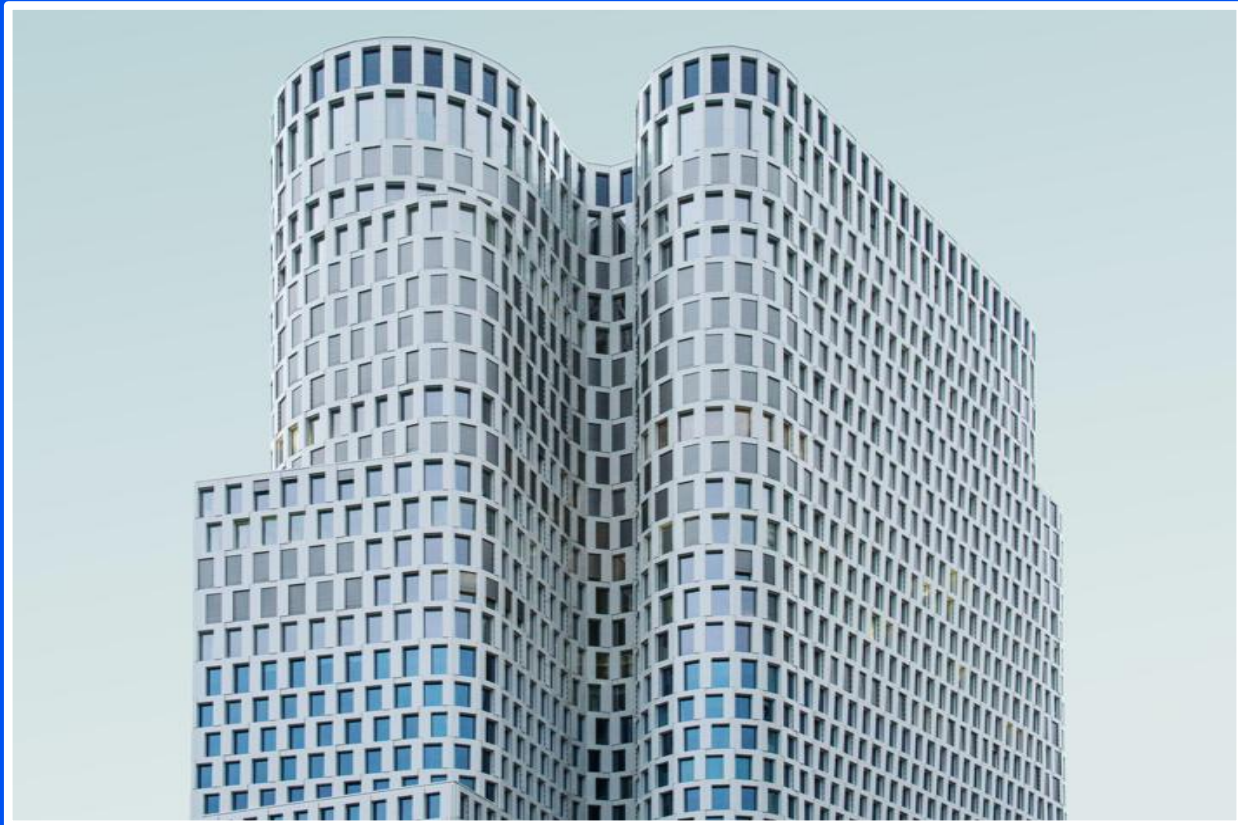




European Risk Management Council

Risk Landscape Review

December 2025



Risk Sentiment Index:

What Should We Expect in 2026?



DEAR READER,

I am delighted to present the Q4 2025 edition of the Risk Landscape Review.

This issue focuses on the Q4 2025 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 and other risk executives across the UK and the US, enabling a comprehensive comparison of risk perceptions in these two markets. The findings highlight respondents' views on top risks, emerging trends, and potential developments extending into 2026.

The RSI results show contrasting outlooks on each side of the Atlantic; however, some of the risk trends and concerns of CROs from the UK and the US are aligned.

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 What Should We Expect in 2026?

In Q4 2025, the European Risk Management Council surveyed Chief Risk Officers (CROs) and other risk executives to produce the Risk Sentiment Index (RSI) for the UK and the US.

While not designed to predict future risks, the RSI offers valuable insights into how these executives perceive evolving trends within the financial services risk landscape. It assesses seven major risk categories with a first-order impact on financial institutions: credit, market, liquidity, operational, cyber and IT, conduct, and regulatory risks.

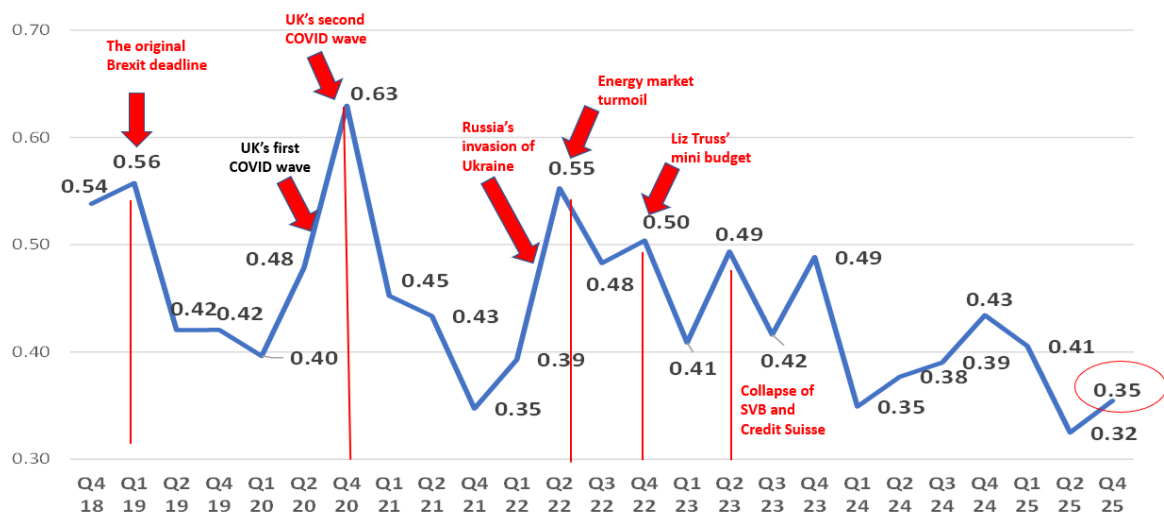
The index is a numerical representation of the adjusted percentage of respondents who anticipate an increase in risk over the next 12 months. Therefore, a higher RSI signifies that a greater proportion of the executives expect risks to rise.

The latest survey shows a divided perception

The story of the RSI over the past year is one of two distinct narratives unfolding on either side of the pond. In the UK, the index had been on a steady, gradual decline from Q4 2024 to Q2 2025. This trend suggested that UK-based CROs were cautiously optimistic, anticipating a future risk environment that would be marginally more stable and predictable.

However, the Q4 2025 survey revealed a new trend: the UK RSI increased from 0.32 to 0.35, suggesting a shift toward greater pessimism (Figure 1). This change is largely attributed to a more negative view of credit and liquidity risks in 2026, with the RSI for each of these risk categories rising noticeably in the last quarter. The RSI for credit risk rose from its historic lowest point of 0.31 in Q2 2024 to the current level of 0.47, indicating that UK CROs expect more pressure on the UK credit market in 2026 (Figure 2).

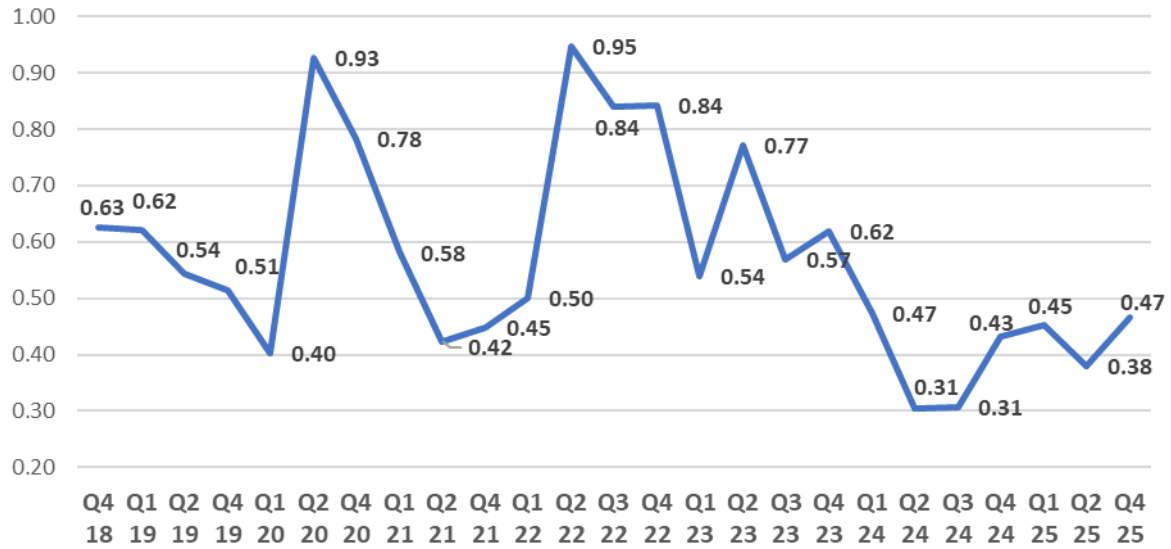
Figure 1. Aggregated UK RSIs trend





Faced with sticky inflation and uncertain economic growth, UK CROs are recalibrating their outlook on borrower solvency and market liquidity, resulting in a more guarded view of the UK future risk landscape.

Figure 2. UK RSI for credit risk



On the other side of the pond, sentiment among American CROs is charting a different course. Although the US RSI saw a slight increase over the past year, the Q4 2025 survey indicates growing optimism for 2026, with the aggregated index dropping from 0.40 to 0.36 (Figure 3).

This positive shift is driven mainly by improved sentiment toward market, liquidity, and operational risks (Figure 4). The divergence from the UK outlook reflects contrasting economic fundamentals and policy expectations, as US CROs may be anticipating the benefits of a potential "soft landing" and a more business-friendly regulatory era.

Figure 3. Aggregated RSIs trends for the UK and the US (Q4 2023 – Q4 2025)

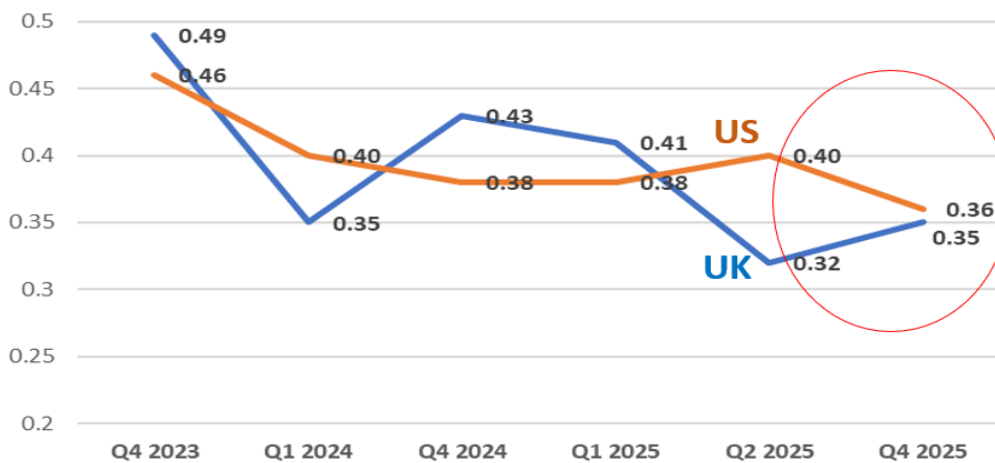
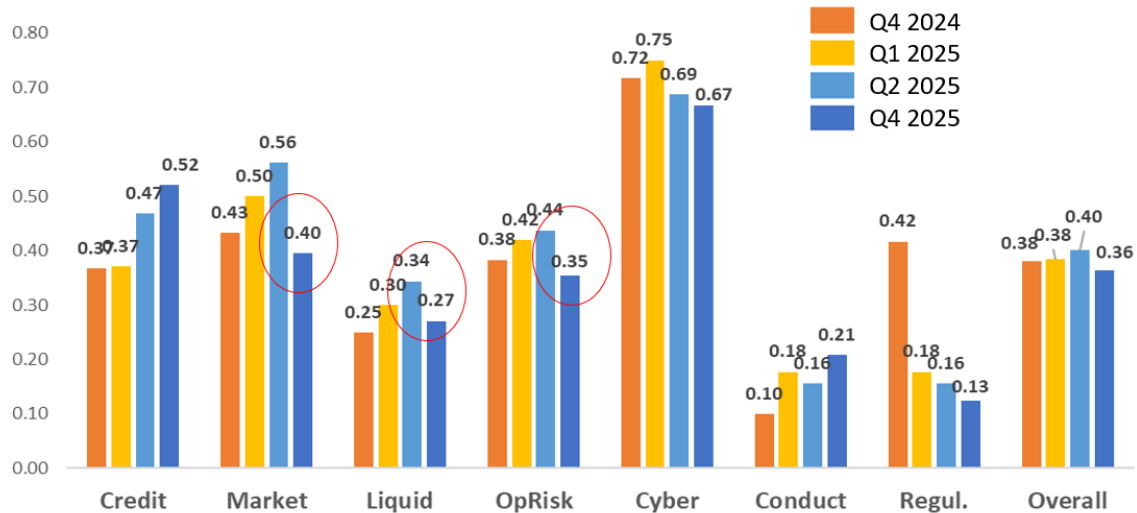


Figure 4. US RSI trends for individual risk categories (Q4 2024 – Q4 2025)



Deregulation: a common expectation

The topic of deregulation has gained unprecedented prominence this year. The new US administration has made it a top priority to substantially reduce regulatory requirements. The intended result is to allow US banks to price financial products more attractively, sell services more aggressively, and achieve higher profitability and returns on capital. To sustain competitiveness, UK regulators are expected to follow suit and ease certain requirements.

Unsurprisingly, the RSI for regulatory risk has fallen substantially in both the US and the UK over the past 12 months. This trend continues in the latest survey, as CROs on both sides of the pond anticipate a significant decrease in regulatory risk by the end of 2026.

In the US, the RSI for regulatory risk decreased from 0.16 to 0.13, hitting a historic low. In the UK, the RSI for the same category also fell, from 0.19 to 0.10, reaching its lowest level since the launch of RSI surveys in Q4 2018.

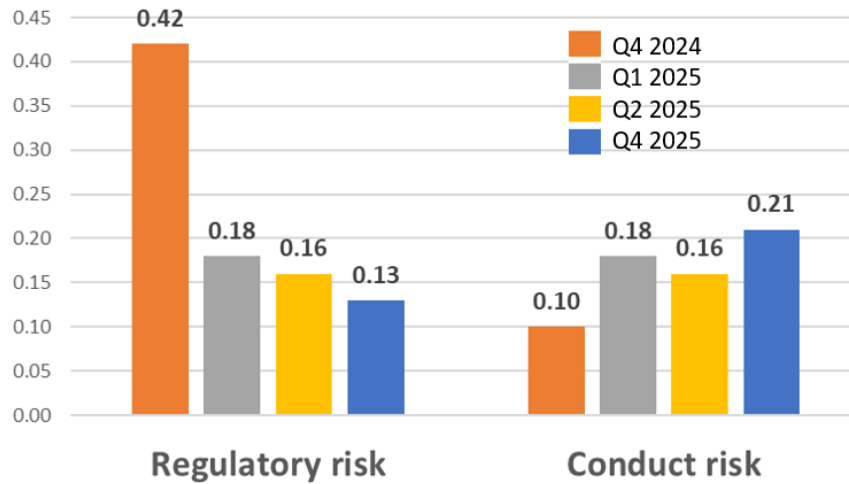
The unintended consequence of deregulation

The latest RSI surveys highlight a critical interplay between regulatory and conduct risk, underscoring a potential peril in the current trend toward banking deregulation: while CROs in both countries anticipate lower regulatory risk in the future, they simultaneously forecast a marked increase in conduct risk for 2026.

In the US, the RSI for conduct risk has risen to 0.21, its highest level on record (Figure 5).



Figure 4. US RSI for regulatory and conduct risks (Q4 2024 – Q4 2025)



The latest RSI data underscores a critical warning: if pursued too aggressively, deregulation can create an environment that directly fosters higher conduct risk. CROs express concern that the removal of robust regulatory guardrails may lead to a resurgence of aggressive sales practices, mis-selling, and broader market misconduct. In essence, reducing necessary oversight can allow the systemic pressures that lead to such outcomes to flourish, with potentially severe consequences.

A crucial and related element of this dynamic is risk culture. A rapid regulatory rollback which is a metaphorical "bonfire of red tape", could unintentionally erode institutional risk culture from within. This erosion creates fertile ground for reckless behaviour, directly fuelling the conduct risks the survey anticipates. Cultural drift can intensify competitive pressures, and a weakened compliance infrastructure would likely converge, reviving the very practices post-crisis regulations were designed to prevent.

As we stand on the threshold of 2026, the message from the CROs is clear: in the pursuit of competitiveness, we must be careful not to unlearn the critical lessons of the past. The most prudent path forward is not a stark choice between stifling over-regulation and reckless deregulation, but a balanced approach that fosters innovation while steadfastly safeguarding market integrity and consumer trust.

