

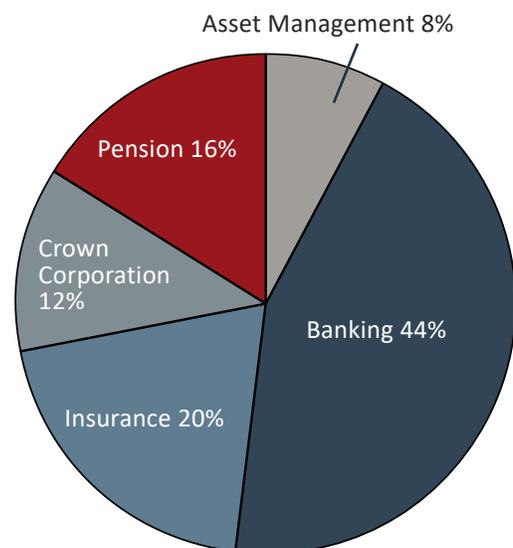
2019-2020 Risk Outlook Survey



INTRODUCTION

The Global Risk Institute in Financial Services has conducted its annual Risk Outlook survey of our members' perspectives on the coming year. The results provide insights into our member organizations' views on key risks, on the stability of their individual institutions, the stability of the Canadian financial system, and on the strength of the Canadian and major global economies. Survey participants included banks, insurance companies, pension funds, asset managers and Crown Corporations (Figure 1).

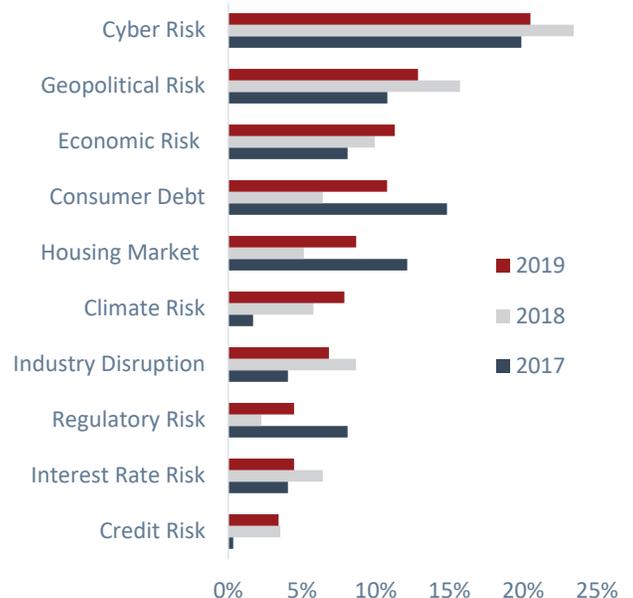
Figure 1 – Responses by financial institution type



RISKS TO THE CANADIAN FINANCIAL SYSTEM

Participants were asked to list the top most impactful risks to the Canadian Financial System (Figure 2). Cyber was deemed the risk with the largest potential impact for the fourth year running, most probably due to the continued increase in frequency and sophistication of cyber-attacks. Geopolitical risk remains in second place, although somewhat less strongly than last year as more members rank economic risks higher. Concerns about the housing market and household credit, after receding in our 2018 survey, are returning. This may suggest that members are becoming accustomed to geopolitical shocks and paying more attention to the economic consequences of political instability. We also note that concern about climate risk continues to steadily rise.

Figure 2 – Top 10 risks ranked by the severity of their impact on the Canadian Financial System



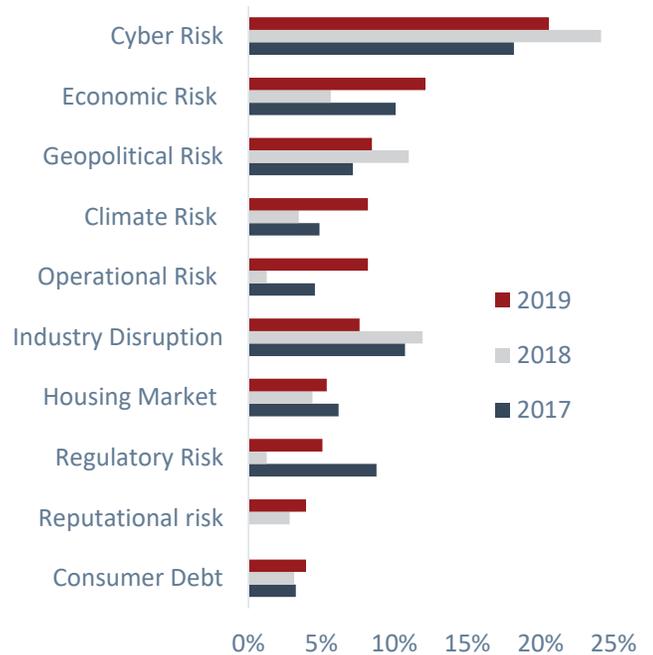
Moving from the strength of impact to the imminence of top risks, in a separate question cyber and geopolitical risk were ranked the two most imminent risks in Canada, followed by consumer debt and the macroeconomy.

RISKS TO FINANCIAL INSTITUTIONS

Participants were also asked to identify the top risks they believe would have the greatest impact on their own institutions (Figure 3). Cyber risk was again highlighted as the biggest threat, followed by concerns about the broader economy and geopolitical risks. Members’ ranking of interest rate risk has dropped out of the Top 10 this year, perhaps as members become accustomed to low for long, while this year also sees more muted concern about industry disruption.

Moving from potential impact to imminence, members rank, in order, cyber, economic and geopolitical risks as the most proximate to their own institutions.

Figure 3 – Top 10 risks ranked by the severity of their impact on the respondents’ own institutions



VIEWS ON CANADA’S FINANCIAL STABILITY

Confidence in the Canadian financial system’s ability to withstand the identified risks has improved overall (Table 1), with no survey participants expressing Low Confidence.

Table 1 – Confidence in the Canadian Financial System to withstand key risks

Year	Very Confident	Confident	Low Confidence	Not Confident
2019	40%	60%		
2018	45%	50%	5%	
2017	27%	59%	14%	

Members’ expectations that one of the top risks listed above will result in a high impact event within the next 1 year (Table 2) remains steady year on year. The 5 year outlook has soured, with 50% now expecting a high impact event in that time frame over the more optimistic 24% reported last year.

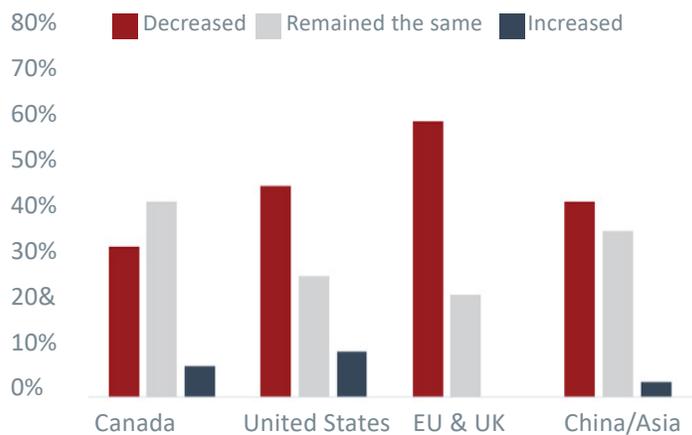
Table 2 – Likelihood of a High Impact Event occurring

Time Frame	Year	Very Likely	Likely	Indifferent	Unlikely	Highly Unlikely
1 Year	2019		48%	32%	16%	4%
	2018		48%	24%	19%	9%
	2017	5%	59%	18%	18%	
5 Year	2019	50%	38%	4%	8%	
	2018	24%	57%	5%	14%	
	2017	50%	45%	5%		

VIEWS ON GLOBAL ECONOMIES

We asked members how their confidence in the Canadian, United States, European Union/United Kingdom, and Chinese/Asian economies has changed over the past year (Figure 4), and respondents report declining confidence in the US, European and Asian regions with a stable to cautious view on Canada.

Figure 4 – Change in confidence in global economies over the past year



Members are most positive in their assessment of the outlook for Canada’s economic stability, followed in order by the US, China/Asia, and the EU (Table 3).

Table 3 – Current outlook on the stability of major economies

Economy	Positive	Somewhat Positive	Neutral	Somewhat Negative	Negative
Canada	16%	28%	32%	24%	
US	12%	27%	46%	15%	
China/Asia	4%	16%	44%	24%	12%
EU	4%	12%	24%	44%	16%

SUMMARY

Our 2019-2020 survey sees broad continuation of previous trends with some shifts in weightings of top concerns. Members are prioritizing risks in cyber, geopolitical and the macroeconomy, with attention paid to climate risks steadily increasing. Confidence in the Canadian financial system and its constituent institutions remains steady, while members grow more concerned about economic prospects in the major economies outside of Canada.

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