

# 2020-2021 Risk Outlook Survey

JANUARY 2021

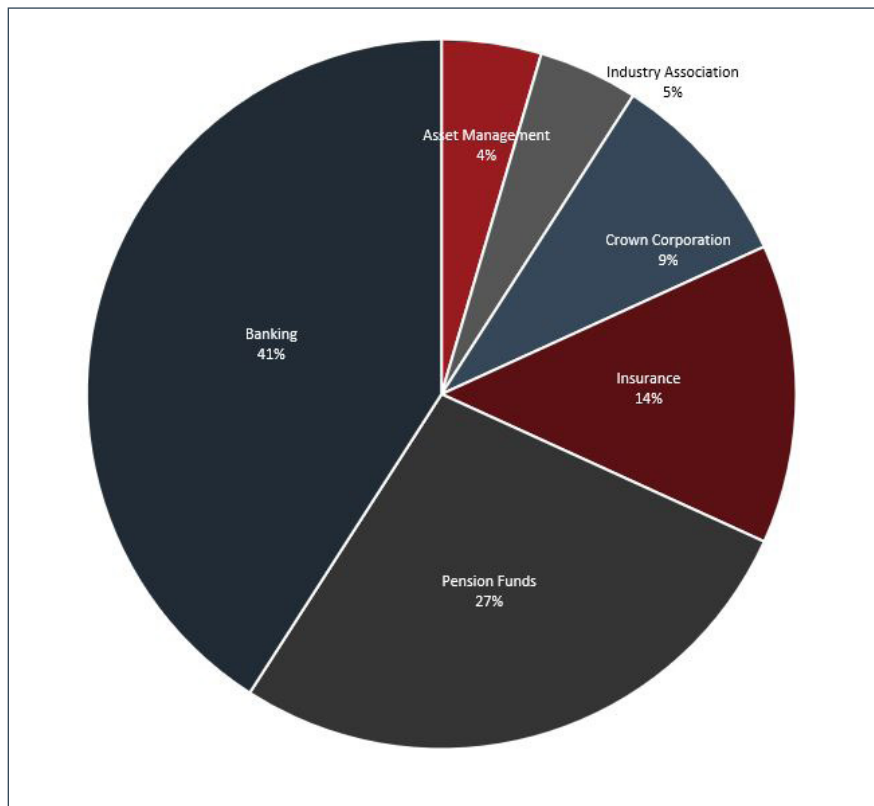


## INTRODUCTION

The world has changed dramatically since we published our last edition of the GRI *Risk Outlook Survey* a year ago. Top risks that were thought to be at the forefront have been impacted and, in some instances, overshadowed by the events brought about by the global pandemic we are living through today. With this backdrop in mind, GRI has once again conducted our annual *Risk Outlook Survey* and this year we have added new questions related to COVID-19 to gain insight into the impact of the pandemic on financial institutions and the Canadian financial system.

The *Risk Outlook Survey* measures GRI member institutions' perceptions of risk and yields important insights into the outlook of the Canadian financial services system and global economies. Our membership base is comprised of the top financial institutions in Canada and survey participants included banks, pension funds, insurance companies, Crown Corporations, industry associations and asset managers (Figure 1). Respondents completed the survey from November 2020 – January 2021. Selected survey questions and results are attached to the appendix.

**Figure 1:** Responses by financial sector type:



**SURVEY HIGHLIGHTS**

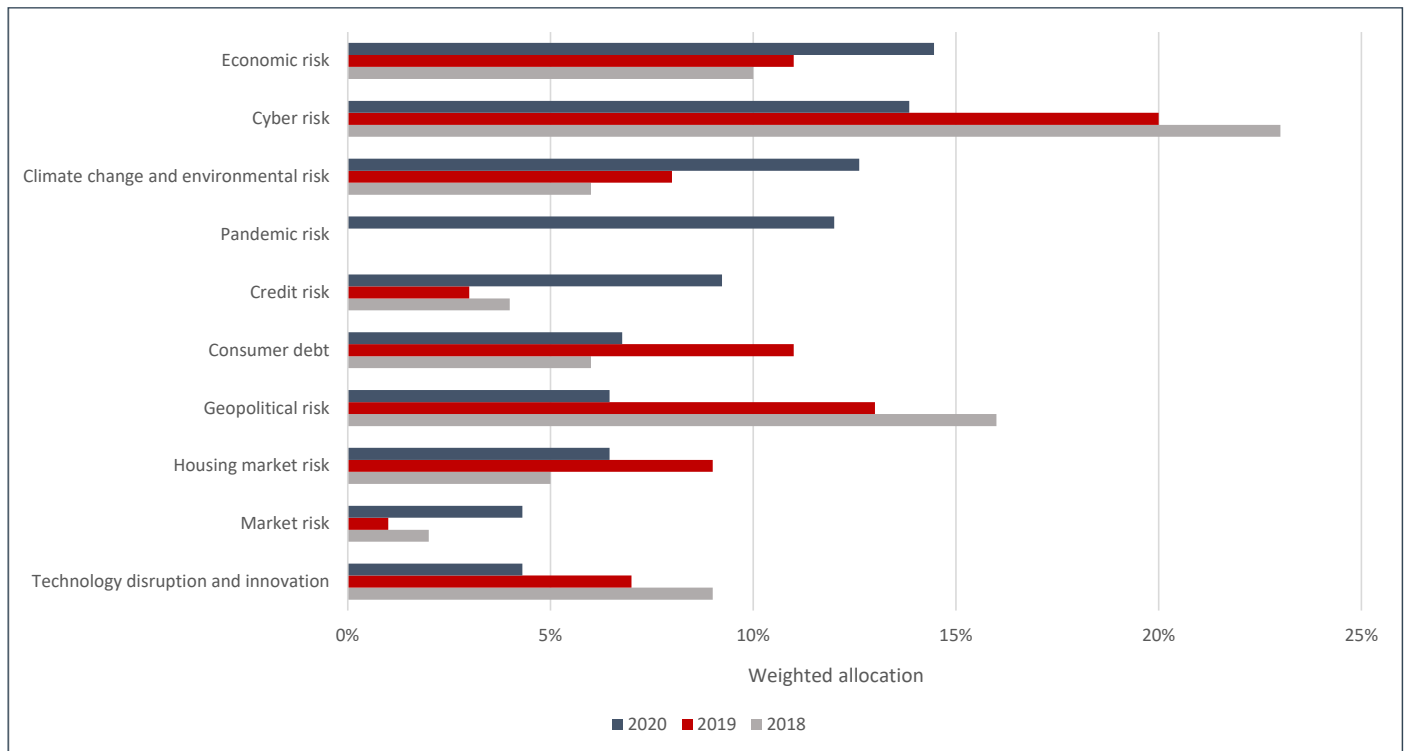
Survey Finding	Insights:
<p><b>COVID-19 and Pandemic Risk</b></p> <p>The majority of respondents indicated that the pandemic and its aftermath will have an impact on the way their business operates and sees risk.</p>	<p>In the long term, the pandemic will have a tangible impact on business operations and perception of risk. In 2021, the economic impacts of COVID-19 and threat of further pandemic risk is top-of-mind for risk practitioners. Throughout the survey, economic risk related to the intermittent shutdown and slowdown of the economy and the threat posed by COVID-19 is clearly articulated through participant responses.</p>
<p><b>Climate change and environmental risk</b> is no longer perceived to be an emerging risk, but a top risk for GRI member institutions.</p>	<p>Climate risk is viewed as a top risk for all institution types. It is a multidimensional risk and is impacting institutions through reporting and risk analysis and in many more ways. The Bank of Canada and OSFI initiatives on climate scenarios and the increased international attention toward climate change will continue to illuminate this risk factor for the financial system.</p>
<p><b>Cyber risk</b>, for a 4th year in a row, ranks as a top risk for GRI members.</p>	<p>The COVID-19 pandemic has increased exposure to cyber risk for individuals and all institutions. With more staff working from home, more devices accessing digital banking environments and cyber threats increasing, more vigilance is required by financial institutions. At a system level, cyber resiliency is a top concern for financial stability because of the reliance on the digital infrastructures that underpin the financial sector.</p>
<p><b>The Stability of the Canadian Financial System</b></p> <p>78% of respondents indicated that a high impact event based on the top risks identified is likely to occur in 2021. However, 100% of respondents noted that they are confident in the Canadian financial system’s ability to withstand potential high impact events.</p>	<p>Financial institutions have planned and prepared for high impact events caused by top risk factors. At a systemic level, there is high confidence in the resilience of the financial system and its ability to manage risk across various dimensions. This is likely due to the strong mechanisms in place which allow industry, government and regulators to plan for and quickly address risks to the system.</p>

**RISKS TO THE CANADIAN FINANCIAL SYSTEM IN 2021**

Respondents were asked to list the most impactful risks to the Canadian financial system in 2021 (Figure 2). The COVID-19 pandemic resulted in the intermittent shutdown and slowdown of the economy bringing economic risks to the forefront for the financial industry. In 2021, issues around credit risk, the housing market, personal debt and the larger implications of the economic measures taken to combat the pandemic will certainly feature prominently in the continued health of the Canadian financial system. Climate change and environmental risk has increased each

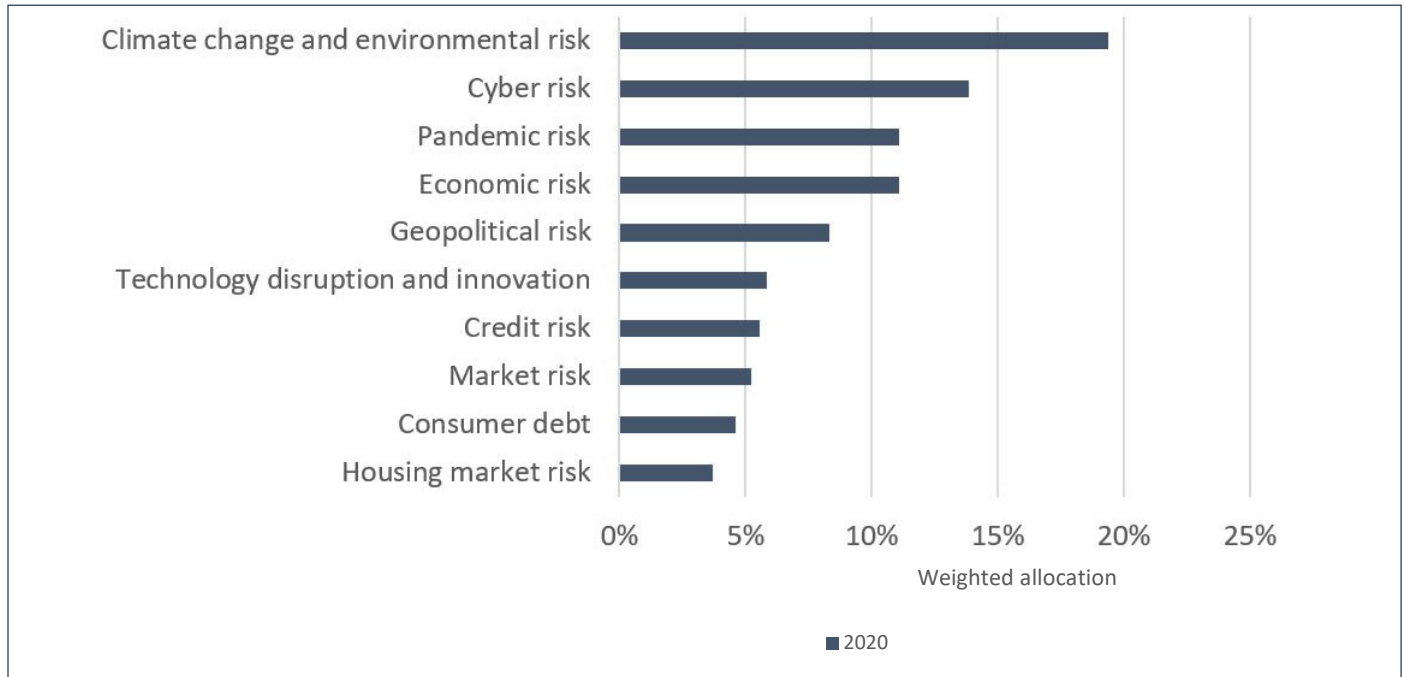
year in importance since 2018, providing further data to support the fact that climate risk is a top risk for the financial sector and is no longer an emerging threat on the horizon. Industry members are keen to see guidance from OSFI and the Bank of Canada on this issue in 2021 and are continuing to observe the international financial system’s response to climate risk. This year again, cyber risk and resiliency are top priorities for financial stability based on the interconnectedness of the financial sector and the key digital infrastructure that supports it.

**Figure 2:** Top 10 risks ranked by the severity of their impact on the Canadian financial system



In past surveys, GRI has asked member organizations to rank top risks based on impact. This year GRI also asked respondents to rank the top risks by considering which risk was most difficult to manage (Figure 3).

**Figure 3:** Top 10 risks ranked by their difficulty to manage for the financial system



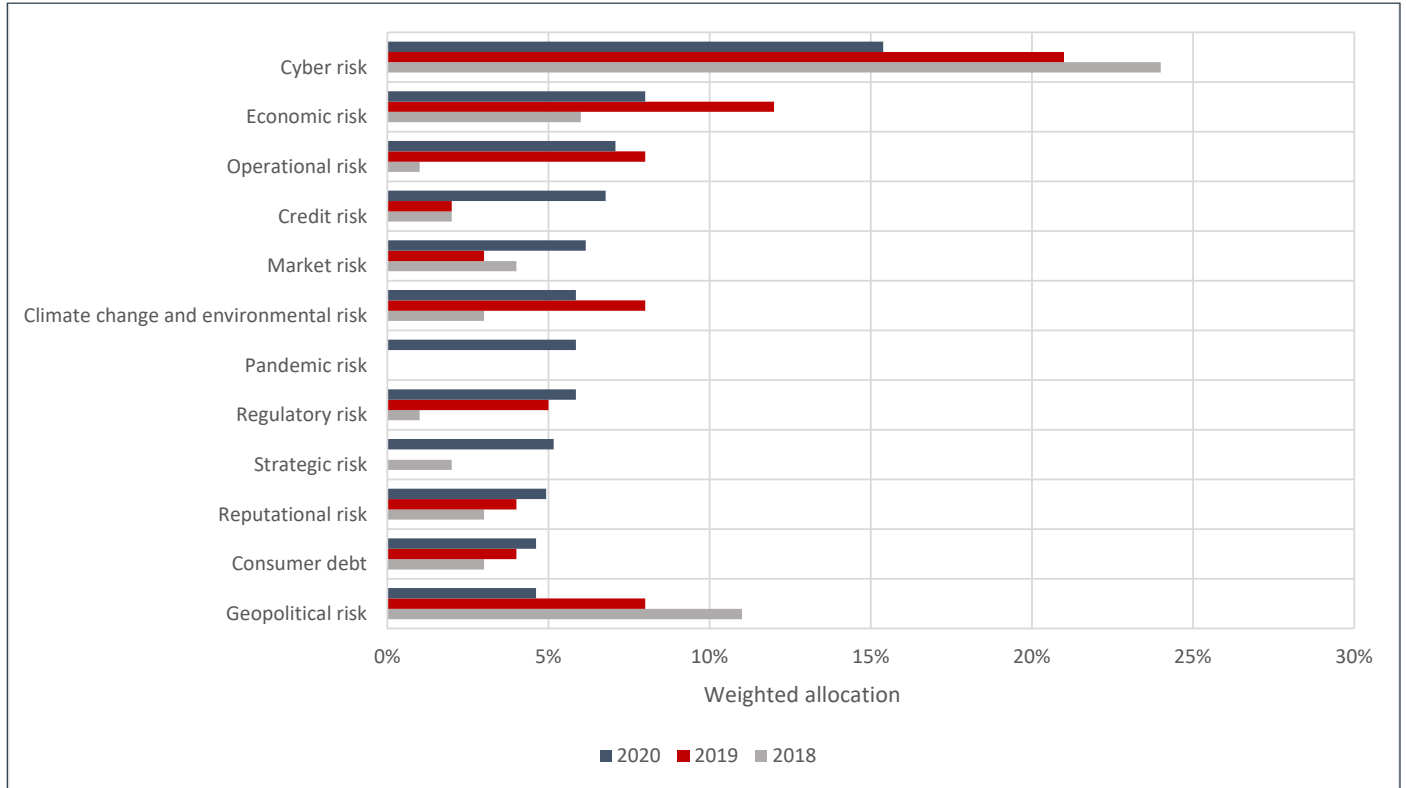
Here again, we see the prominence of climate risk, cyber risk and economic risk. All three feature into the top risk sets at both the impact level and the difficulty to manage level.

**RISKS TO FINANCIAL INSTITUTIONS IN 2021**

Respondents were also asked to identify the top risks that would have the greatest impact on their own institutions in 2021 (Figure 4). An important insight is that cyber risk and economic risk are ranked in the top two risk sets for both the Canadian financial system and financial institutions. Cyber risk has been identified as a key risk factor for the past four years, with issues around cyber attacks and privacy dominating the discussion. In 2020, certain cyber issues came to the fore with the COVID-19 pandemic and the rapid move to online environments from physical workplaces.

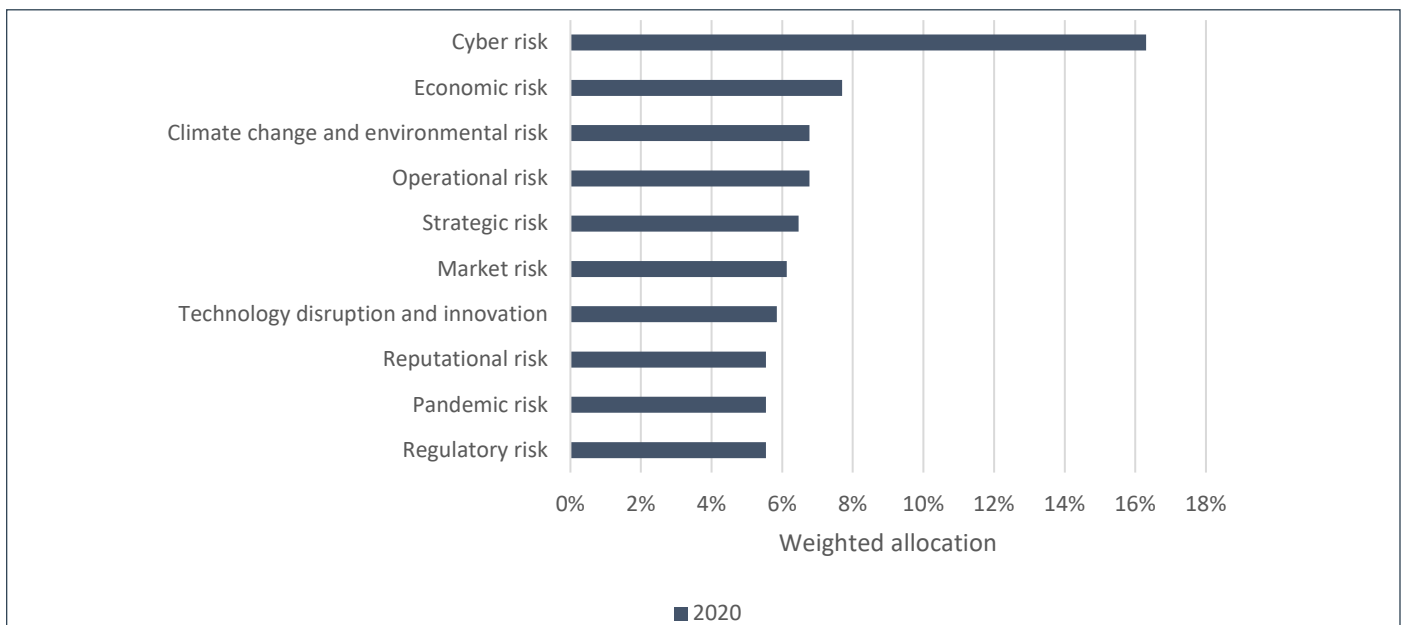
Based on the pandemic and the resulting strain on the economy, credit risk, a key historical risk for financial institutions, has risen again as a top risk, particularly in the banking sector. With an uncertain economic outlook for 2021, credit risk will certainly be more important to manage as compared to previous years as businesses and individuals continue to deal with the economic consequences of the pandemic.

**Figure 4:** Top 10 risks ranked by the severity of their impact on the respondents' own institutions



In past surveys we have asked respondents to rank the top risks to their own financial institutions based on impact. This year, we also asked respondents to rank the top risks to their own institutions based on the difficulty of the risk to manage (Figure 5).

**Figure 5:** Top 10 risks ranked by their difficulty to manage for respondents' own institutions



From a financial institution point-of-view, measuring impact and difficulty of the risk to manage, cyber risk, economic risk and climate change and environmental risk, are again the top considerations which align with the top risks for the financial system.

Moreover, close to 100% of respondents replied that they were confident in their firm’s ability to navigate these risks. 94% of respondents indicated that they were very confident/confident in their firm’s ability to withstand these top risks and 94% of respondents felt that their firm had adequately assessed and prepared for these risks.

### **VIEWS ON CANADA’S FINANCIAL STABILITY IN 2021**

Confidence in the Canadian financial system’s ability to withstand the identified risks has remained constant as compared to 2019, even with the unprecedented events surrounding the COVID-19 pandemic. 100% of respondents indicated that they were very confident/confident in the Canadian financial system’s ability to withstand key risks with no survey participants expressing low confidence.

Expectations that one of the top risks listed above will result in a high impact event within the next year has increased. 78% of respondents indicated that a high impact event is very likely/likely whereas last year, only 48% of respondents indicated that it was likely. Moving to the 5-year outlook, 91% of respondents indicated that it was very likely/likely that a high impact event would occur.

Overall, the consensus sentiment expressed by participants is that a high impact event is likely to occur, which will affect the financial services sector within 1-5 years. Respondents noted however, that they are confident in the Canadian financial system’s ability to withstand these risk factors.

Views on Canada’s financial stability are likely positive due to the confidence level that individual institutions express with respect to preparedness for high-impact risk events and the financial community’s confidence in the institutions and structures in place to help guide the industry through turbulent times.

### **VIEWS ON GLOBAL ECONOMIES IN 2021**

Respondents were asked to share their confidence views on the economies of Canada, the United States, the European Union, the United Kingdom, China and other Asian countries. Not surprisingly, with pandemic economic shocks occurring globally, the majority of respondents expressed a decrease in confidence in world economies.

To further analyze views on global economies, respondents were asked to rate their views on the stability of each economy. Chinese and Asian economies were viewed to be the most stable. 53% of members had a positive or somewhat positive stability view of China’s economy, and 43% of members had a positive or somewhat positive view of Asia’s economy. This stability outlook is likely based on the Chinese and other Asian economies’ relative success in combating the COVID-19 pandemic compared to Western economies. The United Kingdom was perceived to be the least stable, with 71% of respondents having a somewhat negative view. It was mentioned throughout the survey that Brexit was a perceived risk, which can potentially be attributed to the low stability viewpoint.

The outlook for the Canadian economy is mixed, with 50% indicating a neutral view, 20% indicating a somewhat positive view, and 30% indicating a somewhat negative view. Clearly, uncertainty based on the COVID-19 pandemic and the full reopening of the economy is impacting the perception of stability for the Canadian economy in 2021 and beyond.

Finally, respondents were asked what factors would contribute to economic instability in 2021. The top three answers were pandemic risk, geopolitical risk and economic risk.

## CONCLUSION

The GRI *Risk Outlook Survey* yields a number of important insights. For instance, the economic implications of the COVID-19 pandemic are manifest and come through in the emphasis placed on economic risk and macroeconomic risks as top risks at both the financial system and institution levels. Cyber risk continues to be a top risk for GRI members and has a heightened importance with the rapid transition from physical to online environments and the increasing threat landscape. Climate change and environmental risk has clearly emerged as a top risk for the financial system and will be top-of-mind for GRI membership in 2021. Finally, 78% of respondents indicated that it is likely that a high impact event based on the top risks identified will hit the financial services system this year. Nevertheless, 100% of respondents indicated that they were confident in the Canadian financial system's ability to withstand potential high-risk events.

The belief in the strength of the Canadian financial system is, in our view, well supported given the mechanisms now in place that allow industry, government and regulators to plan for and quickly address risks to the system in order to mitigate impact. Moreover, the global financial system has increased resiliency as a result of actions taken following the 2007-2008 financial crisis. There is good reason to believe that the Canadian financial system, while certainly not immune to shocks, will be resilient to potential high-impact events.

## APPENDIX

### Implications of the COVID-19 Pandemic

**Table 1** To what extent do you believe the pandemic and its aftermath will fundamentally change the way your business operates?

Substantially	Moderately	Slightly	Not at All
14%	50%	36%	

**Table 2:** To what extent do you believe the pandemic and its aftermath have changed the way your company sees risk?

Substantially	Moderately	Slightly	Not at All
9%	41%	50%	

### Views on Canada’s Financial Stability

**Table 3:** Confidence in the Canadian financial system to withstand key risks

Year	Very Confident	Confident	Low Confidence	Not Confident
2020	36%	64%		
2019	40%	60%		
2018	45%	50%	5%	
2017	27%	59%	14%	

**Table 4:** Likelihood of a high impact event occurring

Time Frame	Year	Very Likely	Likely	Indifferent	Unlikely	Highly Unlikely
1 Year	2020	14%	64%	14%	8%	
	2019		48%	32%	16%	4%
	2018		48%	24%	19%	9%
	2017	5%	59%	18%	18%	
5 Year	2020	50%	41%	9%		
	2019	50%	38%	4%	8%	
	2018	24%	57%	5%	14%	
	2017	50%	45%	5%		

### Top Risks Summary Table

Top 5 Most Impactful Risks for the Canadian Financial System	Top 5 Most Impactful Risks for Financial Institutions
1. Economic Risk	1. Cyber Risk
2. Cyber Risk	2. Economic Risk
3. Climate Change and Environmental Risk	3. Operational Risk
4. Pandemic Risk	4. Credit Risk
5. Credit Risk	5. Climate Change and Environmental Risk



Views on Global Economies

Figure 6: Change in confidence in global economies over the past year

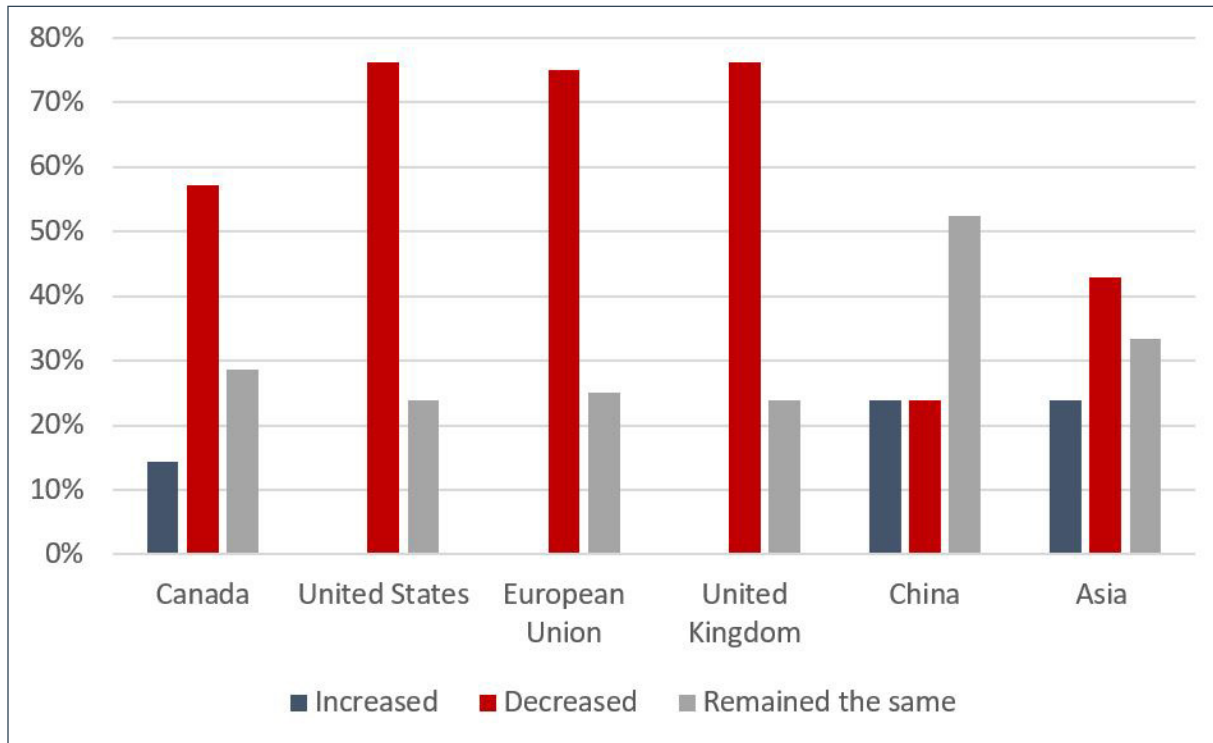
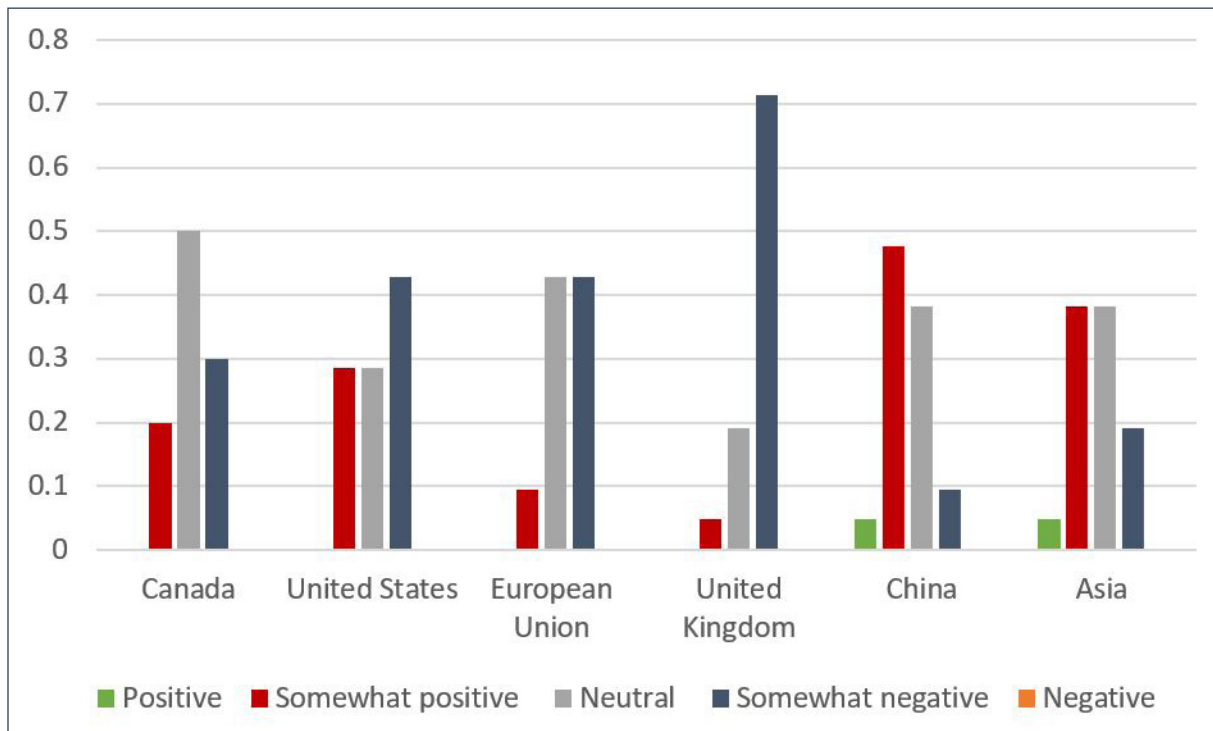
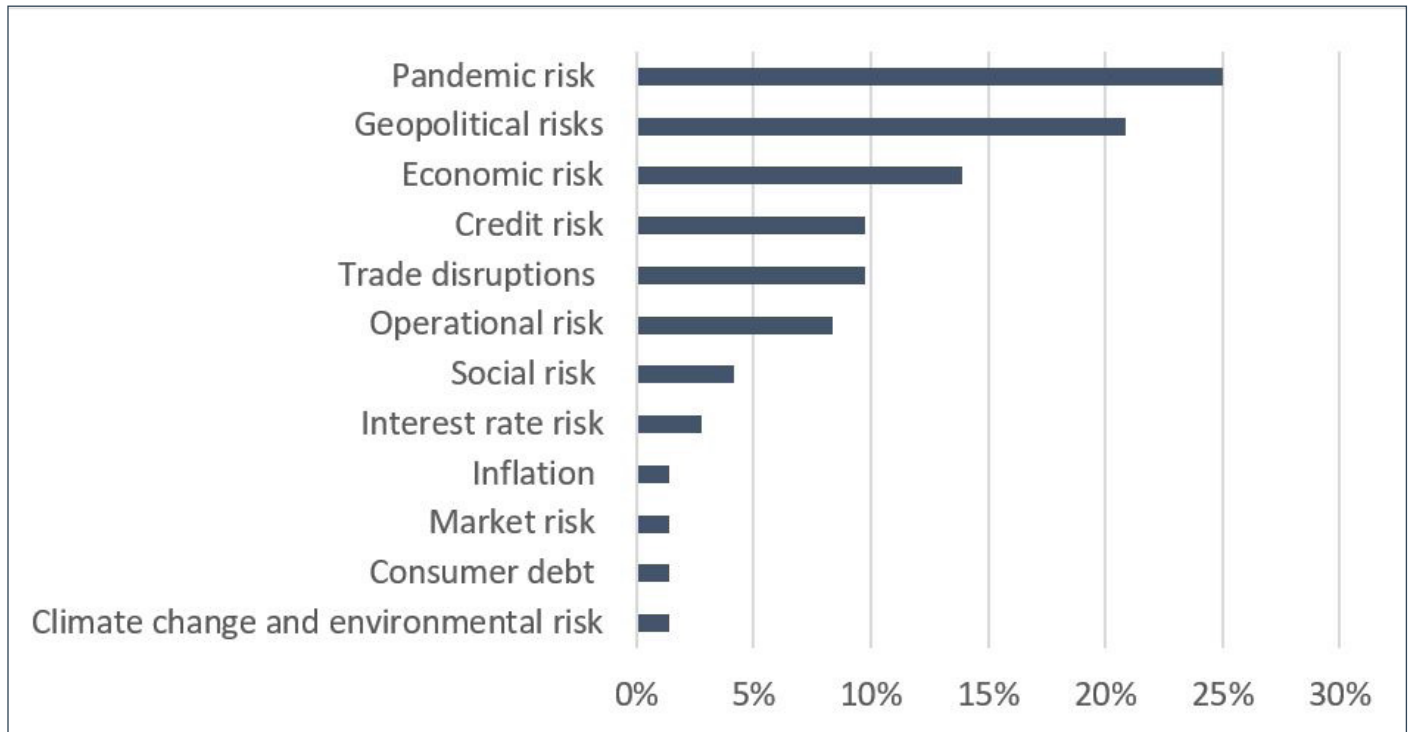


Figure 7: Current outlook on the stability of major economies



**Figure 8:** Perceived factors that will contribute to Global Economic Instability in 2021



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