Insights from EMEA Risk Leaders

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From horizon and fragility risk to the implementation of new regulations, including the Fundamental Review of the Trading Book (FRTB), risk managers have a broad set of issues to focus on in 2019 and beyond.

In November, Bloomberg hosted the PRMIA 2018 EMEA Risk Leader Summit at its London offices, joined by 120 senior executives, risk managers and policy makers to engage in interactive sessions, panels and conversations to advance risk management practices.

Brexit
A discussion on the proposed withdrawal agreement (published on the morning of the event) revealed some intentions and challenges. Frankfurt and Amsterdam are the leading BREXIT relocation hubs. Relocating people and families are the largest challenge, as auxiliary services for the family like schooling are hard to manage with a large population influx. Regulatory relationships and frameworks come second.

Where will your principal EU hub be, post Brexit?

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>21%</td>
</tr>
<tr>
<td>Dublin</td>
<td>8%</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>48%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>8%</td>
</tr>
<tr>
<td>Paris</td>
<td>15%</td>
</tr>
</tbody>
</table>

How many assets will you be transferring?

<table>
<thead>
<tr>
<th>Asset Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>55%</td>
</tr>
<tr>
<td>0-10 Bn Euro</td>
<td>20%</td>
</tr>
<tr>
<td>10-30 Bn Euro</td>
<td>6%</td>
</tr>
<tr>
<td>30-50 Bn Euro</td>
<td>3%</td>
</tr>
<tr>
<td>&gt;50 Bn Euro</td>
<td>16%</td>
</tr>
</tbody>
</table>

What is the biggest relocation challenge?

41% Regulatory
59% People

How does Brexit end, politically?

23% Reversal of Brexit decision
31% Withdrawal agreement approval
46% Rejection of withdrawal agreement

Macro and Geo-Politics
With a few Risk Leaders worried about systemic leverage, the overwhelming majority don't believe we will see significant stress in the market when a potential downturn will hit the economy.

Is this just the end of the business cycle, or is it possibly more severe?

<table>
<thead>
<tr>
<th>Recession Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal recession</td>
<td>47%</td>
</tr>
<tr>
<td>1.5x</td>
<td>32%</td>
</tr>
<tr>
<td>2x</td>
<td>13%</td>
</tr>
<tr>
<td>3x</td>
<td>3%</td>
</tr>
<tr>
<td>5x</td>
<td>5%</td>
</tr>
</tbody>
</table>
Risk Strategy
Credit Risk ownership comes with various architectures, with no clear delineation between the first line of defense and the second line. Skill set diversification is the major industry trend, but there is still a significant portion of the market that is focusing on financial risk specialists.

Where is credit risk managed in your organisation?
- First line: 17%
- Second line: 8%
- Both, but the first line is the main driver: 31%
- Both, but the second line is the main driver: 33%
- Both, equally: 11%

Do you have the capabilities in your risk department to become more cross functional?
- We are hiring more diverse skills than 5 yrs ago: 69%
- Have always had a diverse risk team: 12%
- Primarily focusing on financial risk specialists: 20%

Where is your bank going to invest for FRTB in the coming year?
- Standardized approach only: 17%
- Primarily standardized approach, some internal models approach: 65%
- Primarily internal models approach, some standardized approach: 6%
- Not investing substantially in FRTB in the coming year: 22%

Strategic Risk
How do you believe market share positioning of the banks will change in the retail space in 5-10 years?
- Traditional banks will become low cost manufacturers for FinTechs: 17%
- Niche banks will win their segments: 26%
- Digitally native FinTechs will take over retail like Amazon did: 37%
- Current banks will digitalize and optimize and things will look similar to today’s banks: 20%

Digitalization is no small feat for banks that have a very complex legacy IT infrastructure, some of which dates back to the 1980s. Transitioning from those to the FinTech UX will take a few more years, and it will give FinTechs an edge, despite a narrower product range.

How far is your bank down the road of digitalisation?
- I don’t know: 4%
- It’s an uphill climb: 59%
- We have a decent online product: 35%
- We’re digitally agile with great UI and UX: 2%

AI in Risk Management: Friend or Foe?
- 96% Friend
- 4% Foe
Risk Leaders are still not convinced Blockchain will prevail as a trust mechanism, but for a survey of senior Financial Services professionals this is quite a remarkable result for Blockchain.

Who is going to be more trusted by society:
financial authorities/the banking system* or internet and Distributed Ledger Tech?

72% Traditional System will prevail
28% Blockchain/DLTs will prevail as trust mechanism

Where do you see the greatest disruption/margin compression? (the hardest hit line on % profitability)

Loans 34%
Payments 50%
Wealth Management 8%
Retail deposits 3%
Other 5%

*Capitalisation ratios, ratings, oversight etc.

Climate Risk
Risk Leaders are on the cusp of rapidly adopting Climate Risk Pricing and Transitioning policies.

Is your organisation actively trying to manage & price Climate Risk?

16% Yes
22% We’re developing a framework
62% Not yet

Over what time horizon are you pricing this?

9% 1-2 years
22% 3-4 years
69% 5-10 years

Artificial Intelligence and Machine Learning are being deployed across the spectrum for risk managers and they aren’t job killers. They are enabling the risk manager to think deeper and to spend less time on cleaning data and doing mundane tasks. More than 71% of respondents are seriously considering implementation.