



European Risk Management Council

Risk Landscape Review

July 2025



Risk Sentiment Index:

Tariff war and divergence of risk perception



DEAR READER,

I am delighted to present the Q3 2025 edition of the Risk Landscape Review.

This issue focuses on the recent surveys of the Risk Sentiment Index (RSI), a forward-looking, expert-driven indicator that captures expectations for the financial sector's risk landscape over the next 12 months. The European Risk Management Council conducted RSI surveys with Chief Risk Officers across the UK, US, and Asia-Pacific, enabling a comprehensive comparison of risk perceptions in these key markets. The findings highlight respondents' views on top risks, emerging trends, and potential developments extending into 2026.

The RSI results show that Trump's tariff war continues to shape the global risk landscape, though perceptions of its impact over the next 12 months vary significantly across regions.

A huge thank-you to all contributors and survey participants. I hope you find this edition insightful. Happy reading!

Yours sincerely,

Dr Evgueni Ivantsov

Chairman of European Risk Management Council



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Risk Sentiment Index: Update

Tariff war and divergence of risk perception

At the end of Q2 2025, the European Risk Management Council conducted surveys and produced the Risk Sentiment Index (RSI) for the UK, the US, and the APAC region.

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.

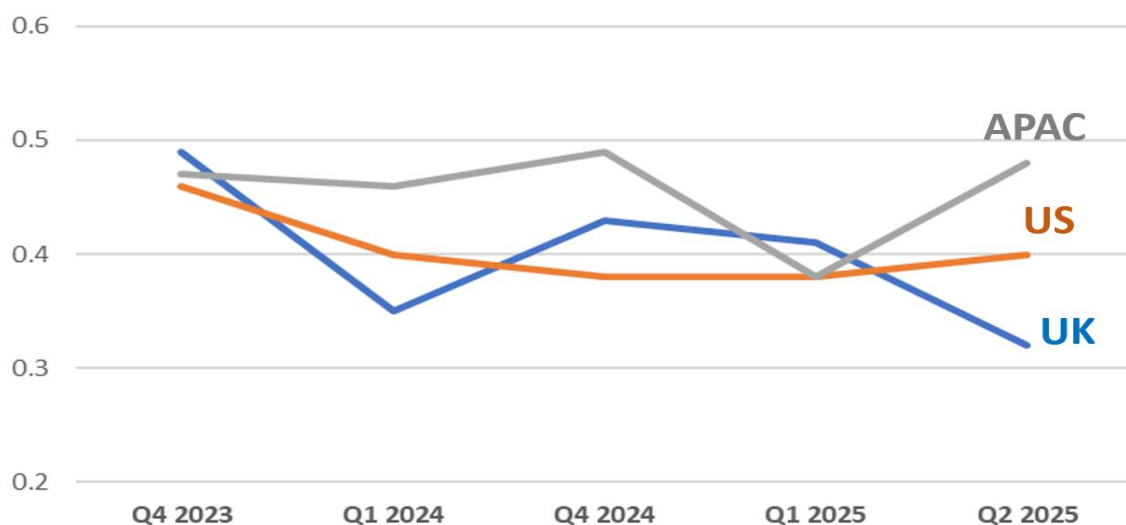
The RSI is derived from surveys of CROs and other risk executives in the financial services sector, serving as a numerical representation of the adjusted percentage of respondents anticipating an increase in risk over the next 12 months. Consequently, a higher RSI indicates that more respondents expect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

Significant Improvement of Risk Sentiment in the UK

Our most recent polls in these three markets reveal a divergence in sentiment: US and APAC risk executives are now more concerned about future financial risks, whereas their UK peers anticipate a decline in volatility.

The latest RSI survey indicates a more optimistic outlook among UK CROs compared to the previous quarter, with the aggregated index falling significantly from 0.41 in Q1 2025 to 0.32 in Q2 2025 (Figure 1).

Figure 1. Aggregated RSIs trends for three markets

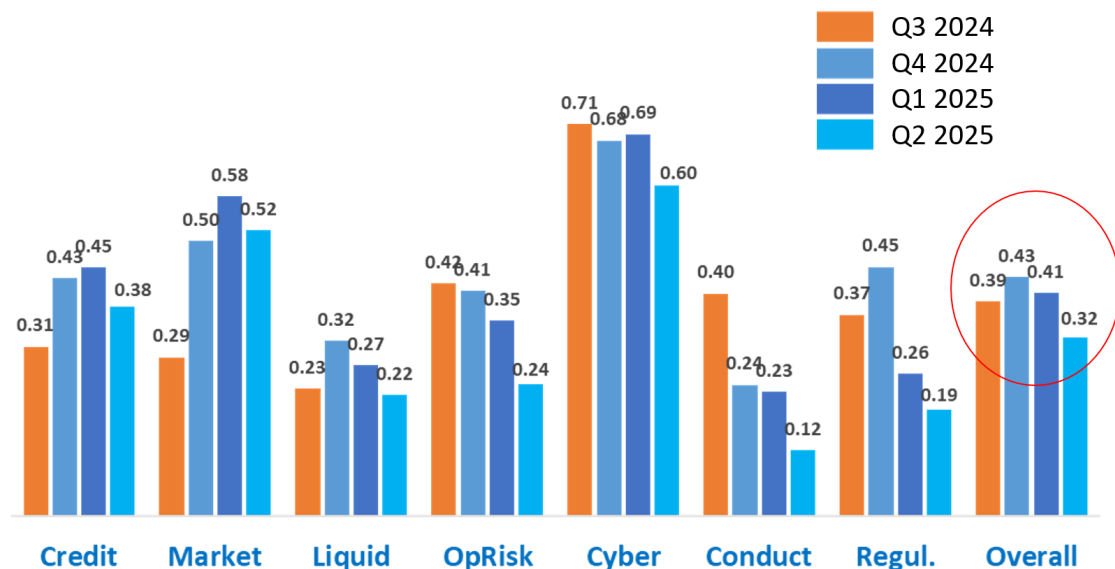


This may seem surprising given the ongoing global economic uncertainty driven by the trade war initiated by the White House. However, the result reflects the fact that the UK has managed to secure a tariff deal with Donald Trump.

While the deal is limited in scope and, according to experts, unlikely to have a major economic impact, respondents view the very existence of a UK–US trade agreement as a factor that reduces uncertainty for UK exporters and the broader economy. More importantly, it provides some assurance that Trump will not abruptly reverse course and impose new tariffs on UK goods. This perceived stability has become a key consideration in risk assessments and is reflected in the recent drop in the UK RSI.

UK respondents are more optimistic than they were in Q1 2025, not only about future financial risks but also regarding all non-financial risks covered by the survey. The RSI for individual risk categories declined across the board over the past quarter (Figure 2).

Figure 2. UK RSI trends for individual risk types



Different Risk Perception Across the Pod

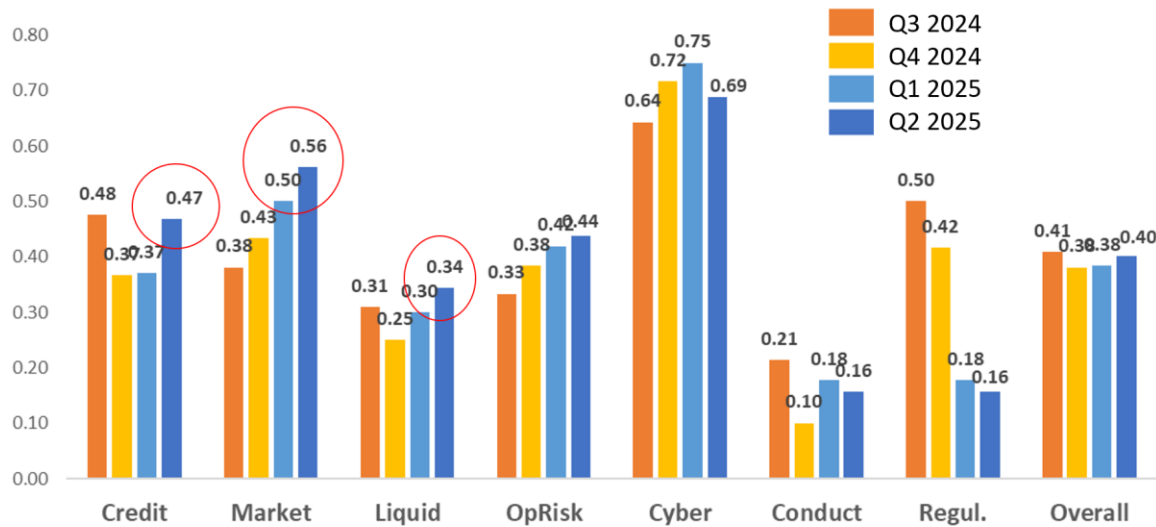
Across the Atlantic, CROs expressed a different sentiment compared to their peers in the UK. Respondents were more pessimistic about the future risk landscape for US financial services. Our latest data suggests that sentiment has worsened, with the aggregate RSI rising from 0.38 in Q1 2025 to 0.40 in Q2 2025, driven primarily by heightened concerns about financial risks. US CROs now anticipate not only a continued rise in market risk but also increases in credit and liquidity risks.

This growing pessimism stems from the realisation that the tariff negotiations have proven far more complex than Trump had promised. His goal of “90 trade deals in 90 days” appears to have been entirely unrealistic. Survey results reflect frustration with the administration’s failure to secure deals with key trading partners and the prolonged nature of the trade war.

For the real economy, this outlook suggests prolonged market volatility, slower economic growth, further disruption to supply chains, rising inflation, and weakening employment figures. Over the next 12 months, these factors could translate into more fundamental problems for US businesses, such as rising credit defaults and mounting liquidity challenges.

The uncertainty regarding the future potential impact of the prolonged trade war on the US economy is reflected in the increasing US RSI for all three financial risk categories (Figure 3).

Figure 3. US RSI trends for individual risk types



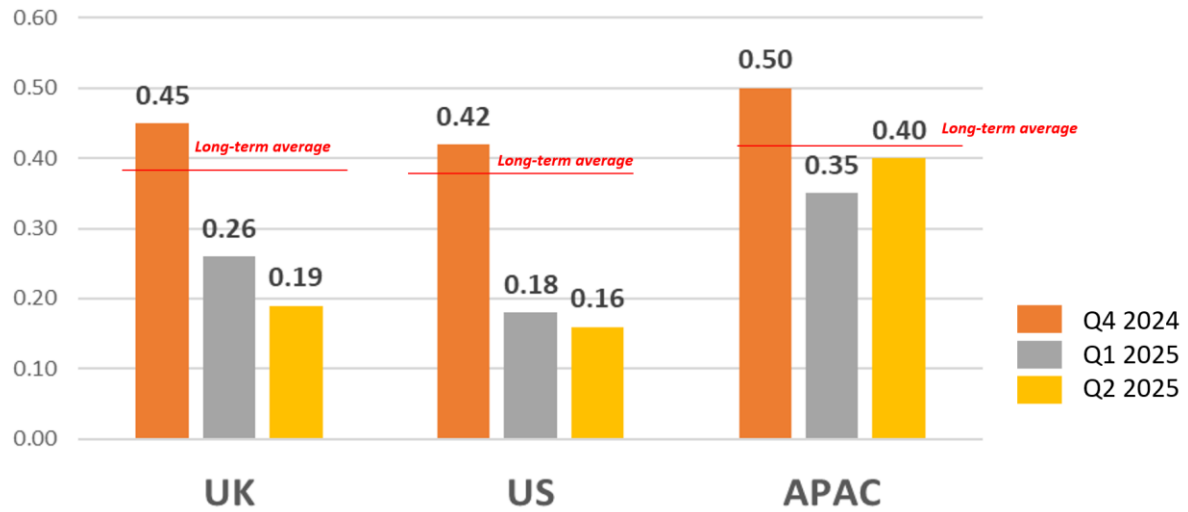
Regulatory risk: US and UK Common Bright Spot

While there is a divergence in expectations regarding future financial risks, UK and US CROs are aligned in their outlook on regulatory and conduct risks. In both markets, the RSI for regulatory-related risks has declined and is now at its lowest level since the index was launched.

US CROs had previously signalled expectations of a substantial easing of the regulatory burden following Trump's return to the White House and his renewed focus on deregulation — and they are now even more optimistic. Given the US's role as a trendsetter in global financial markets, UK CROs anticipate that this deregulatory momentum will spread to the UK over the next 12 months, resulting in a reduction in both conduct and regulatory risks.

Currently, while the RSI for regulatory risk in all three markets is below its long-term average, in the UK and the US, the regulatory risk RSI is well below average and continues to decline (Figure 4).

Figure 4. Aggregated RSI trends Q1 2024 – Q1 2025

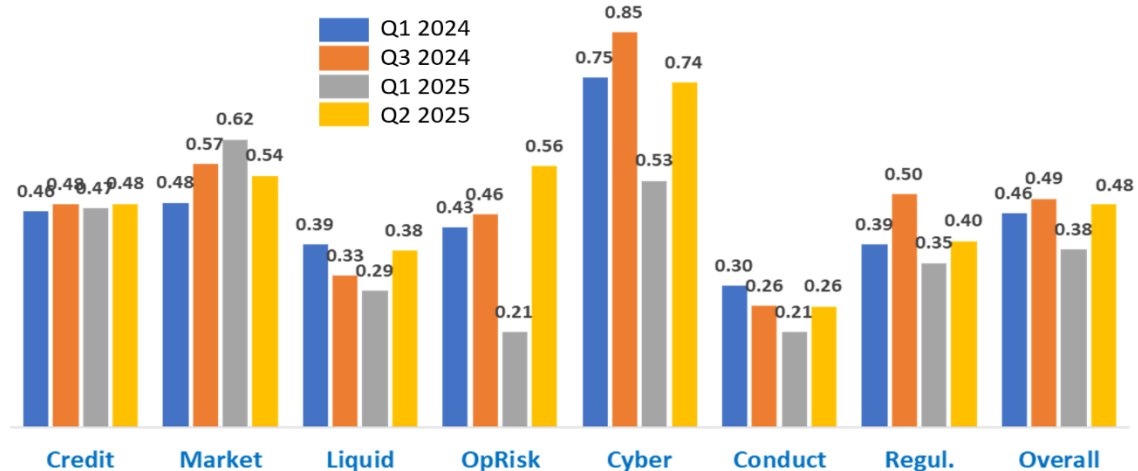


APAC: Rising Alarm

The risk sentiment of APAC CROs deviates from that of their peers in both the UK and US markets. The recent survey shows that APAC respondents expect a significant increase in almost all types of risk affecting financial services in the region over the next 12 months. The RSI jumped from 0.38 in Q1 2025 to 0.48 in Q2 2025 which is the largest quarter-to-quarter increase since the COVID era.

Unlike their US peers, APAC CROs maintain a pessimistic outlook not only on financial risks but also on non-financial risks (Figure 5).

Figure 5. APAC RSI trends for individual risk types



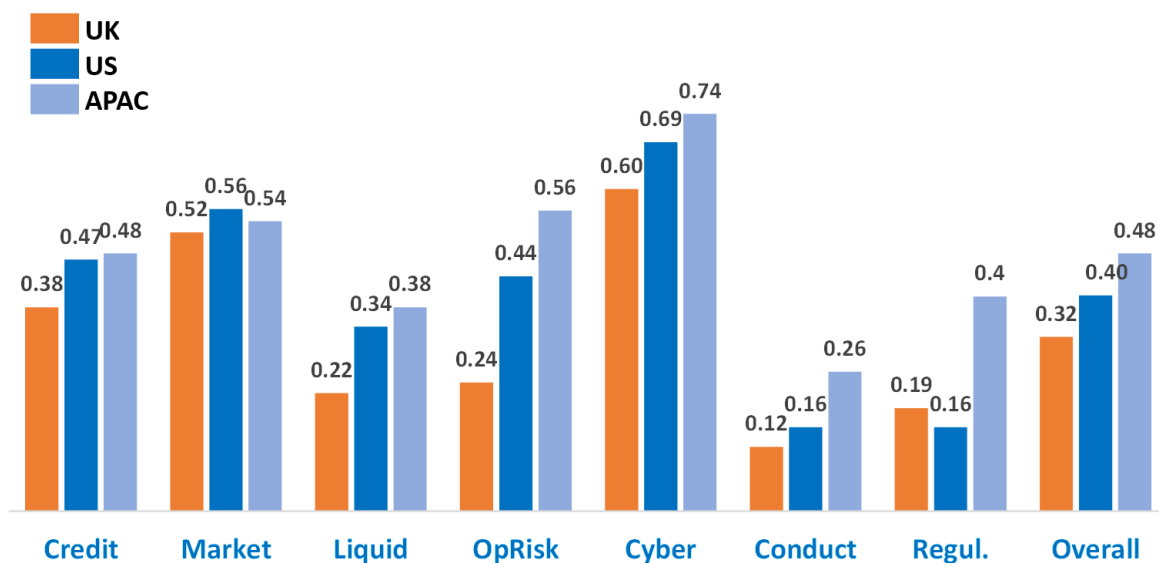
This sentiment is driven by the ongoing trade war, which could severely affect major Asian economies. As export-oriented markets, many APAC economies are heavily dependent on trade with the US. However, Trump views several APAC countries as adversaries that should be targeted with high tariffs. As a result, APAC CROs expect the region's future risk landscape to become more challenging, especially if US–China relations continue to deteriorate.

Conclusion

The uncertainty surrounding the outcome of the ongoing trade war has led to an increasing divergence in future risk sentiment across key markets: cautious optimism in the UK, supported by a modest trade deal with the US; rising frustration in the US, driven by prolonged trade tensions and economic uncertainty; and growing pessimism in APAC, marked by escalating concerns over both financial and non-financial risks.

The different mood among risk executives is clearly reflected in the results of the Q2 2025 survey: the UK posted the lowest RSI among the three markets across all risk categories, with the exception of regulatory risk, where the US had the lowest score. Conversely, APAC recorded the highest RSI in all risk categories except market risk, where its score was broadly on par with those of the UK and US (Figure 6).

Figure 6. Cross-market comparison of RSI for different risk categories in Q2 2025



Uncertainty about the duration and consequences of Trump's tariff war has created a pronounced split in CROs' risk sentiment across the three regions. The coming months will reveal which of these outlooks proves most accurate.



Appendix

Figure 7. UK RSI trend Q4 2018 – Q2 2025

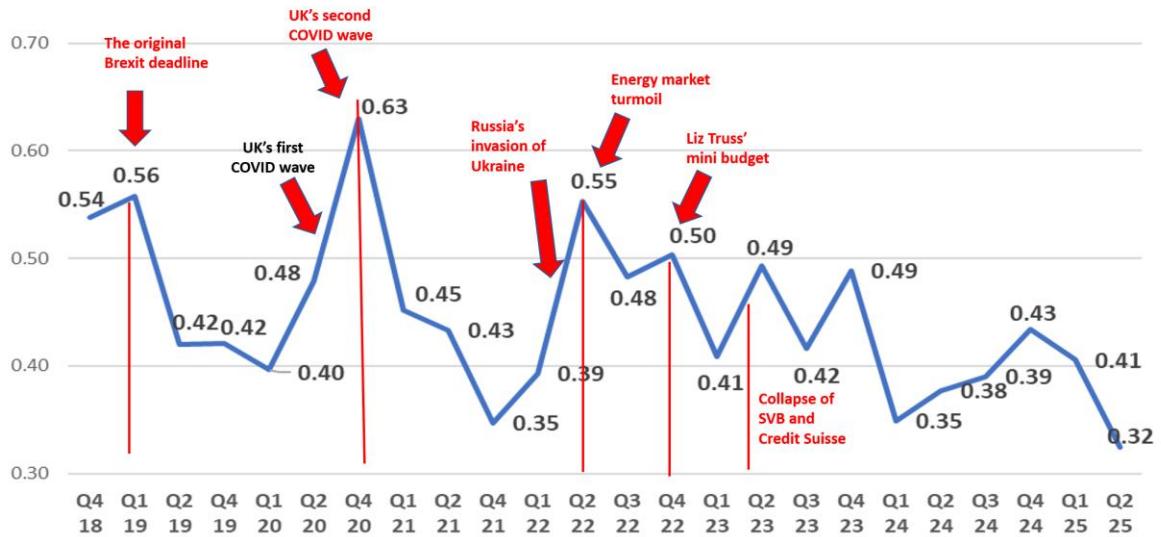


Figure 8. APAC RSI trend Q4 2018 – Q2 2025

