

CANADIAN FINANCIAL SERVICES RISK OUTLOOK SURVEY 2024

FEBRUARY 2024



INTRODUCTION

The Global Risk Institute’s Canadian Financial Services Risk Outlook Survey 2024 gathers insight from financial services risk professionals on the most pressing challenges facing the Canadian financial services sector today. Participants in the eighth annual edition of the survey included banks, credit unions, insurance companies, pension funds and government agencies, offering a comprehensive perspective on the financial sector.

Collected between December 2023 and January 2024, the responses reflected in this report provide a detailed view of primary concerns for risk managers, starting with systemic threats and then examining risks to individual organizational growth and critical operations. Responses are segmented by industry sector, and the report has additional insights on technological innovation, sustainable finance, and talent & culture, as well as geopolitical and macroeconomic turmoil.

CREDIT AND ECONOMIC RISK OF TOP CONCERN

Credit risk and **economic risk** have emerged as the top risks this year, with credit risk rising from third place last year, and economic risk maintaining its first-place position for the fourth consecutive year. The prominence of credit and economic risks is not surprising given the change from the generally positive market conditions and benign credit environment over the past decade. One CRO described the shift in the Canadian economy, stating it has transitioned to a “different structural market regime without monetary policy tailwinds that are making investing more challenging.”

Cyber risk is a top concern, ranking third for top risks identified over the next five years to the financial system. Phishing and malware incidents increased in 2023 and this underscores the ubiquity of this risk across both private and public institutions of all sizes. Criminals are increasingly sophisticated, exploiting vulnerabilities with new tactics,

Figure 1: Top Five Perceived Risks to the Canadian Financial System Over the Next Five Years*

Rank	2024	2023	2022	2021
#1	Credit	Economic	Economic	Economic
#2	Economic	Cyber	Cyber	Cyber
#3	Cyber	Credit	Climate	Climate
#4	Geopolitical	Geopolitical	Credit	Pandemic
#5	Technology/Innovation	Talent	Talent	Credit

**The rankings are based on the number of selections within the top 3 risks. The colour scheme shows trend, with darker red reflecting increasing trend, lighter red and pink reflecting declining trend, and light pink indicating a risk new to the top five.*

including voice cloning and artificial intelligence (AI)-generated C-level video requests. The MoveIT vulnerability in 2023, a notable cybersecurity event, affected many entities and individuals. Cyber criminals identified a vulnerability in this file transfer software and harvested data from more than 2,000 organizations globally before the software was remediated in May 2023. The full impact of this breach remains unknown. This type of cyber attack known as a zero-day vulnerability (a flaw that exists in software, but has not been fixed) highlights the need for comprehensive cyber risk management extending beyond internal protocols to include third-party relationships. Cyber attacks are becoming more frequent and complex. No institution or industry can afford to overlook this threat.

Geopolitical risk remains the fourth most significant risk this year, reflecting the sustained impacts of conflicts in Europe and the Middle East, alongside escalating global tensions. These conflicts have led to substantial disruptions in supply chains worldwide and have led to more pronounced fluctuations in commodity pricing, particularly oil and gas. The recent escalation in the Middle East has extended to the Red Sea shipping lanes- one of the world's busiest maritime routes- threatening the supply of critical goods and materials, including oil and gas and electronics between Europe, Asia and east Africa. One CRO highlighted the gravity of the situation, stating, "there is risk that a major geopolitical event could destabilize the world economy."

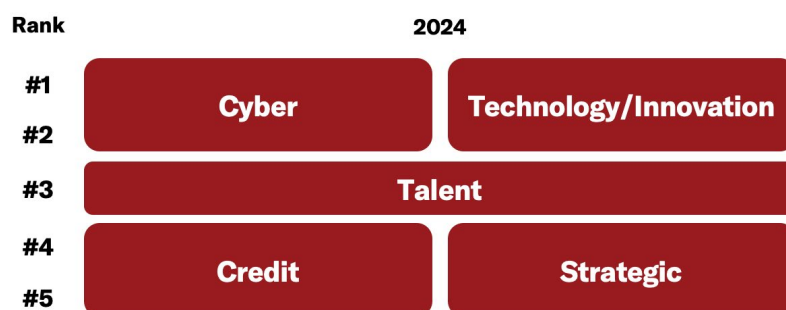
Technology/innovation risk has entered the top five risks to the Canadian financial system for the first time, overtaking **talent risk**. Events of the past year have consistently demonstrated widespread use and rapid adoption of new technologies. There are also significant public discussions regarding safety and security issues inherent in AI, even as the benefits of its use are becoming apparent.

An interesting change in this year's survey results is that concerns about the top risks are more evenly distributed. Last year, almost half of respondents identified economic risk as their top concern. This year, three risks (credit, economic, cyber) were each identified as a top risk by about one quarter of the respondents. This suggests a more challenging environment for risk managers as multiple risks compete for their attention.

RISKS TO INDIVIDUAL ORGANIZATIONAL GROWTH

When asked to identify the top risks to their organizations' growth over the next five years, respondents ranked **cyber risk** and **technology/innovation risk** highest. This aligns with the ongoing focus on organizational resilience emphasized by both the industry and regulators. Overall, risks at the organization level, similar to those at the system level, were more evenly distributed than in previous years. This suggests organizations will need to manage a broader set of top risks and consider the interconnections among them.

Figure 2: Top Five Perceived Risks to Organizations Over the Next Five Years, Overall*



*Ranking based on the number of selections within the top 3 risks

Respondents indicated managing cyber and technology/innovation risks were the most difficult to manage. These results reflect the high pace of technological change and innovation, coupled with the challenge that the required experience and expertise are developing much faster outside of traditional financial systems, such as in the technology industry. Additionally, cyber incidents and technology failures have been identified as the top individual risks to critical operations.

DIFFERENCES ACROSS SECTORS

Survey results indicate a difference in how individual industry sectors perceive the top five risks to their organizations versus the top five risks to the financial system as a whole.

Banking

Credit risk is number one, joined by **regulatory risk**. Credit is a perennial concern, especially with the significant increase in interest rates. Credit risk is not in the top five for insurance companies or

pension funds. Regulators remain active, issuing comprehensive changes like OSFI's B-15 Climate Risk Guideline and the Integrity and Security Guideline. These top two risks are followed by **cyber** and **technology/innovation risk**.

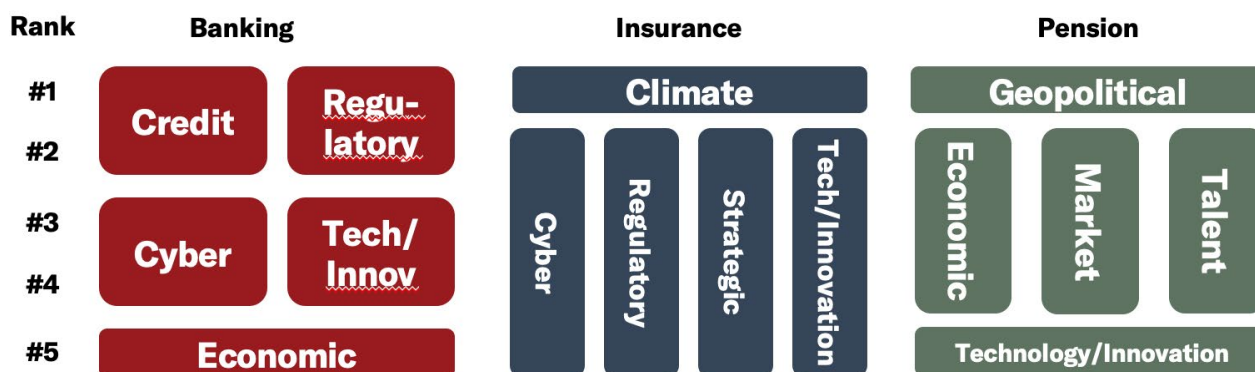
Insurance

In the insurance sector, respondents ranked **climate risk** as their top concern, although it did not rank in the top five for banks or pension funds. This highlights the insurance sector's acute awareness of physical climate threats. In addition to the risks identified by the banking sector - **technology/innovation**, **regulatory** and **cyber** - the insurance sector also considers **strategic risk** as a top threat.

Pension

Geopolitical risk was ranked first by pension plans, potentially due to their significant international exposure and investment profile. The next most important risks in this sector were **talent**, **market**, and **economic**. Given their role as investment managers, the economy and markets are key priorities and they are a global competitor for talent.

Figure 3: Top Five Perceived Risks to Organizations over the Next Five Years, by Sector*



*Ranking based on the number of selections within the top 3 risks

INDIVIDUAL RISKS

The survey asked participants for more detail regarding individual risk areas, with highlights summarized below.

Consistent with last year and the identification of cyber risk as a top organizational risk, cyber incidents remain a leading threat to **Critical Operations**, tied with technology failures (a new category added this year). Together these two were the top concern for almost half of respondents, who frequently cited the failure to seize technology opportunities as a significant risk, along with the risks from current or future AI and machine learning (ML) use and its disruptive potential. Efforts to mitigate these risks

include increasing internal process robustness, keeping pace with technology changes, developing integrated investment systems across asset classes and business lines, and centrally managing large data volumes.

AI and ML were identified as the top risk in the area of **Technology Innovations**, followed by quantum computing and open banking/open finance. As noted in the critical operations section above, AI and quantum computing offer opportunities that organizations cannot afford to miss, but also pose significant disruption potential. The position of open banking/open finance is noteworthy, as it has disruptive potential, especially for incumbents in the financial system.

Figure 4: Top Risks to Critical Operations

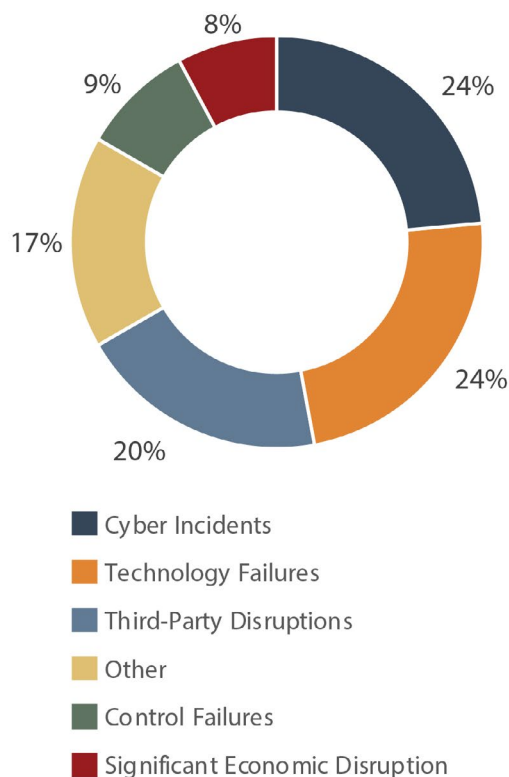
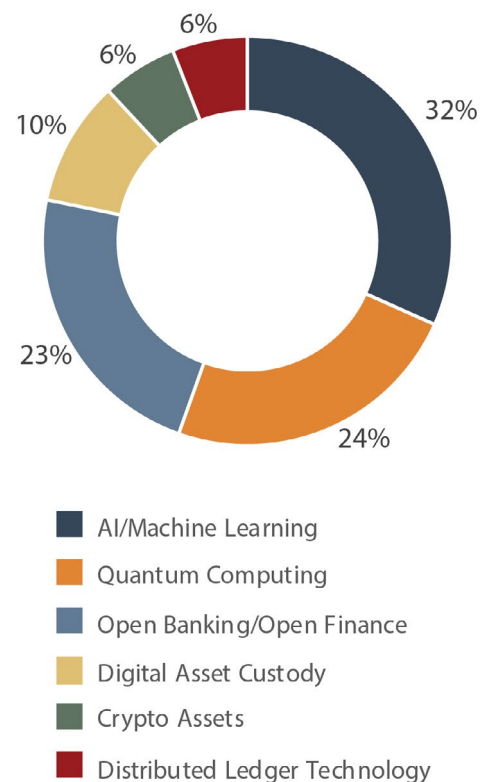
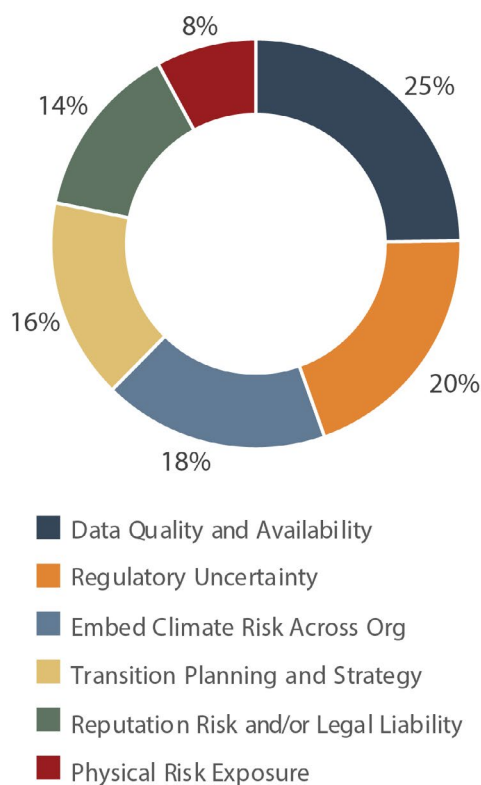


Figure 5: Top Risks to Technology Innovations



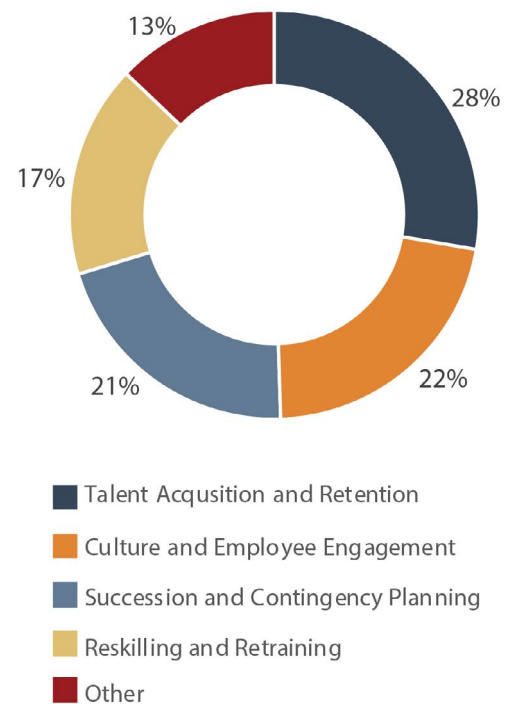
While climate risk fell out of the top five risks to the Canadian financial system last year, organizations still recognize several issues within the **Sustainable Finance** area. The top risk identified was data quality and availability. Institutions have been addressing a variety of data challenges as they prepare for and respond to regulatory requirements such as OSFI's B-15 Climate Risk Guideline, released in March 2023, and the implementation of voluntary sustainability standards such as IFRS S1 and IFRS S2, which followed in June 2023. Regulatory uncertainty was the next on the list, which is understandable given the level of regulatory activity in this area, both within Canada (federally and provincially) and internationally.

Figure 6: Top Risks to Sustainable Finance



Organizations prioritized talent acquisition and retention as the top risk in the **Talent & Culture** category, followed by culture and employee engagement. Attracting and retaining talent is essential, and to achieve this, culture and employee engagement are important. Organizations are still learning how to work in hybrid environments.

Figure 7: Top Risks to Talent & Culture



FUTURE RISK CHALLENGES

The survey asked participants about the global outlook on economic stability.

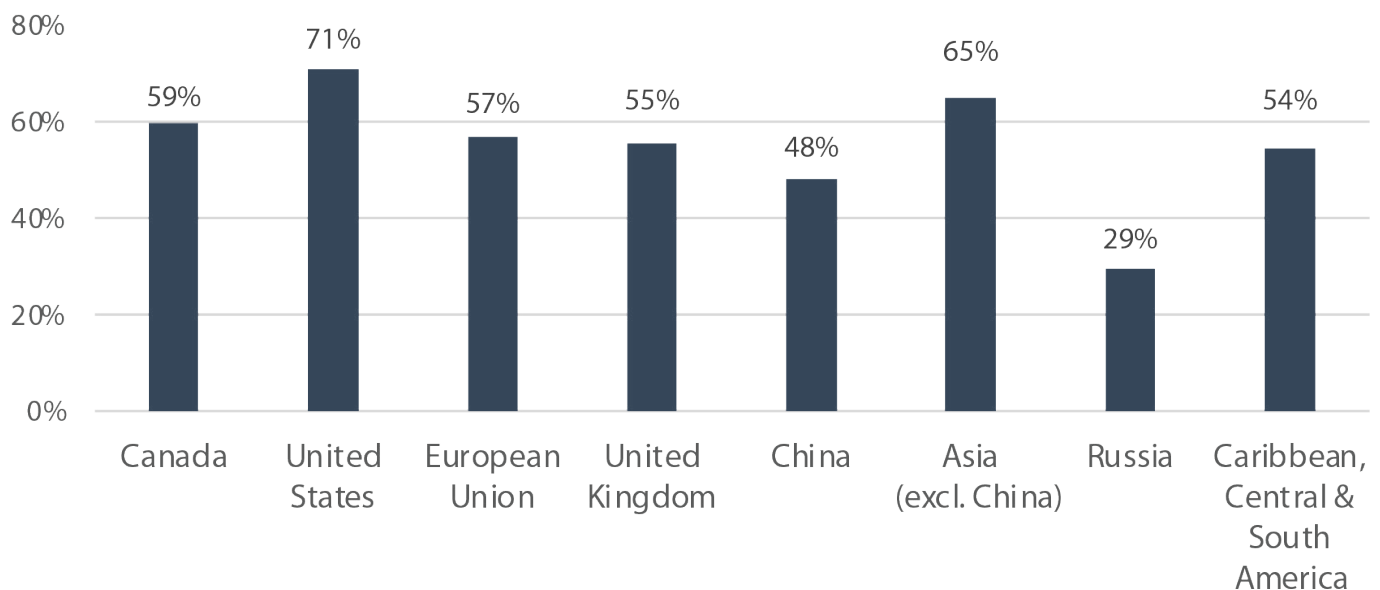
Geopolitical and Macroeconomic Risks

Survey respondents identified the United States as having the most positive outlook, with Russia and China viewed most negatively. Contributing factors include ongoing geopolitical risks like the Middle East conflicts and instability in Russia, Africa and Taiwan, along with the implications of the upcoming U.S. election in November. These conditions risk destabilizing supply chains, escalating conflicts, increasing tariffs and trade frictions, causing volatility in financial markets, and eroding consumer confidence.

Conclusion

In conclusion, the complex interplay of multiple risk drivers has been identified by numerous CROs as a key area for monitoring and preparation as we progress into 2024. A notable trend in this year's survey was the increased diversification in risk distribution, observable at both the systemic and organizational levels. This reinforces the continued importance of organizational resilience.

Figure 8: Global Outlook on Economic Stability*



*Higher percentage indicates greater perceived stability

BACKGROUND

GRI's annual Risk Outlook Survey assesses the risk perceptions of our members in the Canadian financial services industry. It sheds light on how senior risk professionals view the challenges facing the industry and their organizations. The survey participants included banks, credit unions, insurance companies, crown corporations, government agencies, pension funds and other asset managers. Responses to this year's survey were received between December 2023 and January 2024.

This report summarizes the results of the survey. It begins with the system-level view of the threats respondents identified to the Canadian financial services industry. The report then presents the organization-level view of the risks to key priorities, including a sector-by-sector view of the organization-level risks. Finally, the report captures member assessments of specific risk themes that are topical focus areas for GRI, such as technological innovation and the long-term global challenges of geopolitical/macroeconomic disruptions.

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