Global risk management survey, 10th edition

Heightened uncertainty signals new challenges ahead

By: Edward Hida

What's the story?

The global financial crisis led to a wave of regulatory change that increased both the scope and the level of stringency of regulatory requirements. In the years since, financial institutions have had more time to understand the practical implications of these new regulations and what is required to comply. Today, risk management is becoming even more important; financial institutions confront a variety of trends that have introduced greater uncertainty than ever before into the future direction of the business and regulatory environment:

- Economic conditions may continue to be weak, with historically low interest rates
- The UK referendum to leave the EU, coupled with US President Donald Trump's pledge to renegotiate trade agreements, raise the possibility that trade volumes may decline
- The continual increase in regulatory requirements may abate or even be reversed in 2017
- Strategic risk is increasing as entrepreneurial fintech players are competing with traditional firms in many sectors
- Cyber risk continues to grow as a threat, and is attracting greater regulatory attention

The rapidly changing environment suggests that risk management programs may need to increase their ability to anticipate and respond flexibly to new situations and developments. Deloitte's *Global risk management survey, 10th edition* assesses the industry's risk management practices and the challenges it faces in this turbulent period. It includes responses from 77 financial services institutions around the world that conduct business in a range of financial sections and with aggregate assets of $13.6 trillion.

Who at my client is impacted?

- **Sector:** Financial services
- **Roles:** Business leaders, C-suite executives, and managers responsible for risk management

What issues does this address?

Overall, leading risk management practices continue to gain wider adoption across the industry, as financial institutions have worked hard to address increasing regulatory requirements. The progress has been undeniable, but in the years ahead, risk management is likely to face a number of new and different challenges, such as:

An increasingly uncertain regulatory environment. After the fundamental reforms of the last several years, there are indications that the trend of ever broader and more stringent regulatory requirements may slow or actually be reversed in some areas. The US Federal Reserve has proposed eliminating qualitative stress testing for large, non-complex firms, European regulators and institutions have resisted proposals to establish a capital floor, and President Trump has announced steps to cut back on requirements implemented by federal agencies under the Dodd-Frank Act.

An uncertain outlook for economic growth. A number of major geopolitical developments have the potential to depress growth, such as the UK's referendum to leave the EU, the rise of populist parties in France, Italy, and other European countries, President Trump's opposition to the Trans-Pacific Partnership, and his pledge to renegotiate trade agreements with China and Mexico. Yet simultaneously, there is also the potential for increased business activity resulting from President Trump's proposals to reduce personal and business taxes, reduce regulations on business, and launch a significant infrastructure program.

Newly emerging sources of risk. The more widespread emergence of fintech firms is threatening to disrupt a number of core financial sectors and services, and it will become increasingly important for incumbents to have robust strategic risk programs geared toward identifying and planning for strategic risks related to disruption. Cybersecurity is also becoming an ever greater concern, with breaches increasing in number and impact. This has amplified the need to address both the inherent risks of a breach and the implementation of increasingly stringent regulations related to cyber security.

Viewed in combination, these trends mean that effective risk management is becoming increasingly important. With the future direction of risk management more uncertain than it has been for years, perhaps the most important lesson is that many risk management programs should become more nimble. In the coming years, risk management programs should focus not only on being effective and efficient, but equally on acquiring the agility to respond flexibly to a new set of demands.

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