy assessment processes (ICAAPs) that will include assessment of the recommendations from our work on 2022 ICAAPs. We will also conduct risk-based reviews of key credit portfolios of select SMSBs.

For SIBs, we will examine key treasury functions, more specifically liquidity and structural interest rate risk management in relation to US and Latin American subsidiaries.

For both SMSBs and SIBs, we will monitor and assess remediation of findings from recent reviews as well as any long outstanding reviews, with a particular emphasis on commercial real estate (CRE) and real estate secured lending (RESL) account management as well as contingency funding plans. We will also conduct a thematic review of retail account management (for example, credit cards and car loans).

We will assess institutions' capital and liquidity and funding positions with the objective that they can absorb severe but plausible stress conditions, including an expected deterioration in credit conditions. Areas of emphasis for the coming year will include reviews and/or follow-up on:

- remediation activities regarding capital adequacy and expected credit loss provisioning
- account management practices in residential and commercial real estate, as well as retail, corporate, and commercial lending (including leveraged lending)
- liquidity and interest rate risk management

### **Operational resilience**

We will assess banks' preparedness to address technology and cyber-related risks as well as their ability for critical functions to recover rapidly from disruptions and external threats. We will prioritize technology and cyber reviews based on risk as well as the need to fill in gaps in our current assessments of these areas. Through our reviews, we will seek to expand the breadth and depth of our risk assessments.

### **Risk governance**

Using cross-sector reviews, we will focus on the effectiveness of banks' independent risk and compliance oversight functions, with particular attention on internal audit.

### **Date modified:**

2024-05-22