2018-2019
Risk Outlook Survey Results

GLOBAL RISK INSTITUTE

GLOBAL RISK INSTITUTE'S ANNUAL RISK OUTLOOK SURVEY

2018 marks the third year of the Global Risk Institute's annual Risk Outlook Survey of our member organizations' risk outlooks for the coming year. The results of this survey provide insights into our members' views on key risks, on the stability of their individual institutions and the overall Canadian financial system, and on the strength of major global economies. Survey responses were obtained from a range of financial institutions including banks, insurance companies, and pension funds (Figure 1).

Figure 1

Breakdown of responses by financial institution type

RISKS TO THE CANADIAN FINANCIAL SYSTEM

Participants were asked to list the top five most impactful risks to the Canadian Financial System (Figure 2). Unsurprisingly, cyber risk was deemed the risk with the largest potential impact for the third year in a row due to the increased frequency and sophistication of cyber-attacks. Rising political instability led geopolitical risk to move to the second spot on our risk ranking, replacing household debt and housing market risks, which have both moved downwards. Consistent with this trend, weakening trade and broader global economic risks have increased on our list. And finally, Fintech-led industry disruption continues to increase as one of the most impactful risks today, landing in the fourth spot. Furthermore, cyber threat, geopolitical risk, and industry disruption were listed as the most imminent risks.
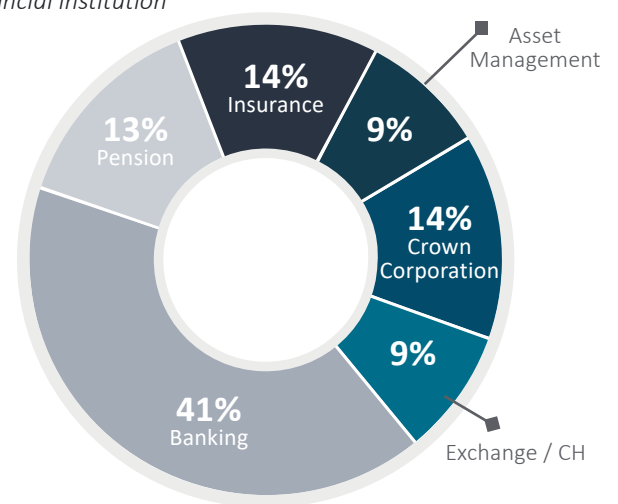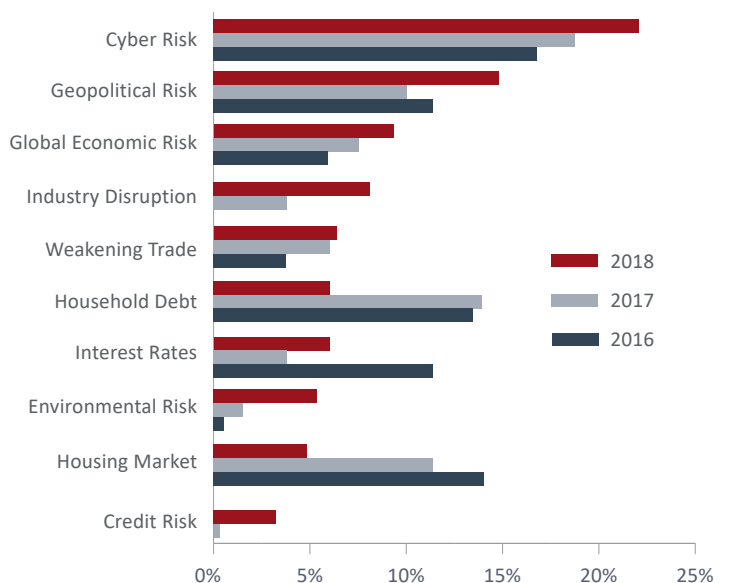
Figure 2

Key risks ranked by the severity of their impact on the Canadian Financial System

RISKS TO THE FINANCIAL INSTITUTIONS

Participants were also asked to identify the top five risks that they believe would have the greatest impact on their own institutions (Figure 3). Again, cyber risk was highlighted as the biggest threat for the third year in a row. Industry disruption, which includes technological innovation and Fintech-driven disintermediation, and geopolitical risk were the second- and third-most impactful risks to respondents' institutions. These three risks were also reported as the most imminent and difficult to manage.

Comparing responses across financial institutions, cyber risk was unanimously identified as the top risk by banks, insurance institutions, pension funds, and exchanges and clearinghouses. Crown corporations identified industry disruption as the biggest risk, while asset management firms identified geopolitical risk as the top threat.

Figure 3

Key risks ranked by the severity of their impact on the respondents' own institutions
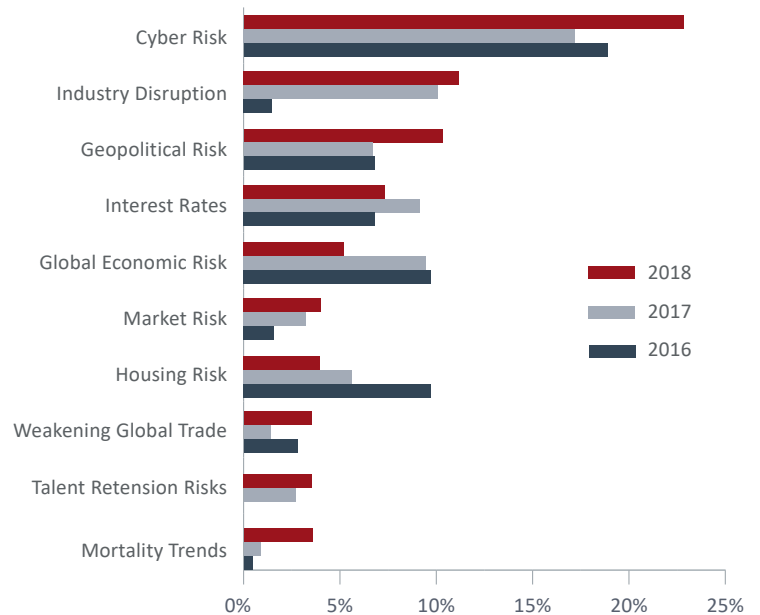
VIEWS ON CANADIAN FINANCIAL STABILITY

This year's responses reflected increased confidence in the Canadian financial system's resiliency (Table 1). As shown, 67% fewer respondents reported low confidence this year as compared to last, while the fraction of high-confidence respondents has increased by the same percentage.

Over the past year there was a large decrease in participants' views of the likelihood of one of the aforementioned risks resulting in a high impact event within the next year and the next five years (Table 2). As shown, 48% of respondents believe a high impact event will occur in the next year vs. 64% previously.

Table 1

Confidence in the Canadian Financial System to withstand key risks

Year	Very Confident	Confident	Low Confidence	Not Confident
2018	45%	50%	5%	-
2017	27%	59%	14%	-
2016	42%	50%	8%	-

Table 2

Likelihood of a High Impact Event occurring within the indicated time frame

Time Frame	Year	Very Likely	Likely	Indifferent	Unlikely	Highly Unlikely
1 Year	2018	-	48%	24%	19%	10%
	2017	5%	59%	18%	18%	-
	2016	-	33%	25%	42%	-
5 Years	2018	24%	57%	5%	14%	-
	2017	50%	45%	5%	-	-
	2016	23%	62%	15%	-	-

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). Most notably, a majority of respondents have decreased confidence in the US, EU, and China/Asia, while confidence in Canada's economy has remained stable.

Figure 4

Change in confidence levels of each economy over the past year
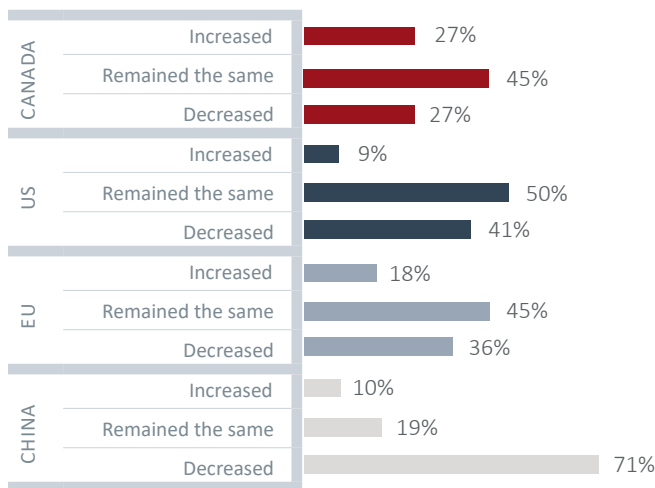
This year, respondents were most positive about Canada's financial stability outlook, followed by the US, China/Asia, and the EU (Table 3).

Table 3

Current outlook on the stability of each economy

Economy	Positive	Somewhat Positive	Neutral	Somewhat Negative
Canada	18%	45%	18%	18%
US	5%	55%	27%	14%
EU	5%	14%	68%	14%
China / Asia	5%	27%	27%	41%

Unsurprisingly, geopolitical risk, trade wars, and economic uncertainties were identified as the most pressing risks for the US and Chinese/Asian economies. In the EU, political and economic uncertainties arising from Brexit, trade wars and protectionism, and a potential Italian economic crisis were at the forefront of respondents' minds.

SUMMARY

Several key themes have emerged from the results of our 2018-2019 risk outlook survey. Cyber risk remains the top risk for the third year in a row. Growing reliance on technology has increased many firms' exposure to cyber-attacks. Geopolitical risk, which was not a leading risk last year, has risen to be a top risk for many institutions.

Policy uncertainty, particularly surrounding trade policies involving the US, has increased since last year.

Trade wars are threatening China and the EU, and the EU faces other crises as well, namely Brexit and a potential economic crisis in Italy.

Our members' confidence in the ability of the Canadian financial system, and the broader Canadian economy, to withstand key risks has increased, while their outlooks for the US, EU, and China have all worsened.