



The rise of non-financial risks in banking



ACTUARIAL SOCIETY
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AGENDA



- External forces dominating the risk management agenda
 - Geopolitical risk
 - ESG / Climate risk
-



External Forces Dominating the Risk Management Agenda

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Evolving priorities

CRO 12-month risk (2012–2024)

Top 10 CRO priorities 2012-24

Rank	2012	2013	2014	2015	2016	2017	2018	2019	2020-21	2022	2023	2024
1	CRE	CRE	CRE	REG	REG	CY	CY	CY	CRE	CY	CY	CY
2	LIQ	RA	RA	RA	CY	REG	CRE	CRE	CY	CRE	REG	RES
3	RA	REG	OR	CRE	CRE	CON	REG	DIG	CLI	ESG	RES	GEO
4	MR	OR	REG	OR	RA	CRE	OR	CON	DIG	REG	LIQ	REG
5	REG	LIQ	RC	CAP	OR	OR	TECH	REG	RES	RES	RA	DR
6	TECH	CAP	CAP	LIQ	TECH	CUL	CON	OR	REG	DIG	WCRE	FCR
7	STR	MR	MR	TECH	STR	TECH	RA	CUL	OR	GEO	IRRBB	FR
8	CAP	STR	LIQ	STR	CON	ERM	BM	PRI	BM	OR	ESG	ESG
9	RC	TECH	STR	MR	CUL	RA	CUL	RES	ER	RA	RCRE	COM
10	OR	RC	TECH	CY	ERM	STR	STR	MO	RA	LIQ	OR	AI

KEY

Financial risks

- CAP Regulatory capital management
- CRE Credit
- WCRE Wholesale credit risk
- RCRC Retail/consumer risk
- IRRBB Interest rate risk for the banking book
- LIQ Liquidity
- MR Market risk
- MO Model
- REG Regulatory implementation
- STR Stress testing

Nonfinancial risks

- BM Business model
- COM Compliance
- CON Conduct
- CUL Culture
- CY Cybersecurity
- DIG Transition to digital strategies
- ESG Environmental, social and governance (ESG)
- ER Employee-related risks
- ERM Enterprise management
- GEO Geopolitical risk
- OR Operational
- DR Data risk
- RA Risk appetite
- RC Risk controls
- REP Reputation
- RES Operational resilience
- RTA Risk technology architecture
- FCR Financial crime risk
- FCR Fraud risk (e.g., digital fraud)
- AI Use of machine learning (ML)/artificial intelligence (AI)

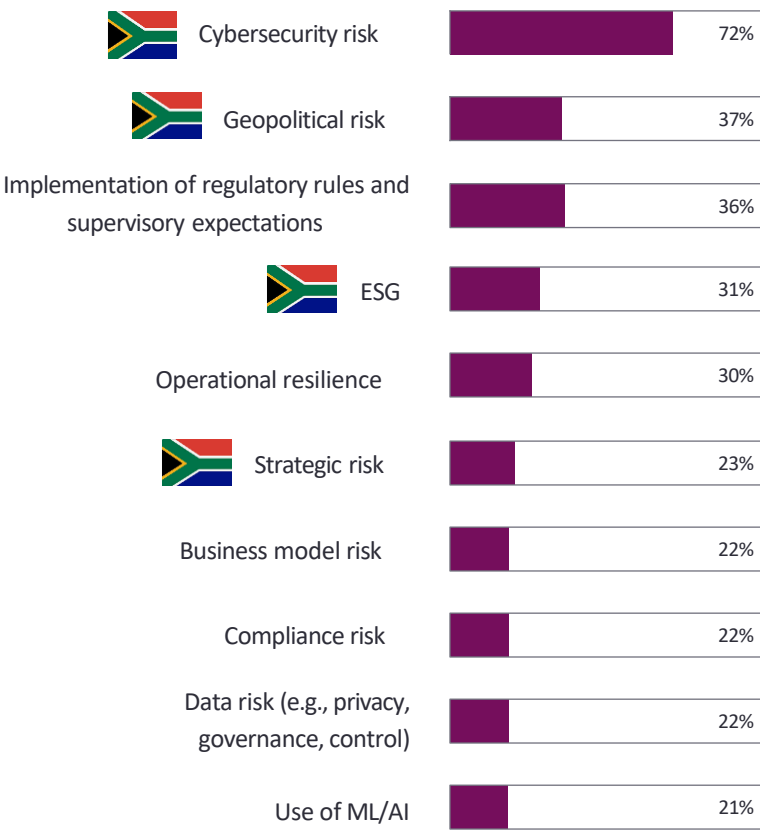
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Risk issues garnering board and CRO attention over the next 12 months

Cybersecurity continues to be the most prominent risk for CROs and boards*

Top 10 CRO risk priorities for the next 12 months



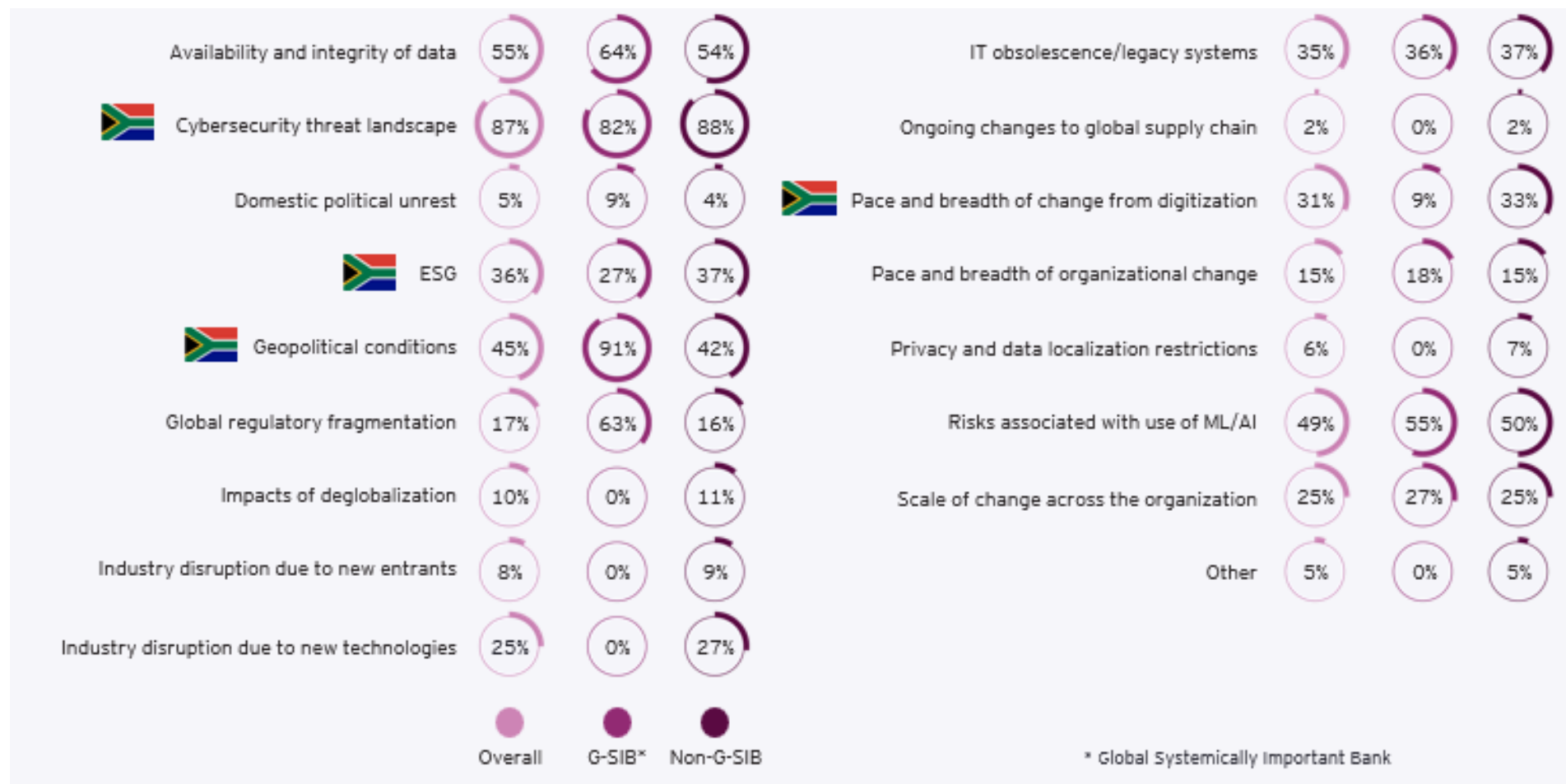
* In the CRO's view

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Most important evolving priorities over the next three years

What priorities do you believe will be most important for your organization over the next three years?

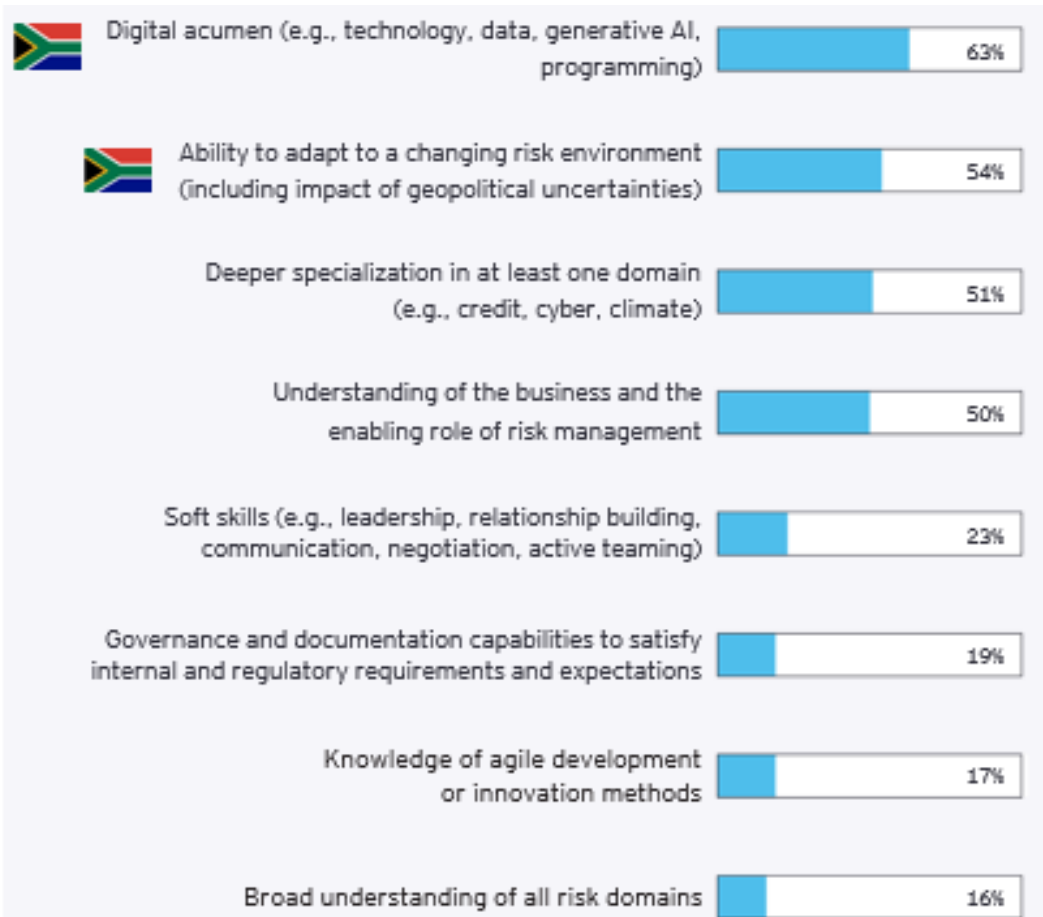


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Building a high-performing risk management function

In the coming three years, what are the top skill sets your risk management resources should prioritize to better manage risk?



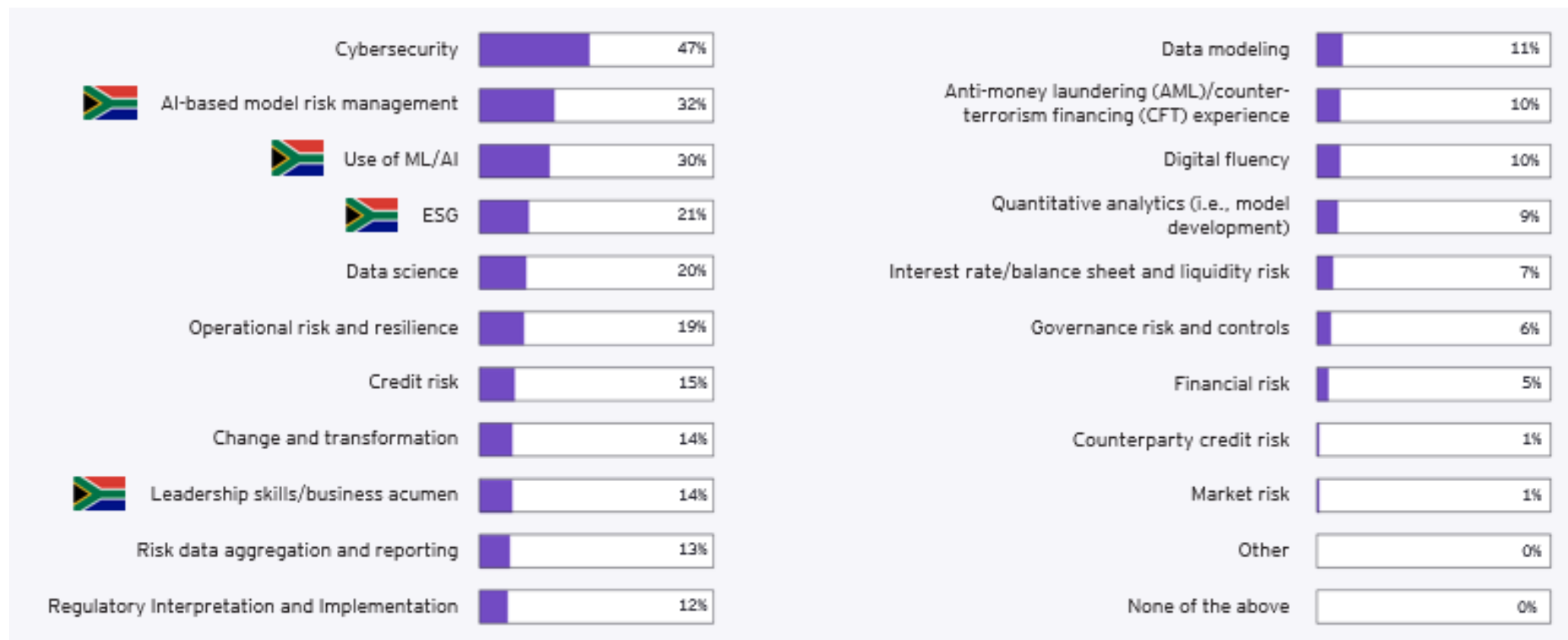
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Building a high-performing risk management function

Top skills required in the risk management function over the next three years

What do you see as the most important skill sets required over the next three years?

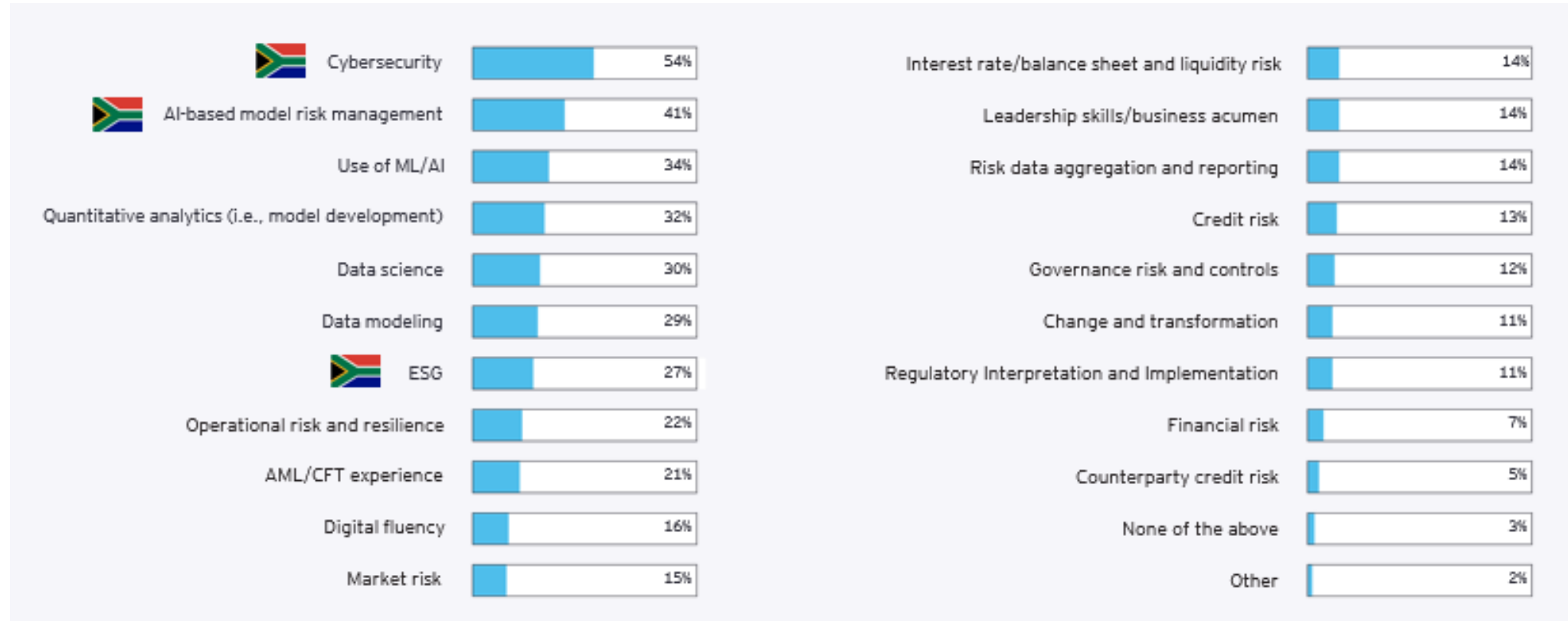


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Talent management

For which skill sets do you currently have the biggest challenge attracting and maintaining talent?





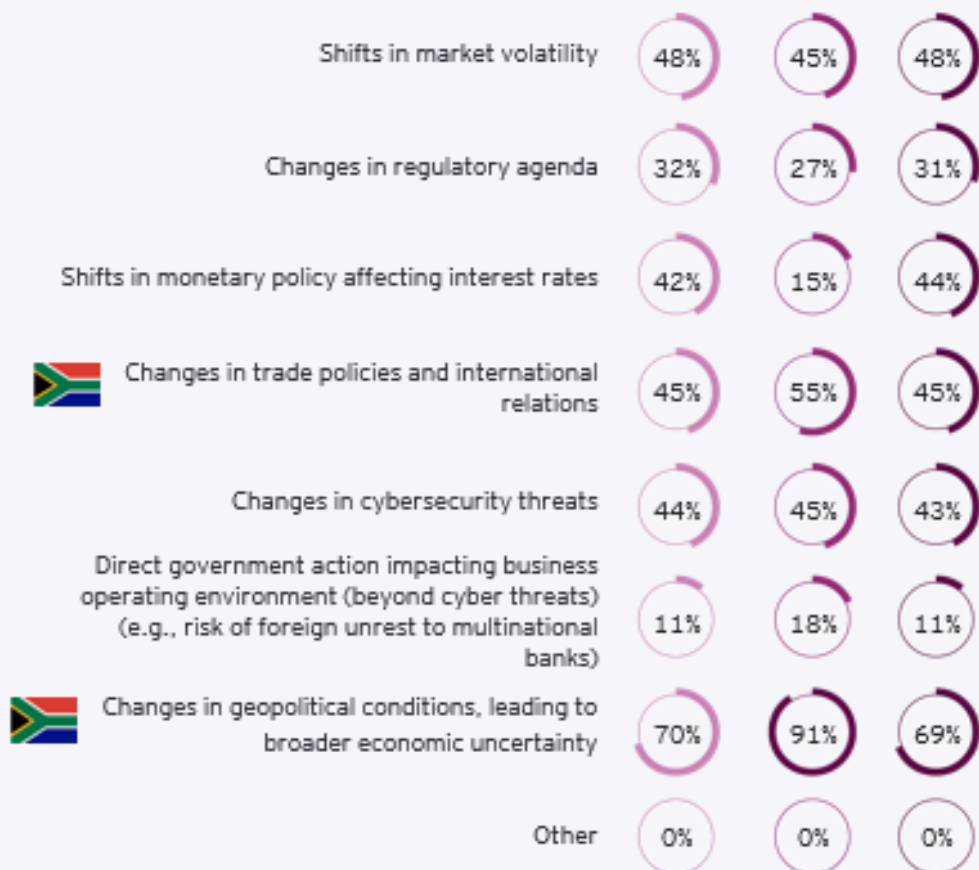
Geopolitical Risk

Geopolitical Risk



Managing geopolitical risks

Given trends in recent and upcoming elections across the globe, how do you anticipate the political and economic landscape evolving, and what potential risks do you foresee for your institution?



What strategies are you considering to mitigate these risks from the prior question?





Methods for measuring geopolitical risk

Index Name	History	Calculation Method	Pros	Cons
Geopolitical Risk (GPR) Index	- Developed by Caldara & Iacoviello in 2022 - Tracks geopolitical risk from 1900 to the present on a daily or monthly basis, using articles from major newspapers in the U.S., U.K., and Canada	- Frequency of keywords like attack, combat, bomber, fear, conflict in news articles from major newspapers - There are 2 components of the index: the geopolitical threats (GPT) and the geopolitical acts (GPA) indexes - Use of country-specific measures by counting joint occurrences in newspapers of geopolitical terms and the name of the country (or its capital or main city) in question	Transparent, replicable, long historical data, validated against events	Media bias, perception-based, monthly lag, English-language bias
BlackRock Geopolitical Risk Indicator (BGRI)	Developed by BlackRock Investment Institute	BGRI - Tracks market attention to geopolitical risks by using machine learning and natural language processing to analyse brokerage reports and financial news. It classifies the relevance of each sentence to a specific risk and evaluates the sentiment—positive or negative—associated with it	Market-relevant, machine learning enhanced, dual metrics	Complex, subjective scenarios, market-centric, opaque to non-specialists

Geopolitical Risk

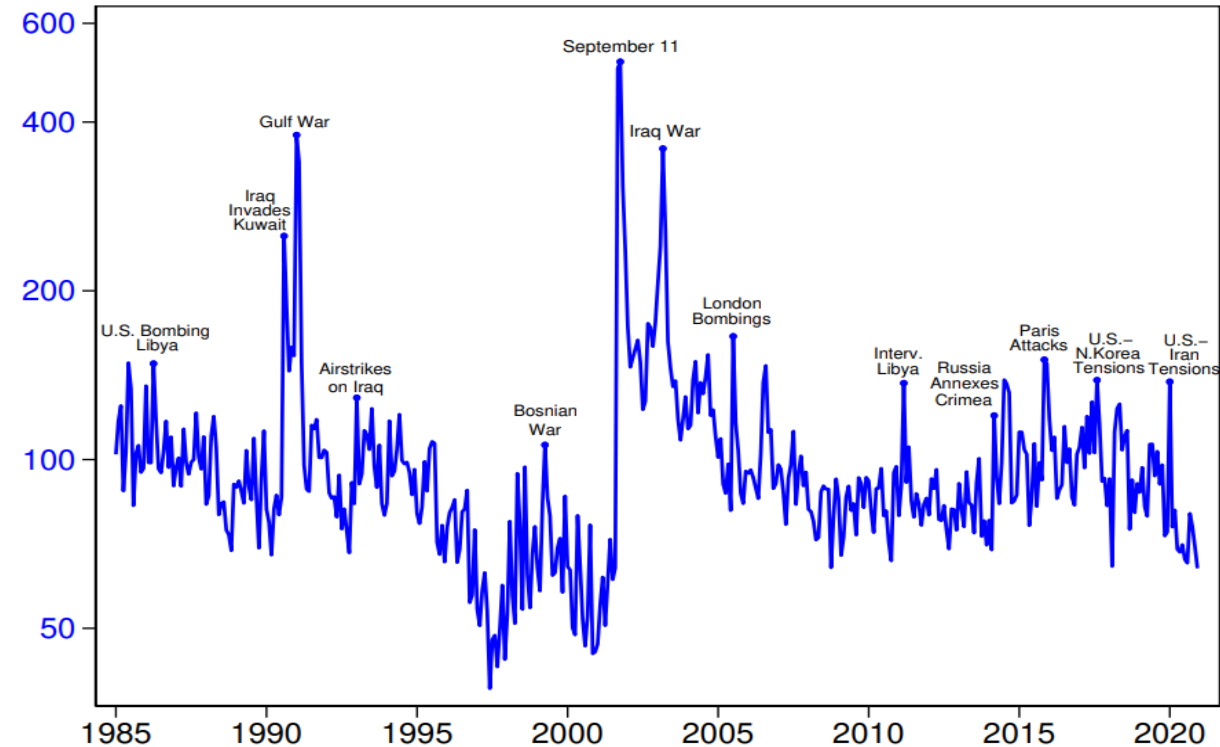


Geopolitical Risk (GPR) Index

When the index is plotted it highlights major geopolitical events and spikes can be observed, for example, during:

- The Gulf War
- The aftermath of the 9/11 attacks
- The 2003 Iraq War
- The Paris terrorist attacks
- The 2017–2018 North Korea crisis

Figure 1: Recent Geopolitical Risk Index from 1985



Note: Recent Geopolitical Risk Index from 1985 through 2020. Index is normalized 100 throughout the 1985-2019 period.

Source: Caldara, Dario and Matteo Iacoviello (2022). "Measuring Geopolitical Risk," International Finance Discussion Papers 1222r1. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/IFDP.2022.1222r1>



Impact of geopolitical risk on credit risk

Study	Findings
Kunjal & Suvvari, 2024	• Geopolitical risk (GPR) increases credit risk by having a positive affect on non-performing loan (NPL) ratios of SA banks • GPR has a destabilising effect on SA banks, using a Stability Z-score • These effects being more pronounced in banks with smaller market capitalizations and higher equity capitalizations • However GPR does not significantly influence lending decisions (based on growth rate of loans) and performance of banks (based on return on assets) in South Africa
Demir and Danisman 2021	• GPR leads to a reduction in consumer and mortgage loans due to fear causing customers to delay spending and investment, but does not dampen corporate loans
Lu, Zhou, et al, 2020	• Empirical evidence shows that GPR significantly widen credit spreads which is a measure of corporate credit risk with realized actions such as wars and terrorist attacks exerting stronger influence than mere threats
Nader Naifar and Shumokh Aljarba, 2023	• GPR affects the dynamics of Sovereign Credit Default Swap (SCDS) spreads which is a measure of Sovereign credit risk • The effects of GPR on SCDS is positive • Findings also show that countries with the most significant wealth funds are less affected by geopolitical uncertainty

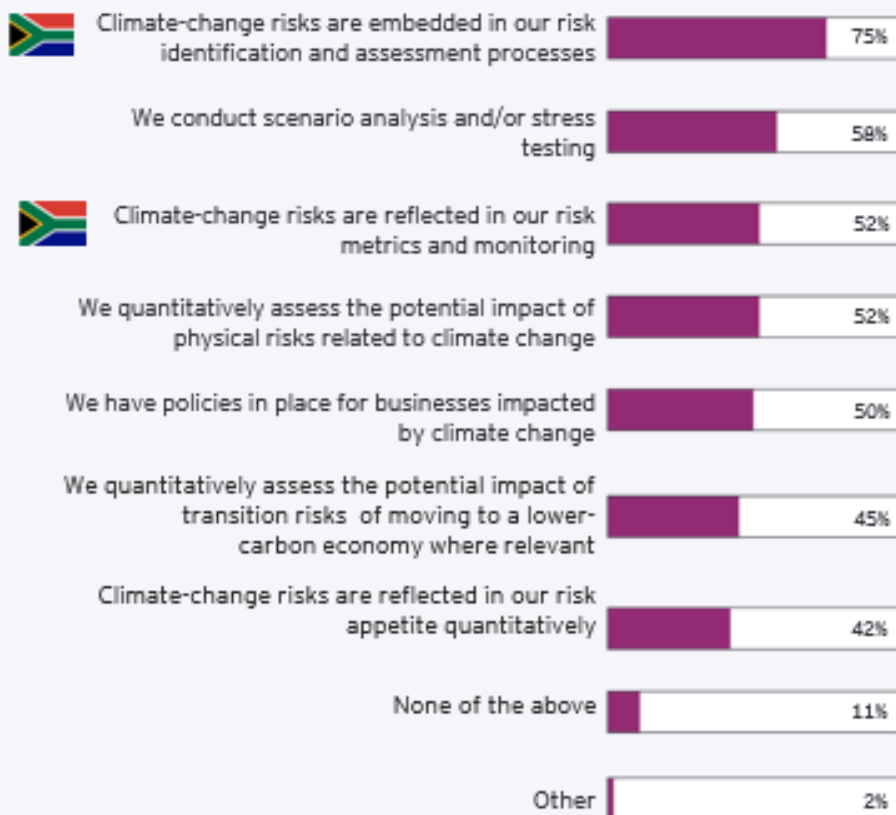


ESG / Climate Risk



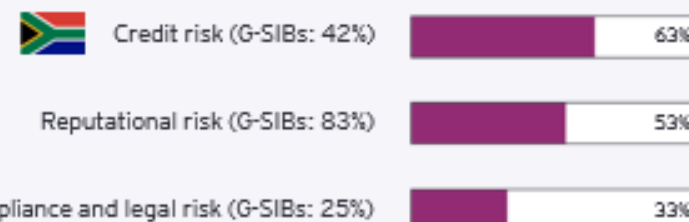
Organizations' focus on climate risk throughout the firm

Which of the following are the most important mechanisms that support management of climate-change risks?

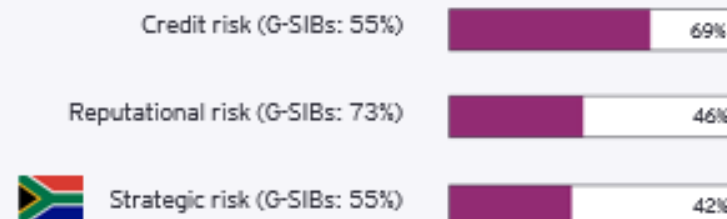


For which risk types does your organization expect climate-change risk drivers to manifest most significantly in the next 12 months, and in the next three years?

Next 12 months:



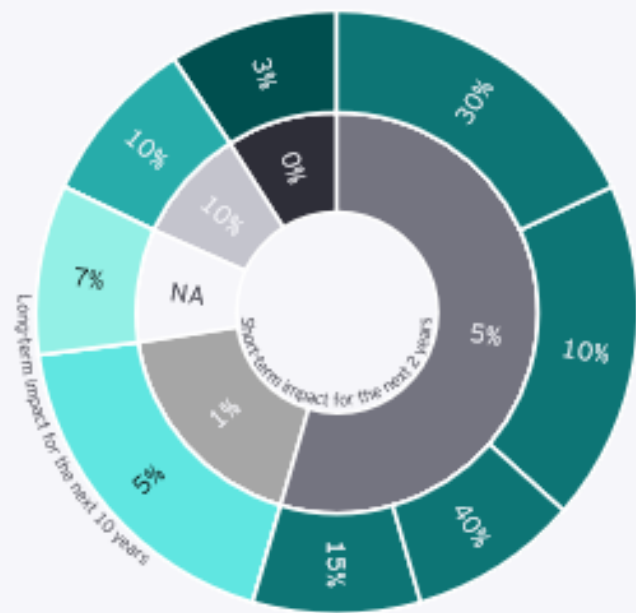
Next 3 years:



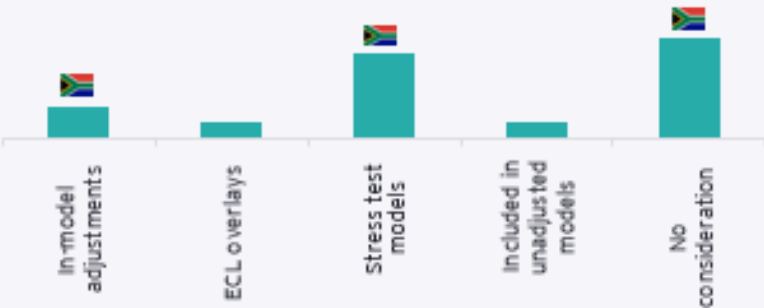


Incorporation of climate risk in loan loss provisions

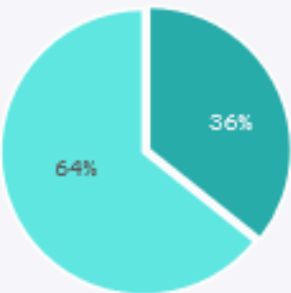
Please indicate the expected increase of loan loss provisions, including potential overlays, due to climate-related risks compared to the status quo (short-term view for the next 2 years/long-term view for the next 10 years):



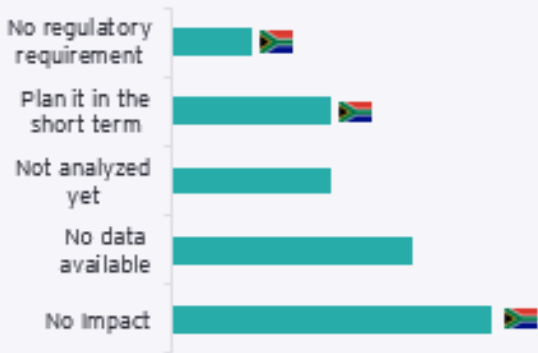
How did you consider climate-related risks in the loan loss provision in the most recent financial statements?



Do you plan to consider ESG risks in the loan loss provision in the next financial statements?



Why do you not plan to consider ESG risks in the loan loss provision in the next financial statements?





Questions?
