



European Risk Management Council

Risk Landscape Review

March 2024



- **Risk Sentiment Index: Update for the UK, the US and APAC**



DEAR READER,

I am delighted to present the Q1 2024 edition of the Risk Landscape Review.

The issue is dedicated to Q1 2024 update of the Risk Sentiment Index (RSI), an expert-driven, forward-looking index that reflects the expectations of experts about the risk landscape of the financial sector in the next 12 months. For the first time, European Risk Management Council ran RSI surveys of Chief Risk Officers simultaneously in the UK, the US and APAC. This allows us to make a comprehensive comparison of respondents' risk perception in three regions, their views on top risks and potential future risk trends.

The aggregated RSI results unveiled a global trend in risk perception shared by all three regions, albeit with some intriguing regional differences described in the article included to this issue.

My huge thanks to all contributors and survey respondents. Enjoy the reading.

Yours sincerely,

Dr Evgueni Ivantsov

Chairman of European Risk Management Council



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Risk Sentiment Index: Q1 2024 Update

Consensus on the mild risk volatility in the short run but more threats beyond 2024

In Q1 2024, the European Risk Management Council conducted surveys and produced Risk Sentiment Index (RSI) for the US, the UK, and APAC. The aggregated results unveiled a global trend in risk perception shared by all three regions, albeit with some intriguing regional differences. While RSIs are not intended to predict future risks, they provide valuable insights into the perceptions of banking executives responsible for risk management functions regarding dynamic trends within the risk landscape. RSIs evaluate seven major risk categories that have a first-order impact on financial institutions: credit, market, liquidity, operational, cyber and IT, conduct, and regulatory risks.

The RSI is derived from surveys of CROs and other risk executives in the financial services sector, serving as a numerical representation of the adjusted percentage of respondents anticipating an increase in risk over the next 12 months. Consequently, a higher RSI indicates that more respondents expect an upswing in risk.

Mild risk volatility is expected in 2024

The latest survey results indicate a consensus among CROs in all three regions regarding the relatively mild volatility of the risk landscape in 2024. In the UK, the aggregated RSI decreased from 0.49 in Q4 2023 to 0.35 in the current quarter, marking the lowest level observed in the past six years and significantly below the long-term average of 0.46 (Figure 1). Similarly, in the APAC region, the aggregated RSI stands at 0.46, also below the long-term average of 0.50, reflecting a positive trend observed since mid-2022 (Figure 2). In the US, a similar pattern is observed, with the aggregated RSI decreasing from 0.46 to 0.40 compared to the previous quarter.

Figure 1. UK RSI trend: Q4 2018 – Q1 2024

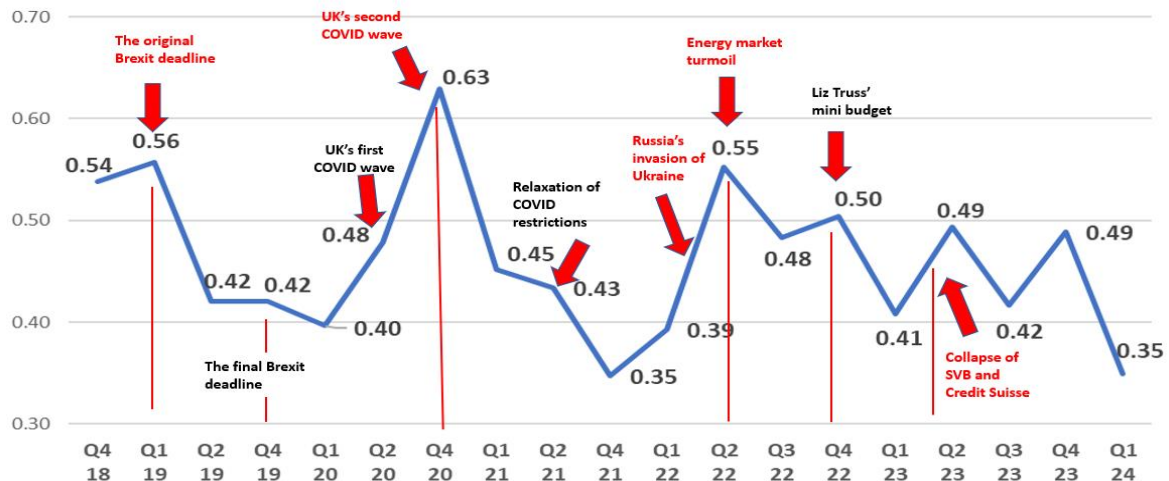
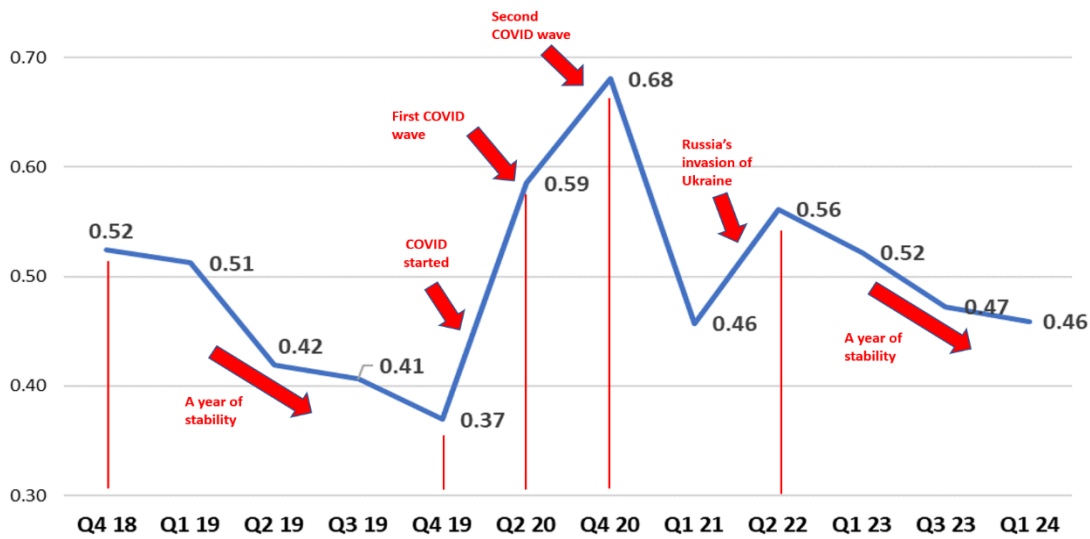




Figure 2. APAC RSI trend: Q4 2018 – Q1 2024

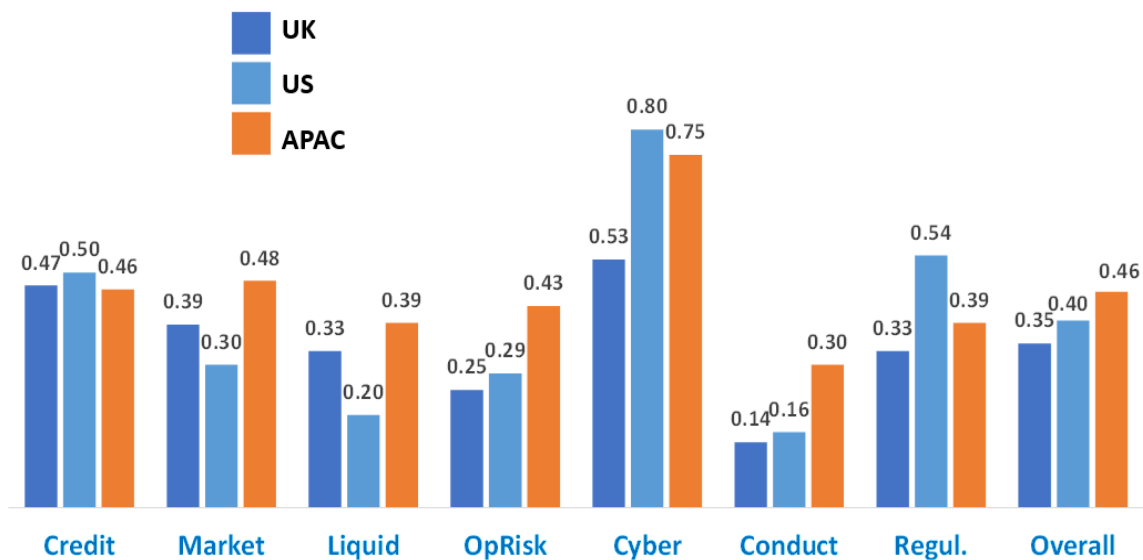


Overall, the identified global trend suggests that CROs do not anticipate a significant increase in risks for the financial services sector this year. However, the analysis of RSI by individual risk types reveals a more complex picture and some regional differences.

Beyond aggregated results: Financial risks are perceived under control, while non-financial risks are on the rise in the US and APAC

In all three jurisdictions, there is evident decrease in the RSI for credit, market, and liquidity risks. While in the Asia-Pacific region, this decrease is marginal, for the UK and the US, the reduction of RSI is very significant. Compared to the previous quarter, the RSI for liquidity risk in the US dropped by more than half, while for the UK, it reduced by a third. This indicates that a number of respondents who previously expected liquidity risk to increase have now changed their minds and anticipate no change or reduction of this risk in the next 12 months (Figure 3).

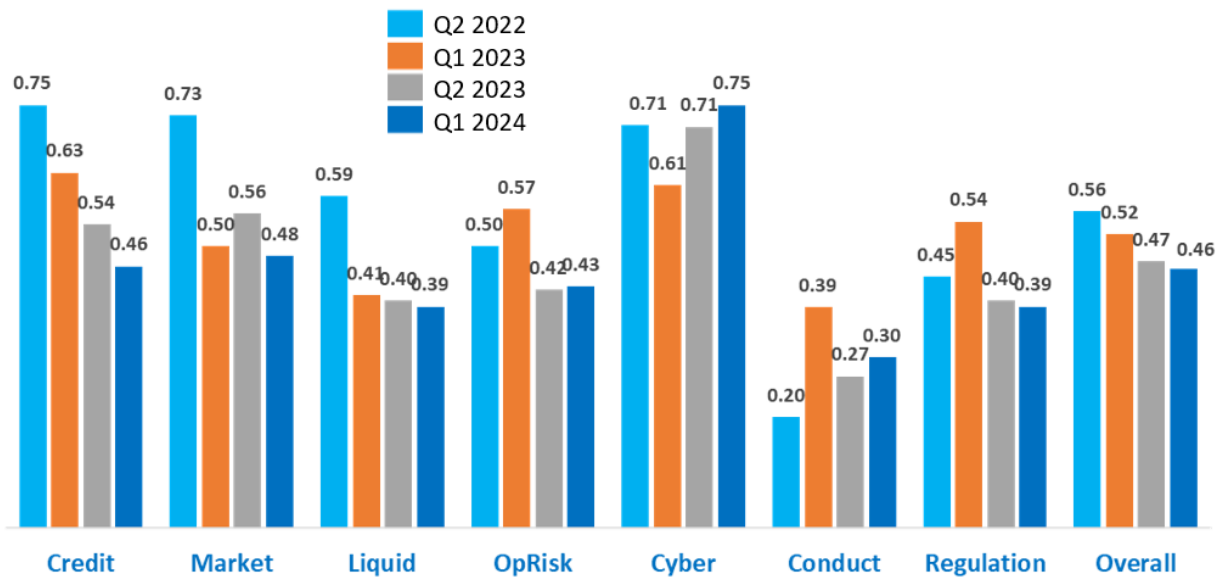
Figure 3. Regional comparison of RSI for different risk types in Q1 2024





Respondents' perceptions regarding the future trends of non-financial risks are more diverse. UK CROs expect a future deceleration of the growth of all four non-financial risks included in the survey. In contrast, US respondents anticipate a significant acceleration of cyber risk as well as operational risk. APAC CROs also expect an acceleration of cyber risk and conduct risk (Figure 4).

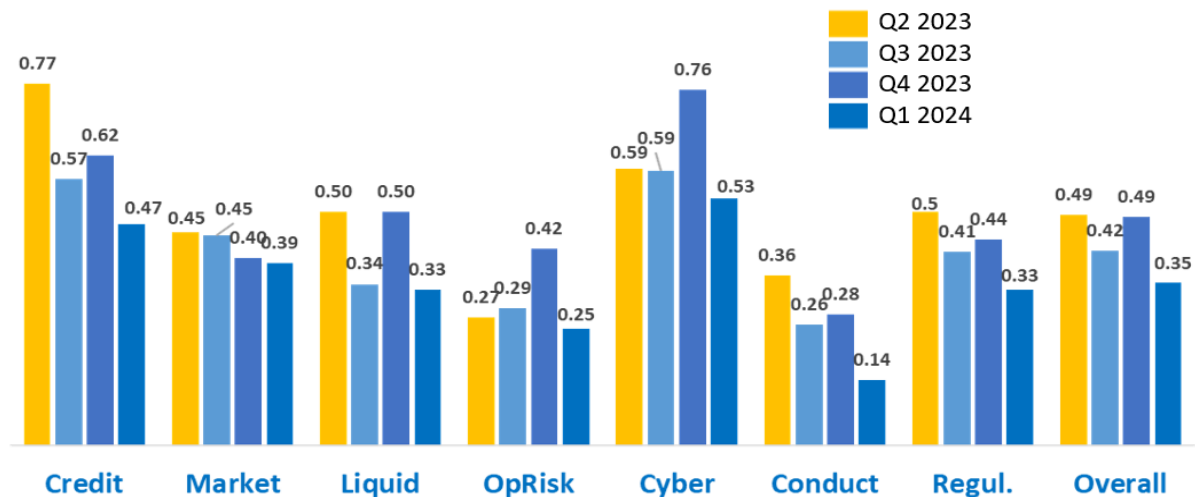
Figure 4. APAC RSI trends for individual risk types



Cyber risk and credit risk are areas of prime concern.

Surveys results identified risk areas of prime concern for each region. Three regions are in consensus that cyber and IT risk represent the biggest threat in 2024. The RSIs for cyber risk in the US and APAC are 0.80 and 0.75 respectively, both showing an increase compared to the previous period. In the US, the cyber risk RSI increased by more than 50% since the past quarter (Figure 4). While in the UK, the RSI for cyber risk decreased compared to the previous quarters, it remains the highest RSI among all risks (Figure 5).

Figure 5. UK RSI trends for individual risk types

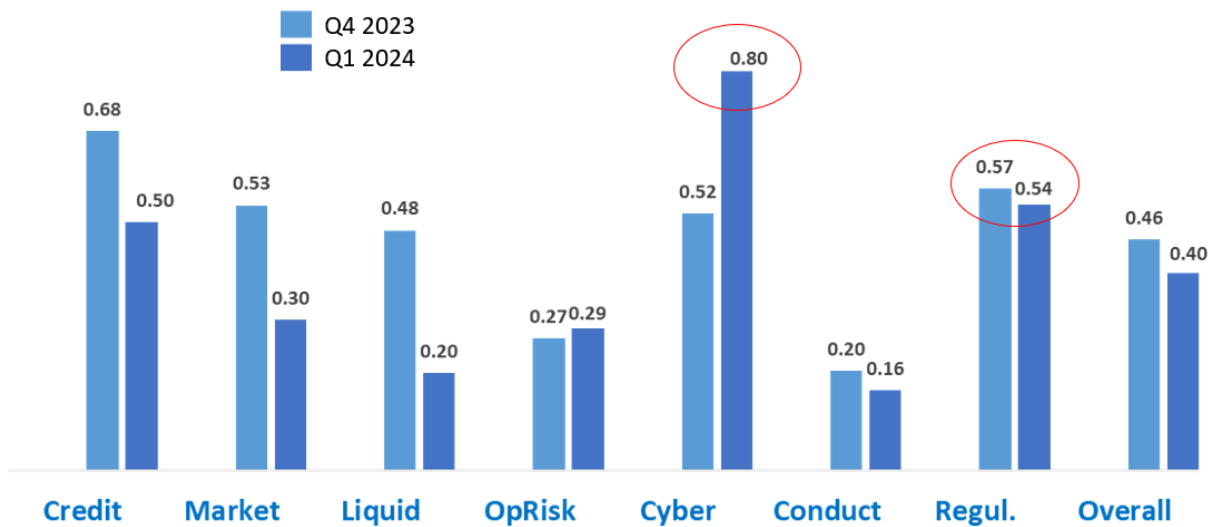




Credit risk has been identified as another "pressure point" for all three regions. In the UK, credit risk has the second highest RSI after cyber risk. For the US and APAC, credit risk is among the top three risks to watch out for in 2024.

Unlike their peers in the UK and APAC, US respondents express significant concern about the rise of regulatory risk in the next 12 months (Figure 6). The US RSI for regulatory risk ranks second highest after cyber risk. This concern stems from the tightening of regulations by the Fed and FDIC, particularly in light of the implementation of the Basel III Endgame.

Figure 6. US RSI: Comparison of RSIs for different risk types



Second-order risks to watch out for.

The picture would not be complete without mentioning that respondents in all three regions consider second-order risks as a potential significant threat in the long run. CROs highlighted two risks that might significantly affect the risk landscape in 2025 and beyond: geopolitical and climate risks. Instabilities such as the war in Ukraine, the Israel-Hamas conflict, and uncertainties surrounding worldwide 2024 elections could disrupt the global risk landscape next year and beyond. With 2023 being the warmest year on record, climate risk has become the most apparent global threat, which will start to affect first-order risk in the future.

While in the short run, the risk sentiment of CROs is rather positive, the identified risk areas of prime concern and the emerging second-order risks require CROs to proactively consider risk mitigation strategies and enhance their crisis management frameworks to ensure resilience in the ever-evolving risk landscape.

