European Risk Management Council

Risk Landscape Review

December 2024

Q4 2024 Risk Sentiment Index:
Looking Ahead to 2025

DEAR READER,

I am delighted to present the Q4 2024 edition of the Risk Landscape Review.

The issue is dedicated to Q4 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. European Risk Management Council conducted RSI surveys of Chief Risk Officers simultaneously in the UK, the US and Asia-Pacific. This allows us to make a comprehensive comparison of respondents' risk perception in three markets, their views on top risks and potential future risk trends in 2025.

The aggregated RSI results unveiled a global trend in risk perception shared by all three regions, albeit with some intriguing 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: Q4 2024 Update

Looking Ahead to 2025: Emerging Risk Trends

In Q4 2024, the European Risk Management Council conducted surveys and produced Risk Sentiment Index (RSI) for the UK, the US and the APAC region. 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.

Modest Volatility in the Future Risk Landscape

The latest survey results highlight varying perspectives from CROs in different markets. The aggregated RSI for APAC and the UK increased compared to the previous period, suggesting that respondents in these jurisdictions expect heightened instability in the risk landscape. The UK RSI has grown from 0.38 to 0.39 between Q2 and Q4 (Figure 1), while the APAC RSI has also increased in the same period from 0.46 to 0.49 (Figure 2). Conversely, US CROs are less pessimistic, with the aggregated US RSI showing a decrease compared to the previous measurement from 0.41 to 0.38.

It's important to note that these movements in the aggregated RSIs across all three markets are relatively small compared to the last period. This indicates that CROs' expectations for the future risk landscape remain largely consistent with those observed in the previous surveys. Overall, the aggregated RSIs remain below the long-term average (Figure 3), suggesting that CROs do not anticipate a significant rise in risks for the financial services sector in 2025. However, a deeper analysis of individual risk categories reveals a more nuanced picture with some regional distinctions.

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

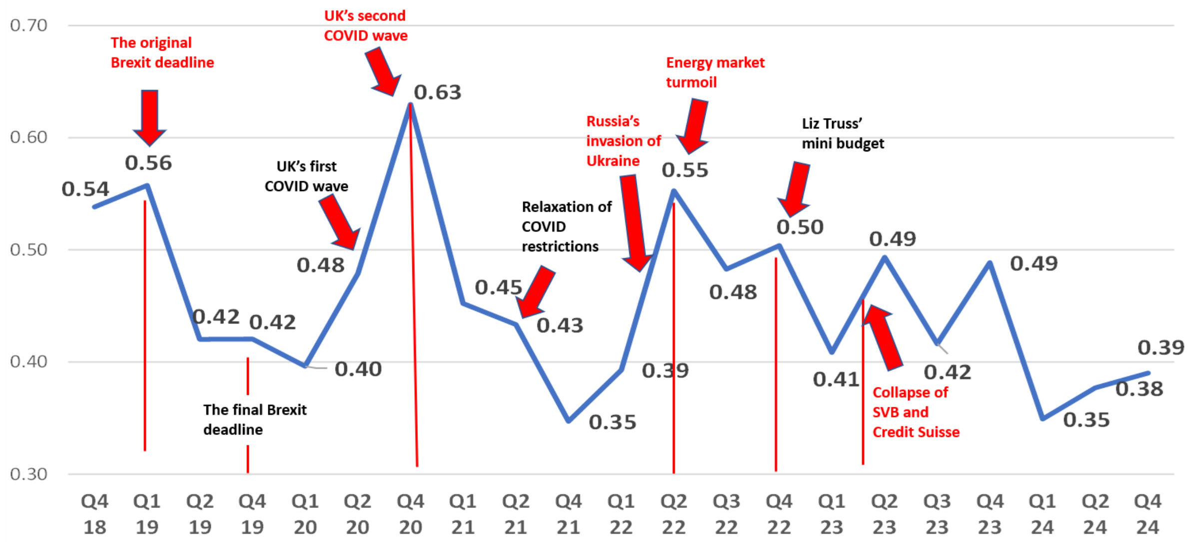


Figure 1. APAC RSI trend: Q4 2018 – Q4 2024

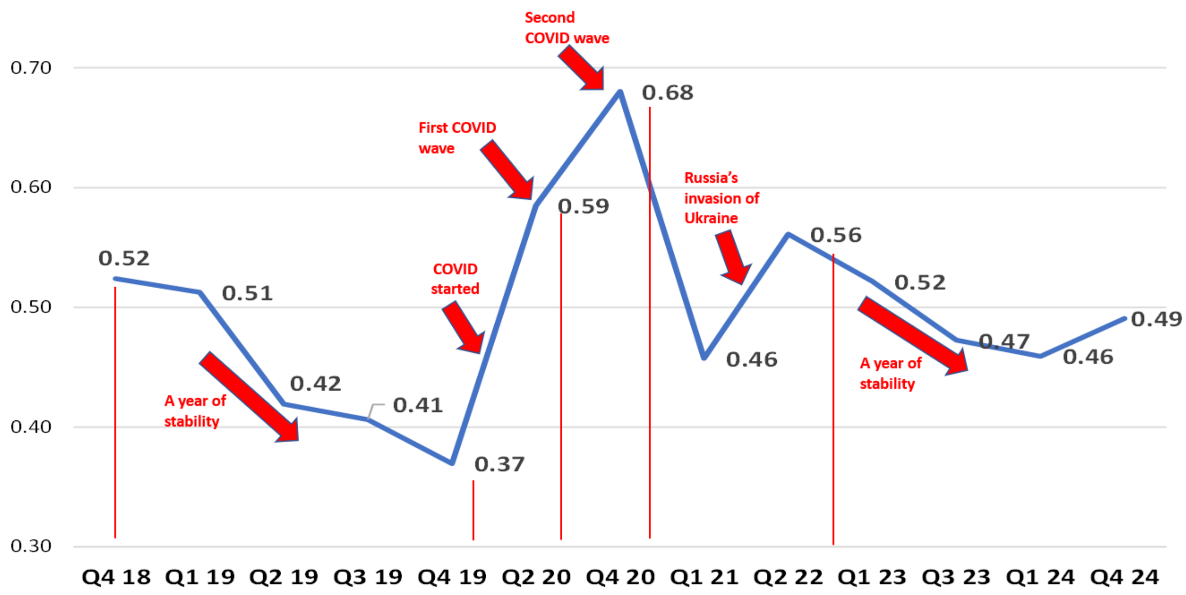
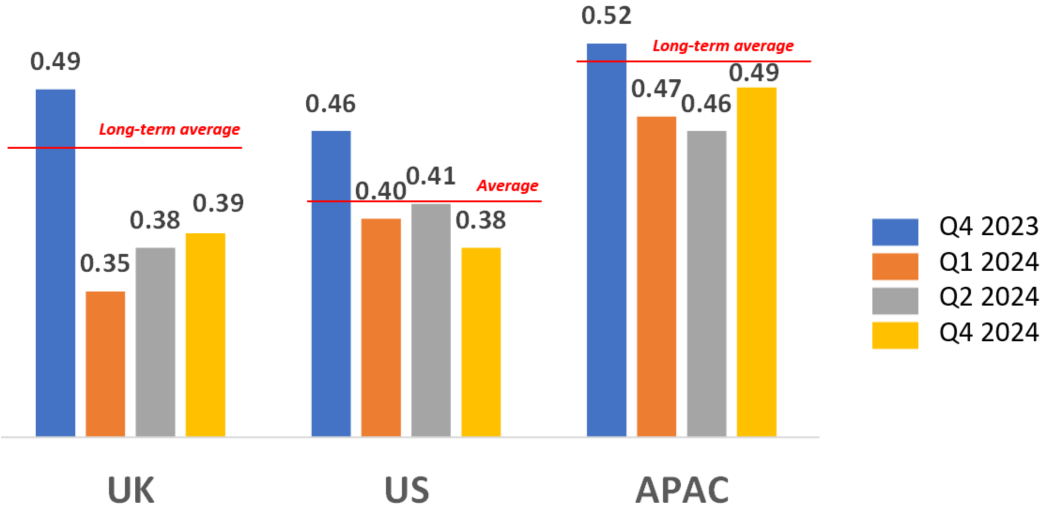


Figure 3. Aggregated RSI trends Q4 2023 – Q4 2024



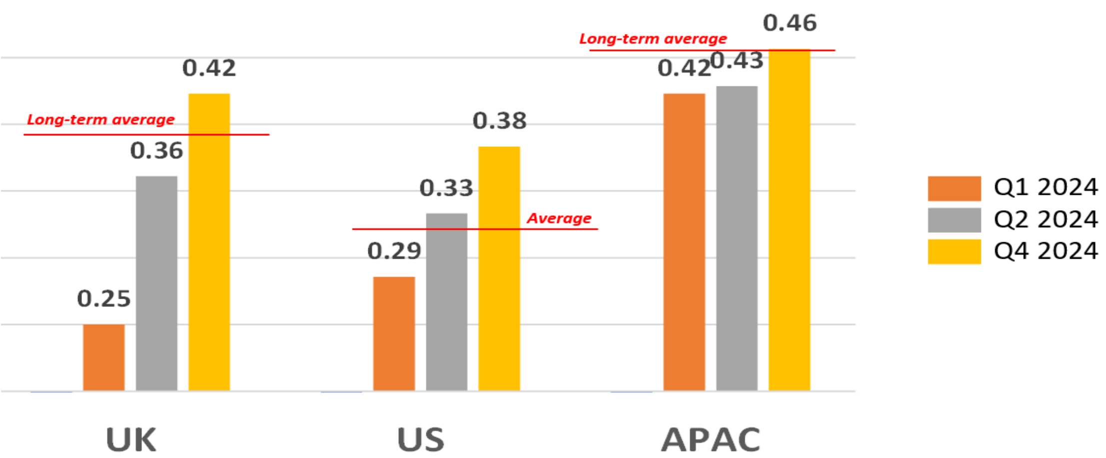
Beyond Aggregated Results: Common Trends in the 2025 Risk Landscape

The survey results point to three prominent and consistent trends in risk perception across all three markets.

Cyber Risk as the Top Concern: Cyber risk is identified as the most pressing concern for 2025. The RSI for cyber risk was the highest in each jurisdiction among all risk types. Additionally, the coefficient of variation in responses for cyber risk was the lowest across the board, indicating a strong consensus among respondents regarding the severity of this risk.

Rising Operational Risk: Throughout 2024, the RSI for operational risk has increased in all three markets and now stands above the long-term average (Figure 4). The heightened concern around operational risk is driven by two key factors: the recent uptick in financial fraud and the rapid proliferation of digital technologies. In 2023-2024, losses due to digital fraud and crypto-related scams have continued to rise sharply. CROs are increasingly concerned that advanced digital technologies, such as AI, will be weaponised by criminals to exploit vulnerabilities in financial institutions and their clients.

Figure 4. RSI of operational trends



Diminishing Credit Risk Concerns: Interestingly, CROs across all three markets agree that credit risk is not a primary concern for 2025. Since the inception of RSI surveys in 2018, credit risk has consistently ranked by CROs among the top three perceived risks. However, for the first time, recent surveys reveal that credit risk no longer ranks among the top three risks in any of the three markets, with RSIs falling well below the long-term average. In the UK, credit risk is positioned near the bottom of the "risk league table," recording its lowest RSI in six years (Figure 5). A similar trend is observed in the US, where the RSI for credit risk ranks fifth out of seven risk types (Figure 6).

Figure 5. UK RSI for credit risk Q4 2018 – Q4 2024

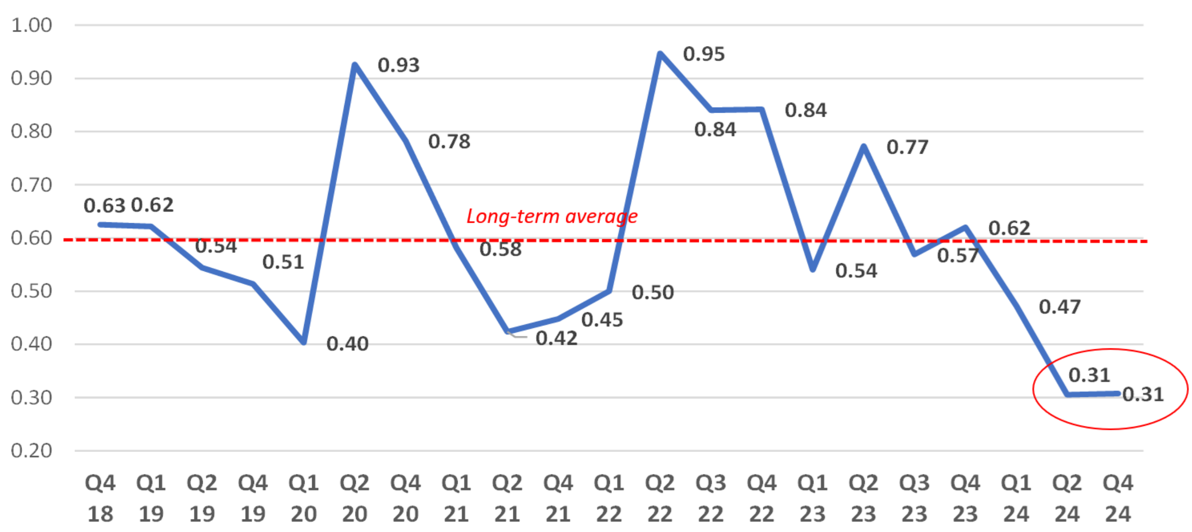
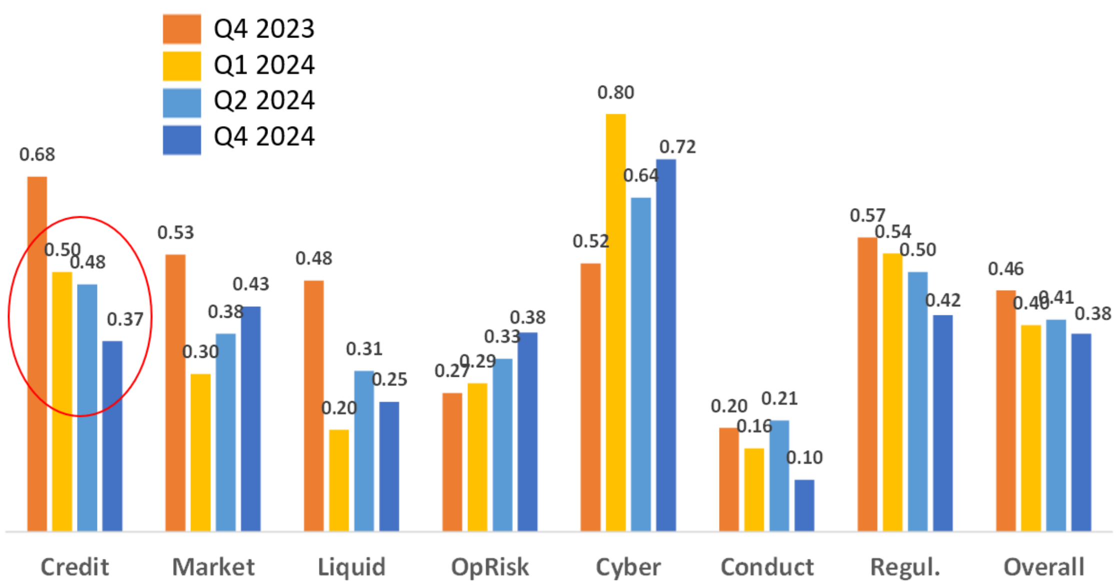


Figure 6. US RSI: Comparison of RSIs for individual risk types



Diverging Views on Future Market Risk

While there are three areas of consensus among CROs from all three markets, some significant differences in risk sentiment have emerged. CROs in the APAC region expressed concerns about the potential rise of market risk in 2025, ranking it as the second-highest risk after cyber risk (Figure 7). In contrast, UK CROs ranked market risk only 6th, with the RSI at an all-time low. Furthermore, UK CROs placed all financial risks at the bottom of the league table, with credit risk ranked 5th and liquidity risk 7th (Figure 8). This marks the first case since the launch of the RSI that none of the financial risks appeared in the top three risks to watch out.

Figure 7. APAC RSI trends for individual risk types

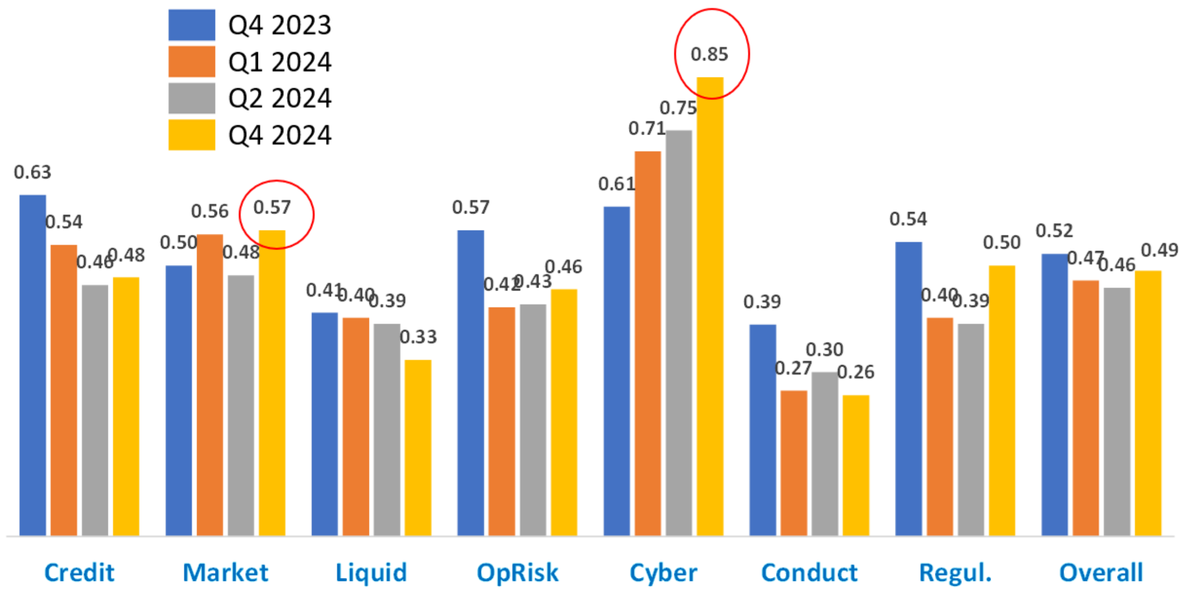
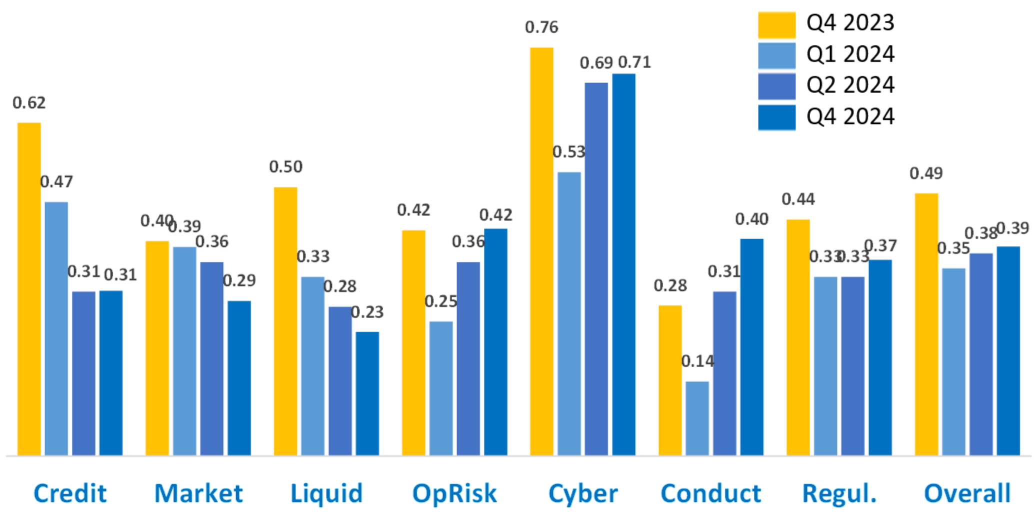


Figure 8. UK RSI trends for individual risk types



How Aligned Are Respondents in Their Future Risk Expectations?

To derive individual and aggregated Risk Sentiment Indices (RSIs), we use the average scores obtained from survey responses. However, averages alone do not capture how much respondents' opinions may vary. In practice, we observe that alignment among respondents regarding future risk trends can differ significantly across various types of risk.

The polarisation of opinions is a critical indicator of future uncertainty—when the future appears more certain, respondents tend to provide more aligned answers. To quantify this uncertainty, we use the coefficient of variation as a measure of dispersion in respondents' opinions. This coefficient is calculated by dividing the standard deviation by the mean of the data set, providing a normalised measure of data variability across the distribution.

When comparing the coefficients of variation in Q4 2024 survey for the UK, we found that with the highest dispersion in respondents' answers (indicating the lowest alignment of opinions) were regarding ***credit risk and operational risk***, both with a coefficient of variation of 26%. In the US, credit risk similarly showed the highest level of disagreement among respondents, with a coefficient of variation of 24%. For the APAC region, the highest disagreement was observed in ***regulatory risk***, with a coefficient of variation of 27%.

In contrast, respondents across all three regions showed the highest alignment in their expectations for cyber risk. The coefficients of variation for this risk were 19% in the UK, 15% in the US, and 12% in the APAC region.

Preparing for Future Risks

Although CROs across all three markets broadly agree that the risk landscape in 2025 is likely to experience mild volatility and that credit risk will remain manageable, key areas of concern—such as cyber risk and the growing emphasis on operational risks—demand proactive mitigation strategies. To navigate this evolving landscape, CROs must strengthen their crisis management frameworks and bolster their organisations' resilience against these emerging risks.