

2017-2018

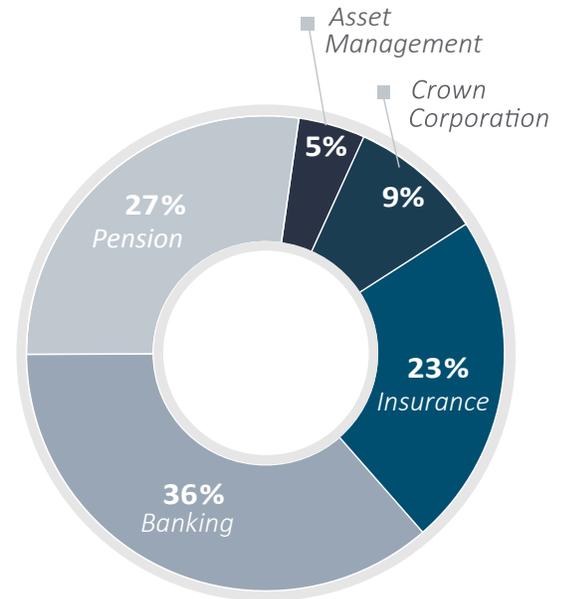
Risk Outlook Survey Results



GLOBAL RISK INSTITUTE'S ANNUAL RISK OUTLOOK SURVEY

2017 marks the second year that the Global Risk Institute conducted their annual Risk Outlook Survey to assess the risk outlook of our member organizations for the coming year. The results of this survey provide insights into our members' views on key risks, the stability of the Canadian financial system, and 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
Breakdown of responses by financial institution type



RISKS TO THE CANADIAN FINANCIAL SYSTEM

Participants were asked to list the top five most imminent risks that they believe would have the greatest impact on the Canadian Financial System. (Figure 2) As one might expect, the increased frequency and sophistication of cyber-attack, the over-heated housing market, the ever-rising consumer debt, and the mounting geopolitical uncertainties around the globe were identified as the risks with the largest potential impact. In terms of imminence, cyber risk and household debt were again ranked as the top two.

Figure 2
Key risks ranked by the severity of their impact on the Canadian Financial System



RISKS TO THE FINANCIAL INSTITUTIONS

Supplementary to this, participants were asked to identify the top five imminent risks that they believe would have the greatest impact on their own institutions (Figure 3). Cyber risk was again highlighted as the biggest threat followed by industry disruption which included shadow banking, technological innovation and fintech driven disintermediation. Global economic risks, interest rates and regulatory risk rounded out the top 5 risks to financial institutions while household debt and housing market risk fell out of the top 5 this year.

Comparing responses across financial institutions, cyber risk was unanimously identified as the top risk by banks, insurers and crown corporations. Pension funds identified global economic risk as their top risk while asset managers were most concerned about industry disruption.

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 decreased confidence in the Canadian Financial system's ability to withstand the above-mentioned key risks. As seen in Table 1, the number of very confident respondents shifted downwards from 42% to 27% in 2017.

Over the past year, there was a large increase in participants' views of the likelihood of one of the mentioned risks resulting in a high impact event within the next year and five years. (Table 2) As shown, 64% of respondents believe a high impact event will occur in the next year vs. only 33% in the prior year. As well, 95% of participants deem it likely that a high impact event will occur in the next five years.

Table 1

Confidence in the Canadian Financial System to withstand key risks

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

Table 2

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

Time Frame	Year	Very Likely	Likely	Indifferent	Unlikely
1 Year	2016	-	33%	25%	42%
	2017	5%	59%	18%	18%
5 Years	2016	23%	62%	15%	-
	2017	50%	45%	5%	-

VIEWS ON GLOBAL ECONOMIES

We asked members how their confidence in the Canadian, US, EU, and Asian economies has changed over the past year (Figure 4). Most notably, we see a majority vote for decreased confidence in the US, while confidence in Canada and EU appears to have slightly increased.

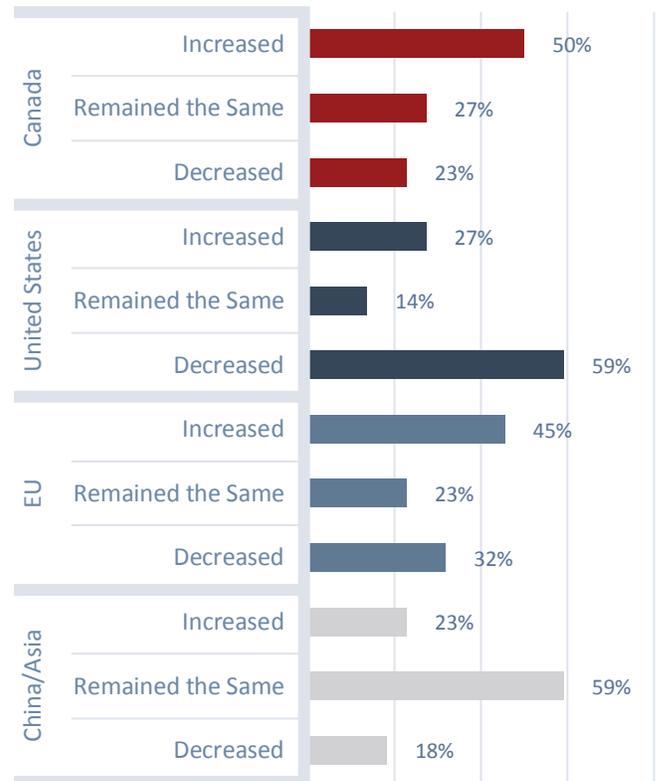
Overall, respondents were most positive about Canada’s financial stability outlook followed by the US, China/Asia and EU. (Table 3)

Table 3
Current outlook on the stability of each economy

Economy	Positive	Somewhat Positive	Neutral	Somewhat Negative
Canada	23%	59%	9%	9%
US	14%	32%	27%	27%
EU	18%	9%	50%	23%
China/Asia	14%	27%	36%	23%

Unsurprisingly, geopolitical risk was nearly unanimously identified as the most pressing risk for the US and EU economies. In China/Asia, responses varied with geopolitical and economic risk tying for the top spot.

Figure 4
Change in confidence levels of each economy over the past year



SUMMARY

The results of our 2018 risk outlook survey highlighted some key risks trends. First and foremost, cyber risk remains the top risk for the second year in a row both at the institution and system levels. Industry disruption, which was not a prevalent risk last year, has risen to be a considerable risk for all firm types.

The continued rise of right wing populism in the US and EU, paired with policy and global trade uncertainty have driven geopolitical risk to the forefront.

The results of our survey show that Canadian firms are very confident in their own ability to withstand risks however are less confident in the Canadian Financial System’s ability as compared to last year.

Overall, the economic outlooks for Canada, the EU and China/Asia have improved year over year, while confidence in the US has decreased.