EOS CASE STUDY

Bank of Montreal

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Responsible AI governance and management of algorithmic risk.

THEMES	SECTOR	STATUS
AI governance – Algorithm impact assessment	**Financial Services**	**Ongoing**

OUTCOME AT A GLANCE

BMO established a formal Responsible AI and Data Ethics Forum, strengthening governance, oversight and transparency around the use of artificial intelligence.

Engagement Objective:

We engaged with Bank of Montreal to encourage robust governance and oversight of artificial intelligence, including assessment of algorithmic risks, bias and ethical impacts, while strengthening transparency around responsible AI practices and board oversight.

Details of engagement:

As the financial services industry increases investments in digitisation, we are monitoring the implementation of artificial intelligence (AI) and other advanced technologies to ensure companies have robust oversight processes that include monitoring of potential algorithm bias to encourage an emphasis on protecting digital rights.

We engaged with Bank of Montreal (BMO) in establishing comprehensive governance practices around the ethical use of AI and conducting an algorithm impact assessment of the impact level of the banks automated decision-systems.

We first raised our concern with the company in 2020 with follow-up meetings across the subsequent years. The bank updated us in 2021 saying it had a trustworthy AI council comprised of leaders across business lines to ensure the implementation of AI is done in an ethical manner and aligns with company values and regulatory expectations. We encouraged supporting disclosure in its next sustainability report.

Notably, in 2022 we met with members of the sustainability and investor relations teams at the company's headquarters. We asked about the bank's AI strategy, to which it reassured us AI remained a priority.

The following year, we learned the bank was reviewing ethical, privacy, and compliance risks and had established escalation mechanisms through governance forums, including by ranking applicable risks, filling out questionnaires, and assigning quantitative scores. The bank was also updating its broader applicable risk frameworks with generative AI becoming more prevalent.

While the bank was making good progress on AI, in 2024, we encouraged greater disclosure on board oversight of the intersection between artificial intelligence (AI) and human capital management.

Potential outcomes and next steps[1]

In 2023, the bank disclosed in its sustainability report that it had built governance practices to adhere to its internal and regularly expectations, including by establishing the Responsible AI and Data Ethics Forum to ensure that any application of AI technologies at BMO aligned with its Code of Conduct, risk management frameworks and regulatory expectations. Members of the Forum have expertise in legal, compliance, privacy, ethics, cybersecurity and other applicable risk areas, and provide guidance on identifying and mitigating any such potential risks associated with AI.

With respect to board oversight, AI and data security fall within the category of operational non-financial risk, which is the responsibility of the chief risk officer and is overseen by the risk review committee. The bank has enhanced AI and data analytics capabilities across the organisation, and focuses research on emerging and innovative technology.

> BMO enhanced its AI governance framework, introducing formal mechanisms to identify, assess and mitigate ethical, privacy and compliance risks associated with AI.

According to the Evident AI Index, the bank scores above peer averages ranking 16th out of 50 banks and scoring 34.6 out of 100 points. The Evident AI Index is a third-party benchmark that compares the AI capabilities of major banks globally.

We will continue to engage on responsible AI. We are also increasing our engagement focus on the impacts of AI on workers. We will ask companies to explain the positive and negative impacts of AI on workers, along with an explanation of their strategy to maximise positive and mitigate negative impacts.

[1] Potential outcomes stated above are not intended to be a forecast of future performance, which will depend on a range of factors which cannot be guaranteed. These may include factors such as wider business performance in the context of dependencies such as developments in public policy, technology and market demand. Any quantified potential outcomes are based on the company's disclosed targets and other assumptions as referenced in this document.