

E-23: MODEL RISK

MANAGEMENT GUIDELINE (CANADA, 2025)

WHAT IS E-23?

- New OSFI guideline setting expectations for Model Risk Management (MRM)
- Expands scope: covers traditional, AI, and machine learning models
- Aligns with global best practices (SR 11-7, SS 1/23, EU AI Act)
- Reinforces the need to integrate MRM with enterprise-wide data governance, strategy, and management

WHAT CHANGES?



Full lifecycle governance for all models with risk-based proportionality



Model inventory requirement



AI/ML explicitly in scope



Proportionality & risk rating



Stricter expectations for third-party / black box models

WHAT IT MEANS FOR BANKS & INSURERS

More controls needed: development, validation, deployment, monitoring, decommissioning. Especially for high risk/complex/AI models.

Must maintain an up-to-date, centralized inventory ("authoritative record") of all models that are material risk or non-negligible risk. More models will enter scope.

Need to treat AI/ML techniques like any other model with heightened risk. Includes third-party AI models. Explainability, monitoring drift, change management become essential.

Not all models require the same degree of oversight. The more material or complex, the more governance expected. Smaller insurers may rely more on external validation.

Must manage vendor / third-party model risk. Ensure validations, control even if model internals opaque.

WHY IT'S CHALLENGING



Volume & velocity: AI introduces many more models, updated frequently

Complexity: Black-box ML models harder to validate & monitor

Cross-functional impacts: Risk, compliance, data, and business teams must align under a single governance framework

Legacy frameworks: Most MRM programs were built for finance models, not AI

Data dependency: AI model risk is inseparable from data governance, data quality, and data management maturity

ADVICE

Modernize Frameworks

- Expand model inventory (AI/ML)
- Update policies for AI ethics, fairness & data governance

Invest in Scalable Infrastructure

- Automate monitoring & testing (bias, drift, performance)
- Centralize documentation

Strengthen Governance & Accountability

- Train boards/executives on AI + data governance
- Form cross-functional AI risk committees
- Board-level reporting

Build AI-Ready Validation Practices

- Enable human-in-the-loop validation & monitoring
- Continuous monitoring tied to data quality controls

Prepare for Regulatory Engagement

- Show proactive alignment with E-23
- Provide evidence of controls, monitoring & enterprise data integration

EXECUTIVE TAKEAWAY

E-23 is not just compliance — it's a mandate to future-proof model risk management. Organizations that integrate MRM with enterprise data governance and strategy will reduce regulatory risk, improve trust, and unlock safe innovation.