Agility in volatility: Rebalancing CRO priorities in a shifting risk matrix

14th annual EY/IIF global bank risk management survey

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EXECUTIVE SUMMARY

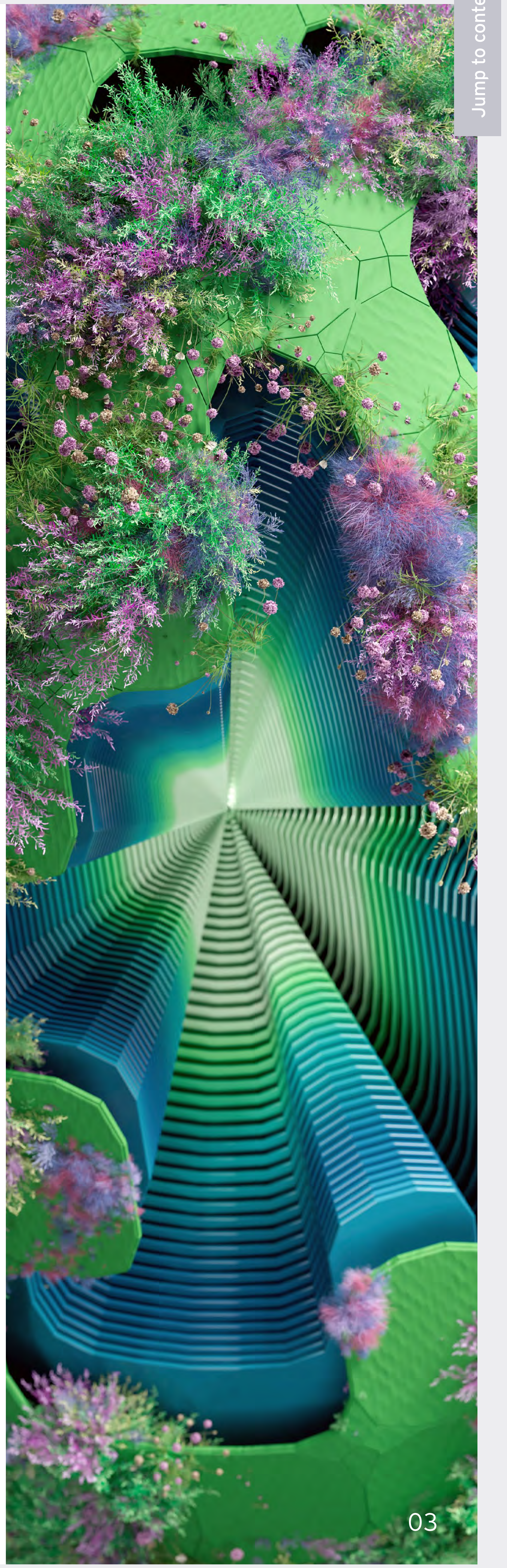
For the last few years, the results of the annual Ernst & Young, LLP (EY)/Institute of International Finance (IIF) global bank risk management survey of chief risk officers (CROs) have reflected increased volatility, widespread uncertainty and intensifying financial and non-financial risks. This year's findings continue that trend, as the variety of risks on CROs' radar screens continues to expand. The most serious risks seem only to get more severe, and new risks continue to emerge faster than banks can deploy risk management strategies and tactics to manage them.

CROs face similar pressure to oversee highly efficient and effective risk management operations. That means expertly managing their teams, strengthening risk management capabilities and fostering risk-aware cultures at every level of the business. The need to engage with the business on transformation, innovation and growth strategies is as pressing as ever.

This year's results show an even greater dominance of cyber threats as CROs' top priority. But, there has also been a sharp uptick in the prioritization of geopolitical risks and a reshuffling of top financial risks. The results indicate that geostrategic issues were of such concern to CROs because of their wide-ranging potential consequences – and therefore the implications for banks – ranging from inflation spikes to operational resilience. Operational resilience is a priority across many different risk stripes, even as those traditional categories blur and overlap. On the whole, our findings illustrate the volume and variety of risks CROs must monitor and prepare for. That's why there is a renewed emphasis on more proactive approaches to risk management, alongside increased operational agility, so banks can stay ahead of coming risks and respond to them more nimbly and effectively.

Finally, our results also reveal differences in the risk and transformation priorities across regions and different types and sizes of banks, as well as between global systemically important banks (G-SIBs) and non-G-SIBs. In some cases, the variances are quite pronounced, telling a tale of different market realities. In other words, CROs at G-SIBs don't just face "the same problems only bigger" but rather specific challenges and issues that arise from having large-scale and cross-border operations.

Last year, our report highlighted the many different roles CROs play today – from firewatcher and fortune teller, to tech and data guru, to change agent and culture shaper. Based on this year's findings, it's safe to say that CROs won't be hanging up any of these hats anytime soon, especially as they adopt forward-looking stances to more issues and opportunities.



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KEY TAKEAWAYS

1

External forces dominate the risk management agenda

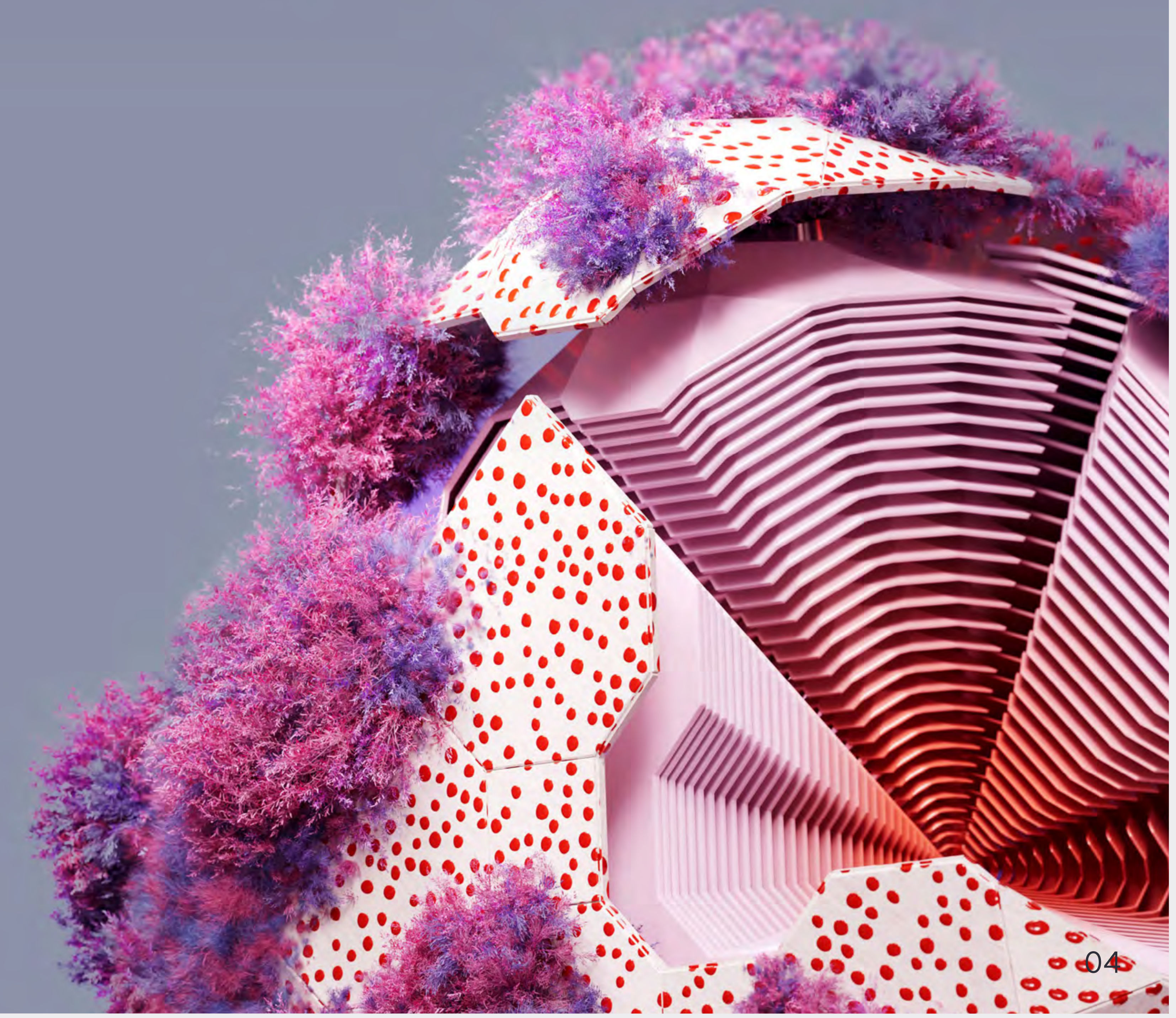
According to this year's results, many of CROs' and boards' top risk priorities have one thing in common – they are driven by external forces. That includes cyber threats (which remain far and away the highest priority risk) and operational resilience, the top two priorities for CROs in the coming year and in the top five for boards. Geopolitical risk has rocketed up the agenda this year, to third for CROs and second for boards, whereas last year it was the 12th highest near-term priority risk for both CROs and boards. Environmental, social and governance (ESG), third-party risk and financial crime, all within the top 10, are also largely shaped by forces beyond the control of CROs.

The top financial risk also reflects market developments. Wholesale credit is this year's 11th highest priority for CROs, while liquidity risk, which was the fourth highest overall risk priority last year, fell to 13th. Retail and consumer credit risk, the ninth highest priority for CROs last year, fell to 14th this year. Interestingly, no financial risk cracked this year's top 10. Last year, four financial risks were among the top 10. These risks are still inherent and potentially significant across the industry and for many individual institutions.

However, it appears that CROs have considerable confidence in their ability to manage these more traditional risks when compared to emerging and less familiar threats.

Concerns about regulatory risks and banks' ability to implement the necessary changes for compliance also reflect external developments. After several consequential elections around the world in the past year, there is much uncertainty and a sense of unpredictability relative to fiscal and foreign policy and regulatory oversight. Ongoing trade tensions equate to a more fragmented and less integrated operating environment, which impacts multinational institutions. Rising regulatory requirements and supervisory expectations (e.g., sustainability disclosures) are also on CROs' minds, both in terms of the additional requirements to be satisfied and the impact on the bank's competitiveness.

The bottom line: Our results are consistent with ongoing shifts in the macroeconomic and geopolitical environment. The fluidity in CRO priorities reflects the highly dynamic and sometimes volatile nature of the banking business today, which demands that risk management teams closely monitor a range of external forces and market developments around the world. In addition to embracing a continuous learning mindset, CROs must demonstrate confident leadership and instill agility for rapid response. They'll also need to invest more time thinking about future scenarios and how to navigate their institutions – as well as their risk management teams – through this constantly evolving and often turbulent time.



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KEY TAKEAWAYS

2

CROs are focused on both the opportunities and risks of transformation

As banks make significant investments in large-scale change initiatives, many of them technology-driven, it's no surprise that CROs are prioritizing the risk implications of transformation and innovation strategies. The increased use of artificial intelligence (AI), which has hugely disruptive potential, could present as much downside risk as it does potential to create value. It has only heightened CRO awareness of risks related to technology modernization and data enhancements. Machine learning (ML), cloud computing, quantum computing, and other technologies, along with their growing interdependencies, will present similar risk and challenges in the future.

CROs are certainly embracing AI and ML within their own teams and operations. Data analysis and automated analysis of documentation are the most common use cases. While CROs no longer see talent as the top constraint for adoption of AI and ML, skill gaps are a factor in their concerns about methodology and programming (e.g., building models, implementing them and managing the associated risk).

Data quality and provenance remain the most important data usage risk in the eyes of CROs. No doubt business leaders would agree, given that complete, current and accurate data is critical for the smooth functioning of both customer-facing and back-office processes, as well as enabling successful adoption of new technologies.

The importance of growth and innovation strategies are also reflected in CROs' talent priorities; they are seeking to strengthen their scenario modeling and analytical capabilities and their overall digital acumen. Improving their skills and knowledge in these areas will certainly help them advise and challenge leaders across the enterprise as more of the banking business is digitized.

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KEY TAKEAWAYS

3

Talent, relationships and strategic alignment are key to optimizing the risk management organization.

Last year, our report highlighted the many different roles played by CROs. These roles included "fortune teller" (modeling scenarios with significant future impact on the business) and "culture builder" (applying excellent people and leadership skills to attract and retain talent within high-performing teams). Those roles remain priorities this year, along with "relationship manager" and "strategic advisor" to the business. Indeed, half of CROs say they are emphasizing partnering with the business even more than before, up from 35% last year.

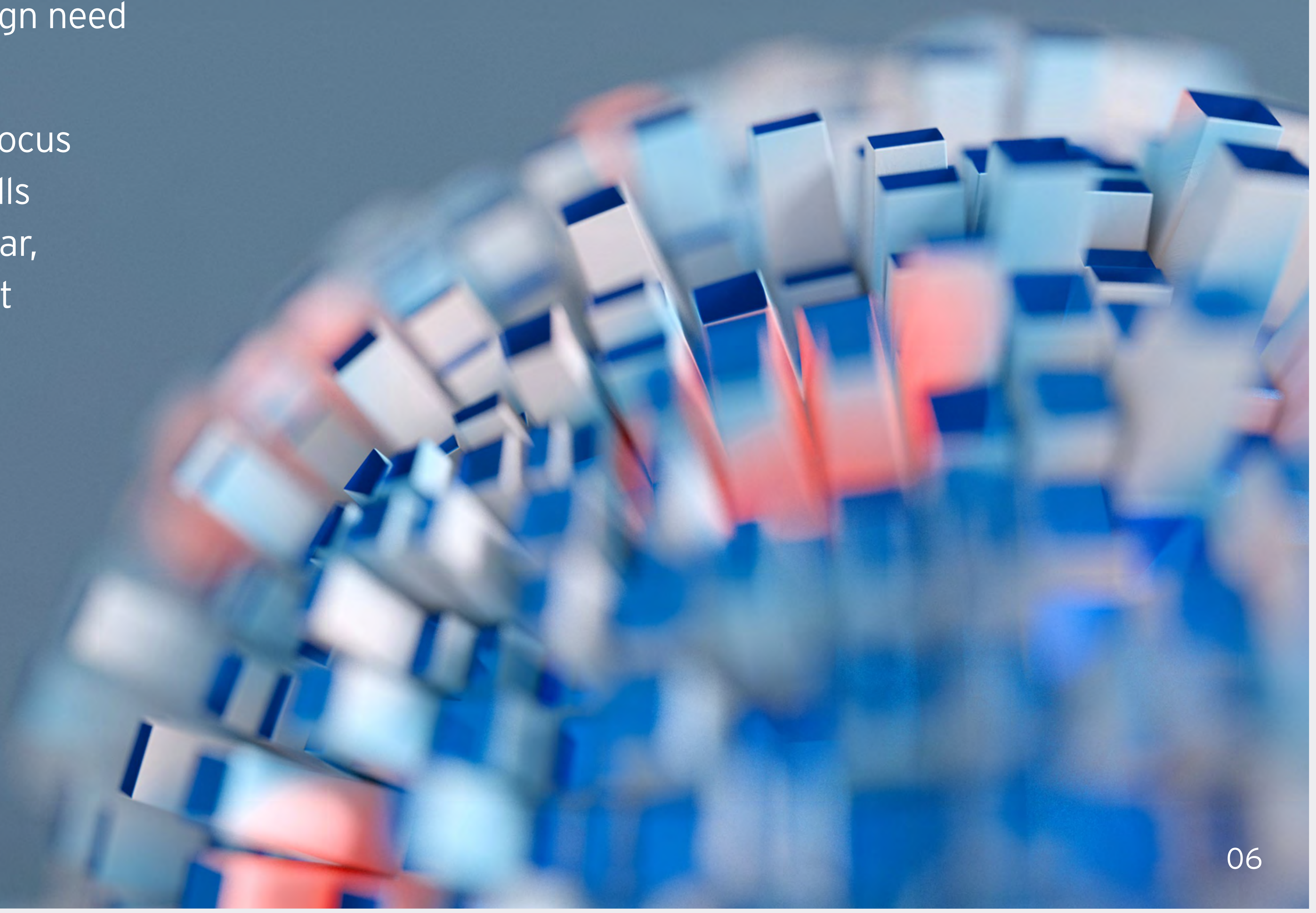
Organizational structures are also on CROs' minds. There is increasing dialogue in the banking risk management community about the optimal operating models, whether to centralize essential key services to support the entire enterprise or embed more capabilities directly into the business. Similarly, some banks are creating regional hubs to execute global risk management strategies.

In terms of key functions within risk management, operational resilience remains a top priority. That requires CROs to balance a range of considerations, including cyber, data, tech and third-party risks (no surprise given the knock-on effects of high-profile IT disruptions over the last year). That blend of risks is a reminder that traditional risk stripes increasingly overlap and intersect. In terms of internal control frameworks, CROs say their implementation and design need further maturation.

Attracting and retaining talent has been a perennial focus area, and CROs report challenges in hiring for the skills they need most (e.g., cyber, data, AI and ML). This year, digital acumen with an emphasis on GenAI is the most sought-after skillset in the eyes of CROs, with 63% of CROs saying they are prioritizing such hires, up from 52% last year. Talent risk is flat from last year, but still a major concern.

63%

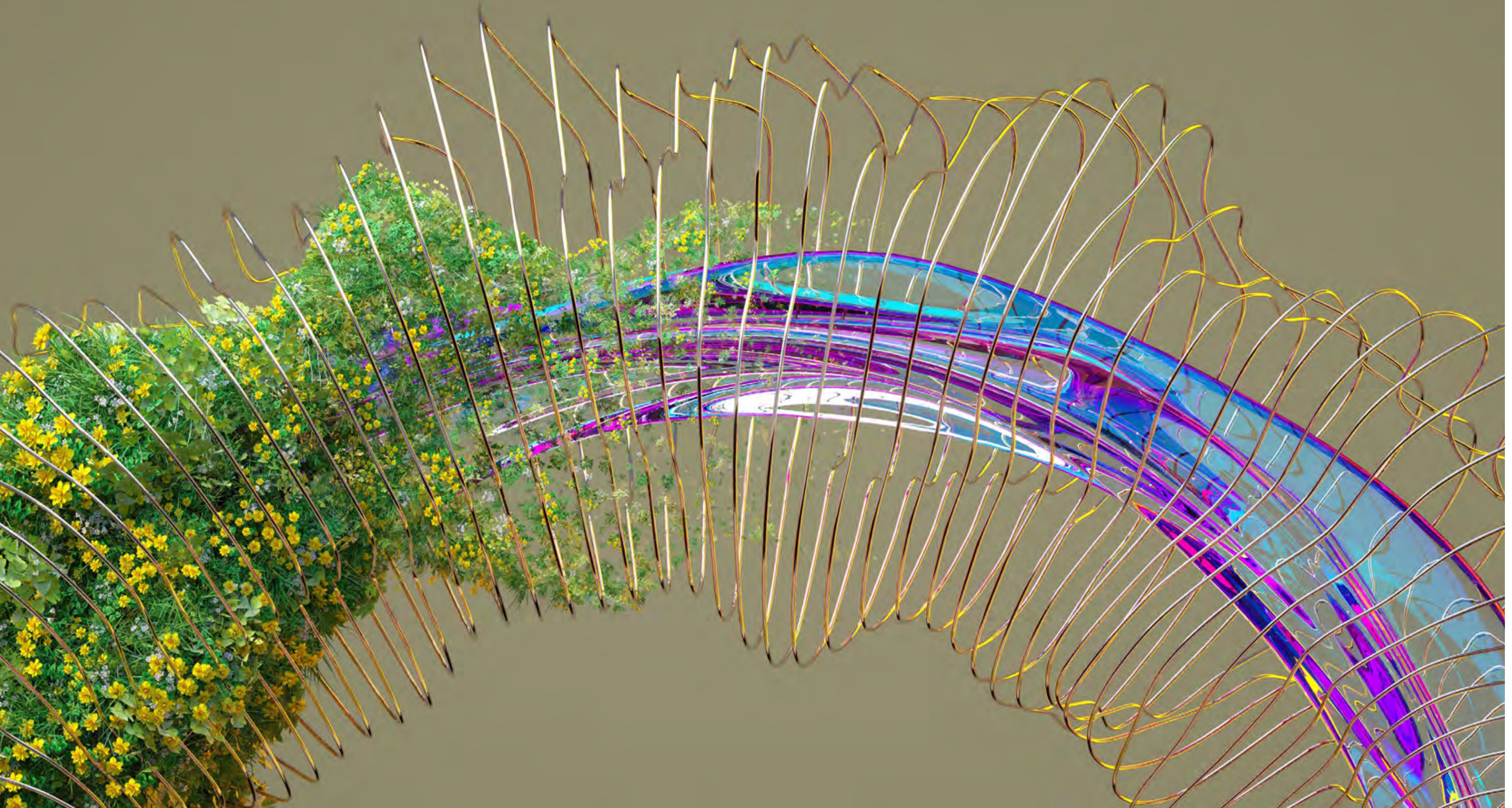
of CROs are focusing on digital acumen, particularly emphasizing GenAI as the most desired skill set for new hires.



CHAPTER 1

RISK PRIORITIES: THE AGENDA FOR CROs

This year's top CRO and board priorities demonstrate both continuity and renewed urgency around risks that were lower priorities in previous years. Cybersecurity remains far and away the top priority for both CROs and boards, a reflection of increasing vulnerabilities, expanding attack surfaces and more frequent and sophisticated attacks. Operational resilience and regulatory risk also remain near the top of the list.



Concerns about geopolitical risk spiked considerably since last year; 38% of survey respondents named it as a top-five priority this year compared to only 16% last year and 28% two years ago. Armed conflicts in Europe and the Middle East, as well as global trade tensions, help explain this shift. For more on geopolitical risk, see page 12. Financial crime, which was outside the top 15 last year, has become the sixth highest priority for CROs after not being in the top 15 last year.

Financial risks have also evolved, in line with market developments. Liquidity risk fell outside of the top 10 in terms of CRO priorities (from fourth last year) while wholesale credit rose to become the top financial risk priority, and the 11th highest risk on the CRO agenda for the next year. For more on financial risk, see page 14.

In the eyes of CROs, their agenda remains largely aligned to that of the board. The primary exceptions are financial crime and fraud risk (which CROs see as a higher priority), as well as environmental, social and governance (ESG), strategic and business model risk (which CROs think board directors see as a higher priority).

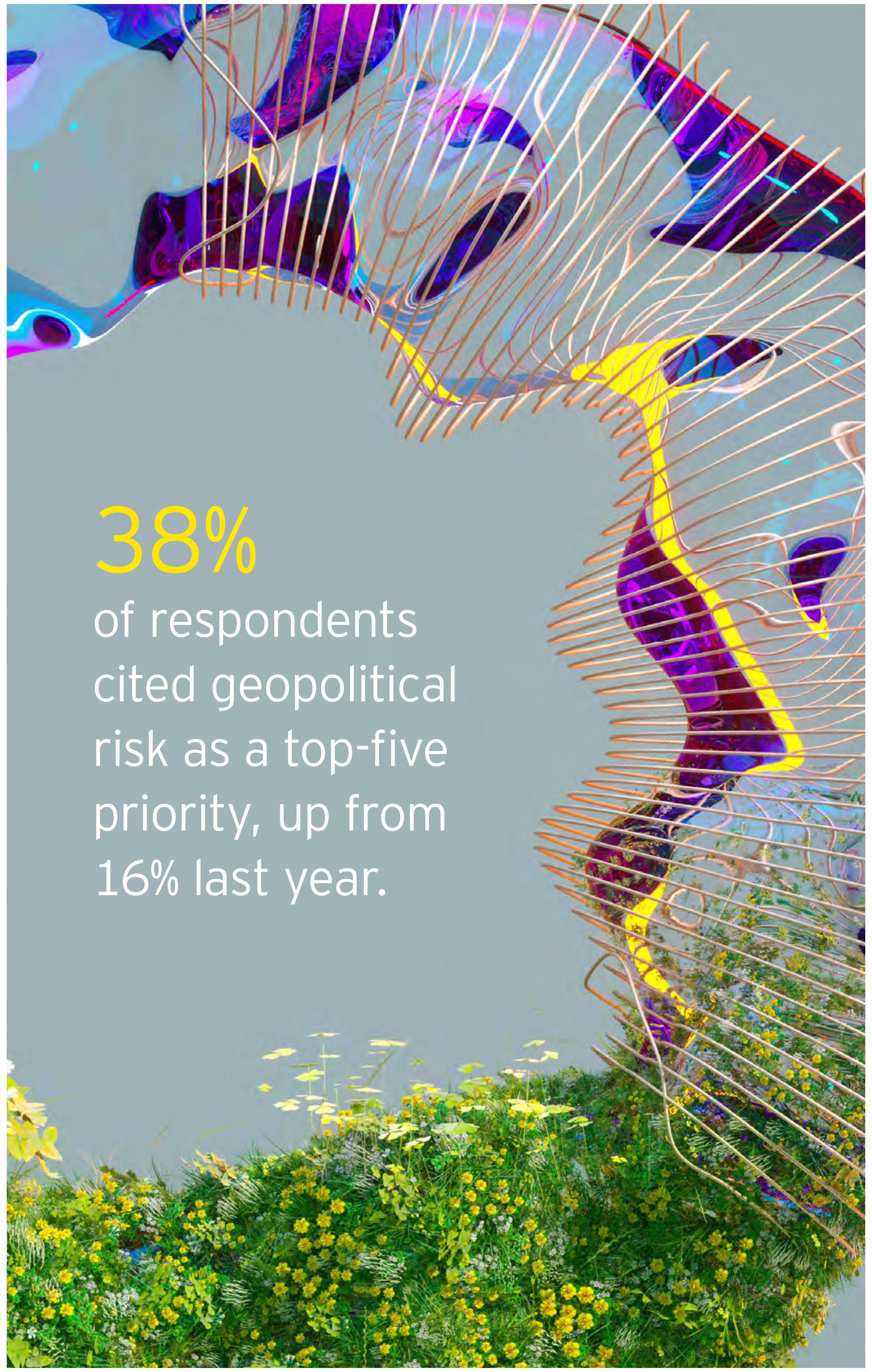


Figure 1:

Over the next 12 months, what are the top five risk management issues that will require the most attention from the CRO?

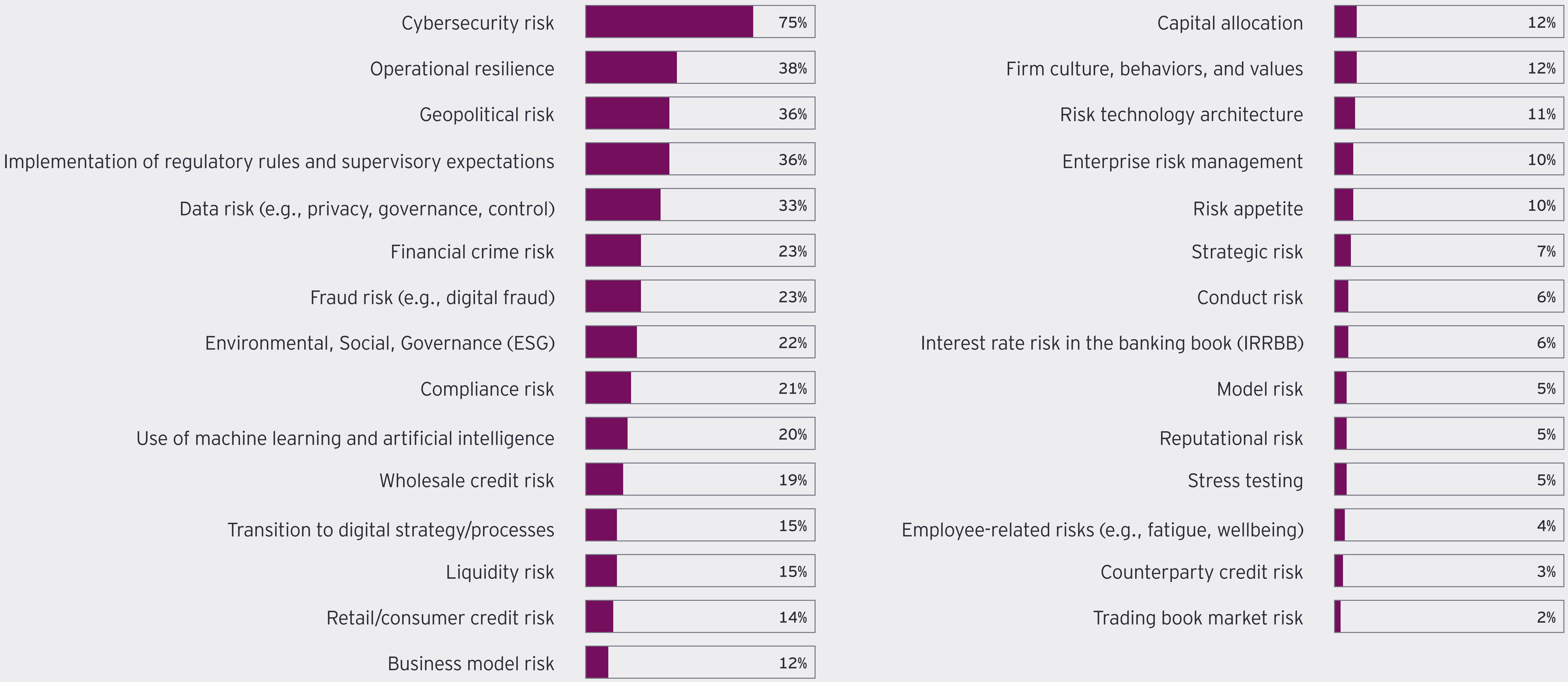


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Figure 2:

Over the next 12 months, what are the top five risk management issues that will require the most attention from the board?

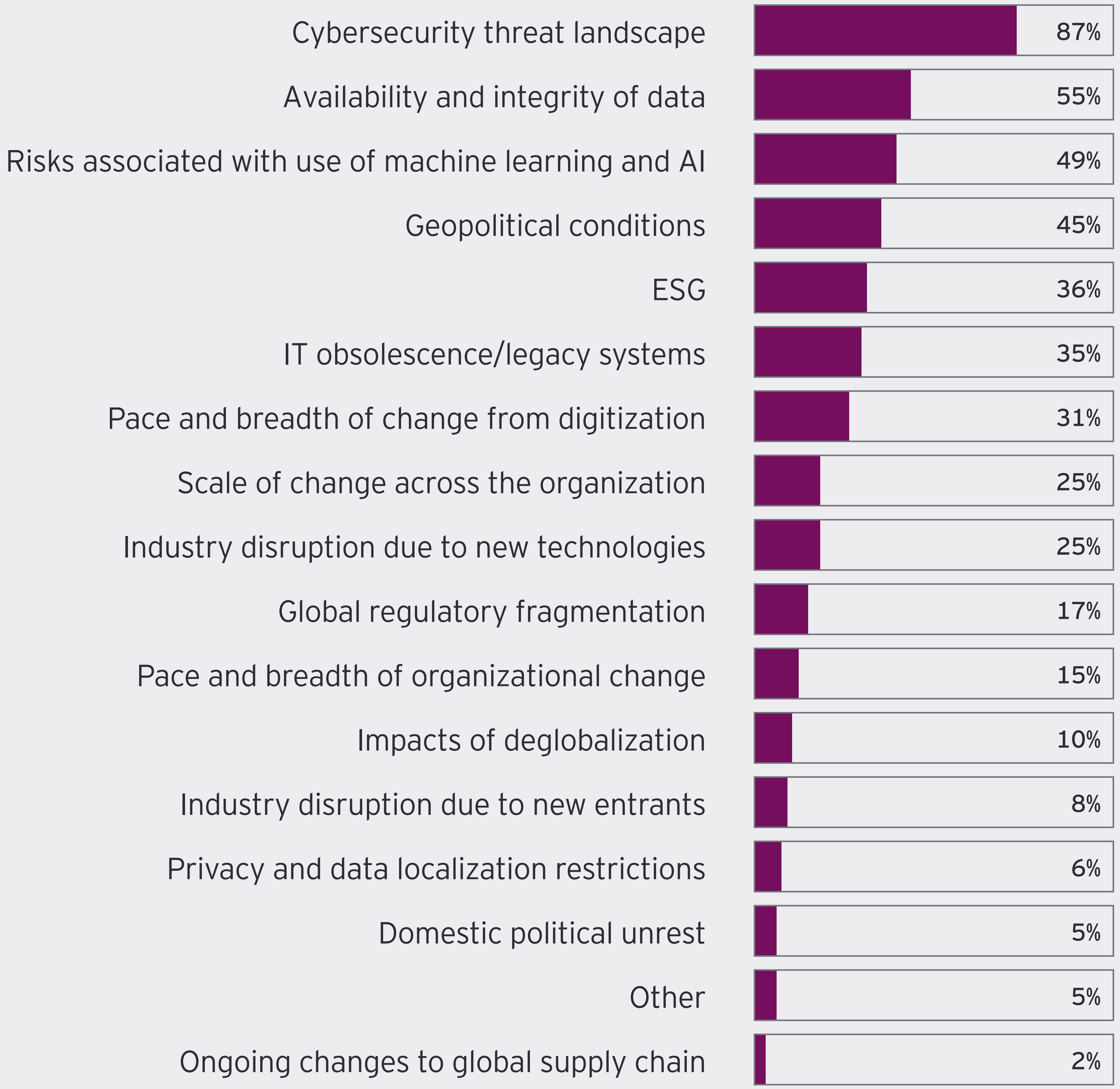
G-SIB CROs are more likely to prioritize the implementation of regulatory rules; 55% of G-SIB CROs said it was a top-five risk, versus only 36% of all CROs and 14% of CROs from banks with assets of US$500b to US$1t. That's no surprise given that G-SIBs' larger footprints are subject to more regulations and the fact that in many jurisdictions Basel III is only being applied to the largest banks.

CROs expect the focus on cybersecurity to continue during the next three years. Technology-related risks – data availability and AI – are the next-highest priorities, no surprise given current transformation priorities across the industry. Indeed, the continuing digitization of the banking business is reflected in CRO concerns about legacy systems, the pace and breadth of change and disruptions from new technology.

Geopolitical and ESG risk round out the top five. A full 91% of G-SIB CROs rated geopolitical conditions as a top-five risk for the next three years, surpassing even the percentage who selected cyber risk. These are both risk types where CROs must monitor external conditions closely and be prepared to respond nimbly with mitigation and contingency plans.

Figure 3:

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



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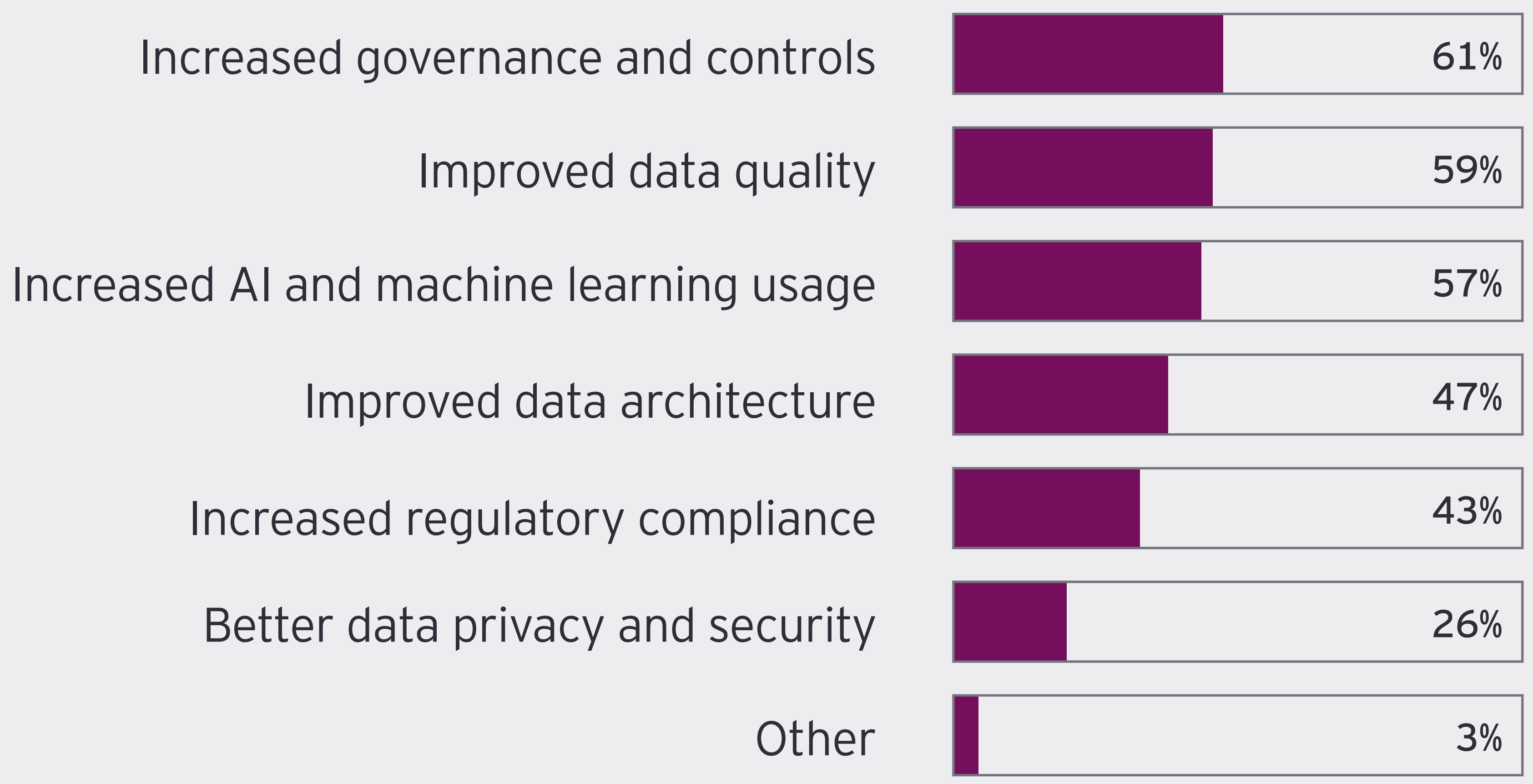
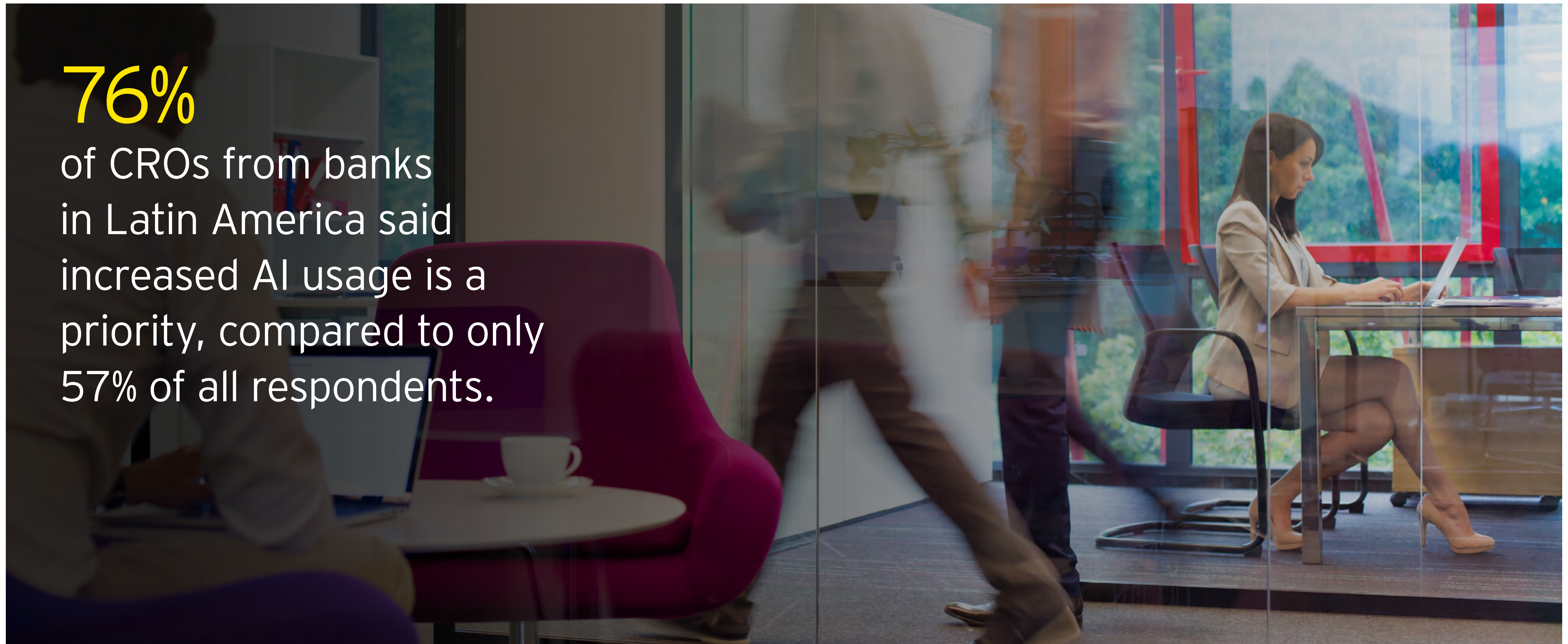
A somewhat smaller percentage (71%) of CROs from the largest banks (those with assets of at least US$1t) say cyber threats will be important, compared to 86% of all CROs. More CROs from banks in the Middle East or Africa (73%) and Europe (61%) expect geopolitical conditions to remain an important risk for the next three years than do their counterparts in North America (27%) and Latin America (24%). And the more assets a bank has, the more likely geopolitical concerns will remain near the top of the agenda: only 28% of CROs at banks with US$50b or less say geopolitical conditions will be among the most important risk, compared to 71% of CROs at banks with at least US$500b in assets.

The risk management response to this matrix of diverse risks is appropriately multidimensional. Despite concerns about data and AI, CROs see both as essential to navigating evolving risk priorities through 2027. Traditional tactics – stronger governance, smarter controls and a focus on compliance – remain critical elements of the CRO toolkit. G-SIBs and the largest banks are even more focused on governance, controls and AI; with 82% of respondents from G-SIBs and 86% of those from institutions with assets of at least US$1t cited those as top-three risk management initiatives. Interestingly, 76% of CROs from banks in Latin America said increased AI usage is a priority, compared to only 57% of all respondents.

Figure 4:

What key initiatives do you believe your organization will work through to manage evolving priorities over the next three years?

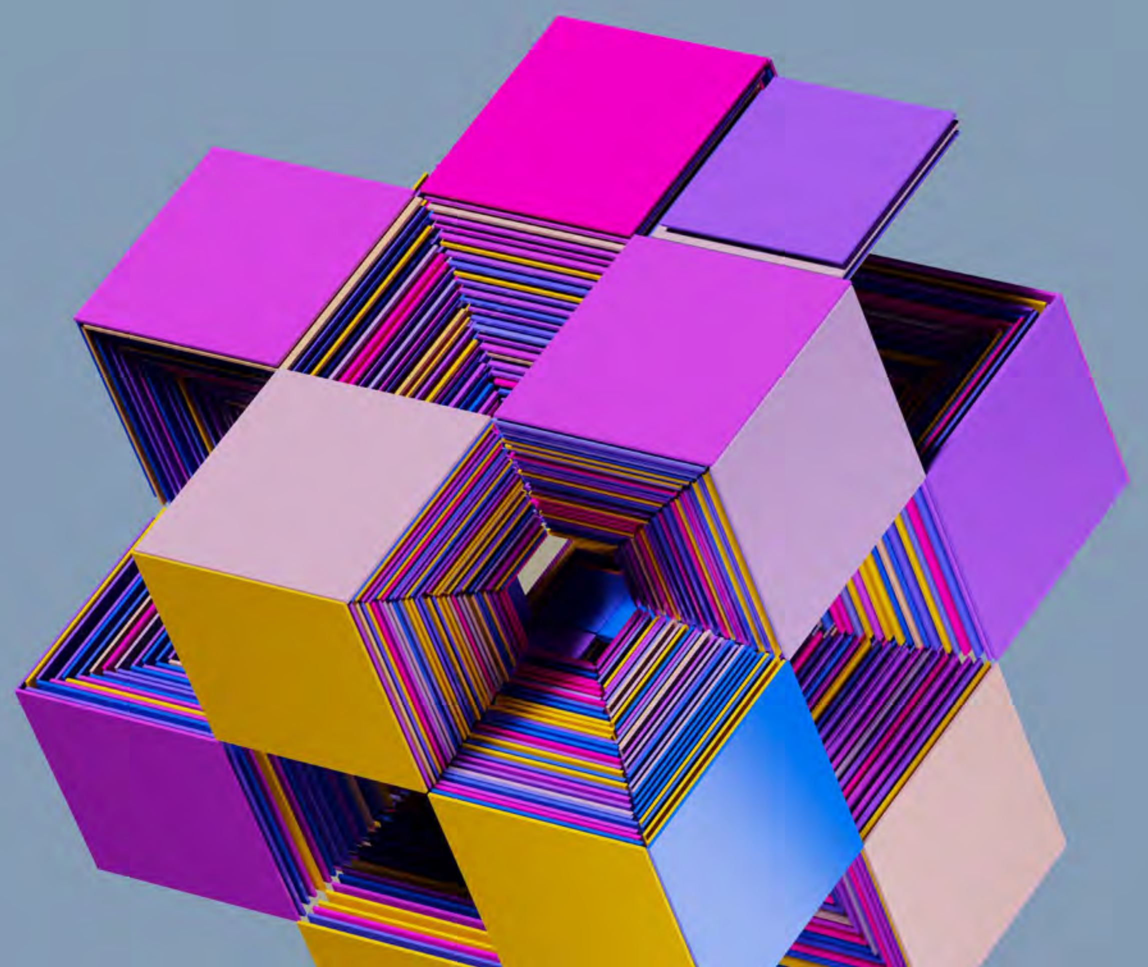




CHAPTER 2

GEOPOLITICAL RISKS

CROs have spent more time in the last few years monitoring a range of geopolitical developments, from armed conflict and election results to shifting trade policy and sanctions regimes. International affairs are a bigger part of CROs' jobs because of a broader range of negative outcomes and more significant impacts. They also face considerable uncertainty about how changes in government after the many elections of last year will translate into policy or regulatory shifts.



The emphasis on geopolitical matters varies by region and asset size. G-SIBs are notably more focused on geopolitical risk: 64% of respondents of those organizations cited it as a top-five risk for the next year, compared to 37% of all respondents. Similarly, 71% of CROs from the largest banks and 60% of CROs at banks in the Middle East and Africa said it would attract significant attention. Compare that heightened focus to Latin America, where only 12% of banking CROs cited geopolitical risk as a top concern.

The impacts of geopolitical shifts may be experienced across different types of risks, including cyber attacks from state-sponsored actors and sudden and unexpected government actions. But, broader economic uncertainty and market volatility are CROs' top concerns relative to geopolitical risk, especially for CROs at banks with assets of US$500b to US$1t (93%), G-SIBs (91%) and in the Asia-Pacific region (89%). Similarly large majorities of CROs at banks in Latin America (82%) are concerned about shifts in market volatility, compared to 48% of all survey respondents and only 29% of those at the largest banks and 27% of banking CROs in North America. Changes to the regulatory agenda due to geopolitical conflicts are a much larger concern for the largest banks (cited by 57% of CROs from those institutions) than for all CROs (32%).

Figure 5:

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?

Changes in geopolitical conditions, leading to broader economic uncertainty	70%
Shifts in market volatility	48%
Changes in trade policies and international relations	45%
Changes in cybersecurity threats	44%
Changes in regulatory agenda	32%

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In terms of the risk management response, CROs are planning a holistic approach. Enhanced cyber protections, more extensive assessment and scenario planning and stronger compliance frameworks top the list of potential actions to mitigate geopolitical risks in the future. CROs from G-SIBs (82%), banks in Asia-Pacific (83%) and the largest institutions (86%) say they will prioritize political assessment to a much greater extent (all CROs 56%). About two-thirds (65%) of banking CROs in Latin America expect to make adjustments to their interest rate risk management approaches compared to just over a third (37%) of all CROs.

As much uncertainty as geopolitical turbulence presents today, one thing is increasingly clear from our survey: CROs don't seem to expect a return to the international stability and economic integration that has been the norm since the 1990s.

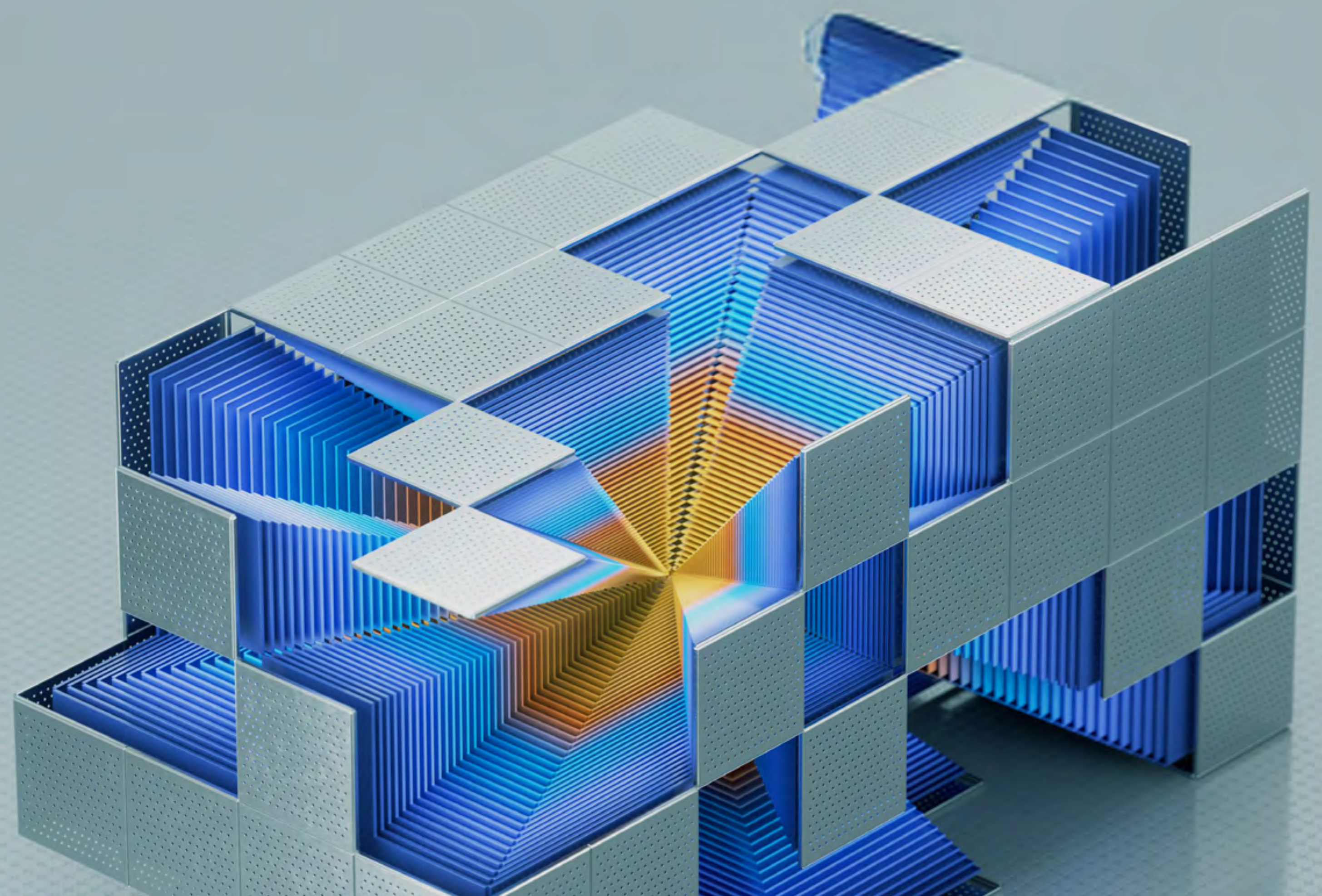
Figure 6:

What strategies are you considering to mitigate geopolitical risks?

CHAPTER 3

FINANCIAL RISK OUTLOOK

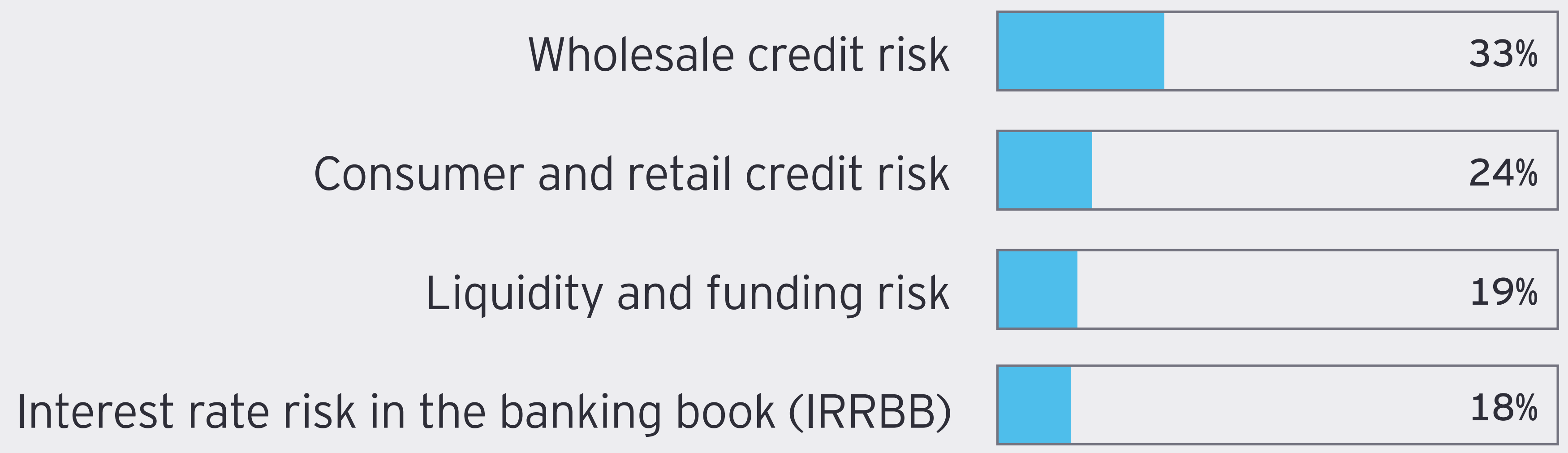
Persistent macroeconomic uncertainty due to the prospect of further interest rate changes and the possibility of escalating trade tensions form the backdrop against which CROs are evaluating their financial risks. The growth of private credit and the transmission channels between the banking system and non-bank financial institutions are other variables shaping the outlook for banking, and another area for CROs to monitor, for both competitive implications and impacts on systemic risk.



Though financial risks remain large and material, our results suggest increasing confidence on the part of CROs in the tools and capabilities they have to manage and mitigate these risks. Further, because banks are in the business of taking on financial risk, management of these risks has long been a core competency.
This year, there were no financial risks in the top 10 CRO priorities. The sense that these risks are largely under control is no doubt a function of the major risk management investments banks have made during the last decade as much as it is closer regulatory scrutiny. But another eventful year in capital markets and the financial services sector provided ample reminders of the need for vigilance.

Figure 7:

What are the top financial risks that concern your organization over the next 12 months?

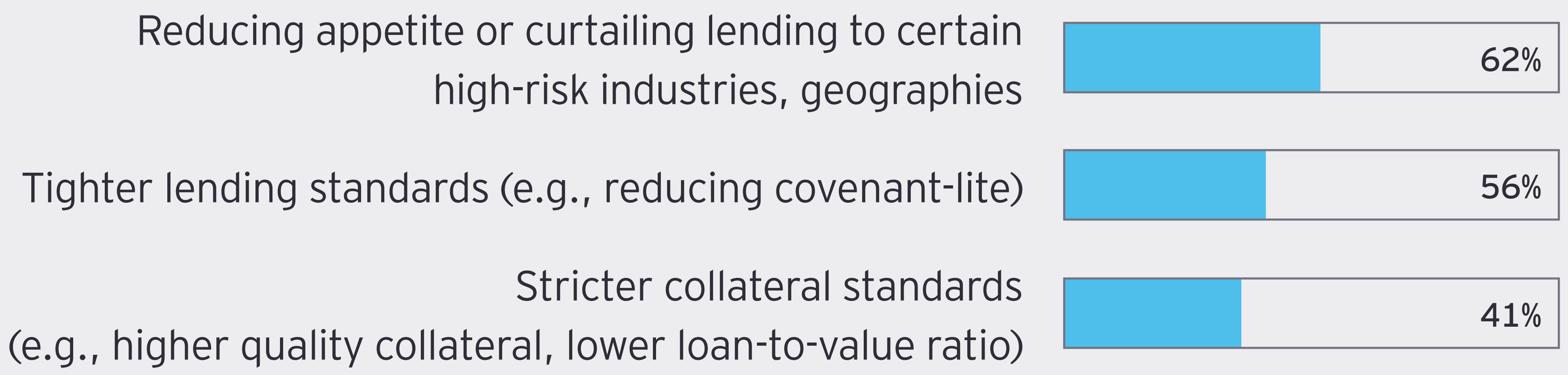


The drop of liquidity risk from the fourth to the 11th highest priority for CROs shows that the bank liquidity events of Spring 2023 are mostly in the rear-view mirror for CROs. However, 50% of banks with at least US$1t in assets see liquidity risk as a top financial risk, compared with only 19% of all CROs. Falling inflation rates helped push retail and consumer credit risk down the CRO agenda, from the ninth highest priority for CROs last year to 14th this year.

Looking more closely at credit risk, two-thirds of CROs expect commercial real estate to be the most challenging part of the portfolio in the next 12 months, no surprise given the current economic outlook in the US and slowdown in key global real estate markets. CROs also see consumer non-residential real estate (46%), leveraged lending (45%) and residential real estate (29%) as potential future challenges.

Figure 8:

What actions is your bank taking to mitigate credit risks in preparation for a potential downturn?



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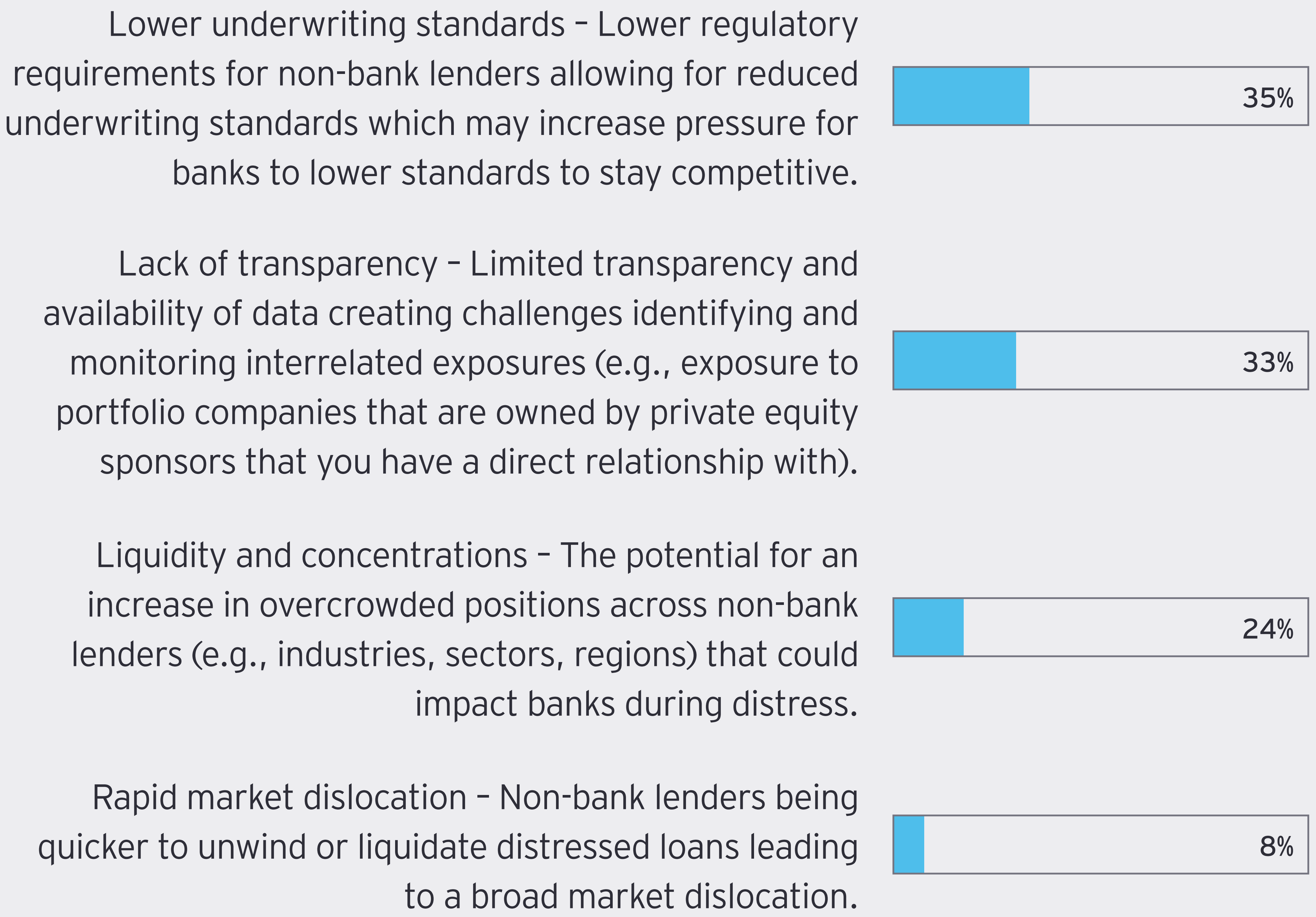
CROs see several significant challenges emerging from the growth of private credit markets. The competitive vulnerabilities associated with banks' higher underwriting standards coupled with a lack of transparency into interrelated exposures are primary concerns. The largest banks are less concerned about lower underwriting standards (cited by only 13% of CROs from large banks vs. 35% of all respondents) and more concerned about lack of transparency (50% vs. 33%). CROs at Latin American banks are notably more concerned about liquidity and concentration (41% vs. 24% of all CROs).

Figure 9:

What do you see as the biggest challenge to managing risks associated with the growth in private credit markets?



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An overwhelming majority of CROs report that they have either a "satisfactory" financial risk framework (67%) or one based on leading practices (25%). Still, they are planning to bolster their financial risk management capabilities in multiple ways, from curtailed lending to high-risk market segments, tighter lending standards and higher collateral requirements. Interestingly, last year's priorities for strengthening financial risk management were risk measurement, stress testing and scenario analysis (74%), as well as risk data, aggregations and reporting capabilities (67%).

Instead, more than half of CROs say they will focus on risk measurement and stress testing (52%, including 72% of Asia-Pacific banks) and risk technology and modernization (51%, including 68% of European banks). The largest banks are considerably more likely to plan for risk appetite and limit frameworks (63% vs 40% of all respondents).

Stress testing, including severe but plausible scenarios, is the most important tool for managing liquidity risk, according to 77% of our respondents (and 83% of G-SIB CROs), followed by early warning indicators to detect emergent stress conditions, which was cited by 54% of our respondents (and 67% from G-SIBs).

Figure 10:

How would you rate your institution's risk management framework for managing the combined impact of financial risk (e.g., interest rate, liquidity and capital) under a range of stress scenarios?

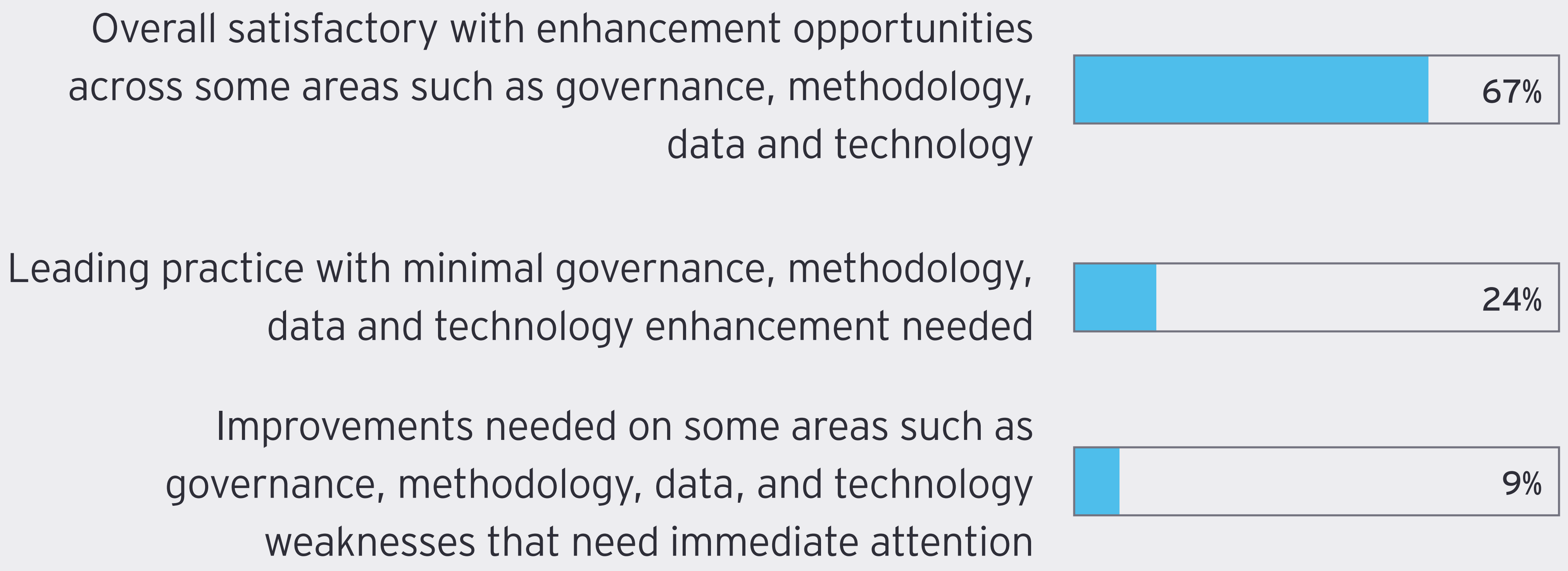
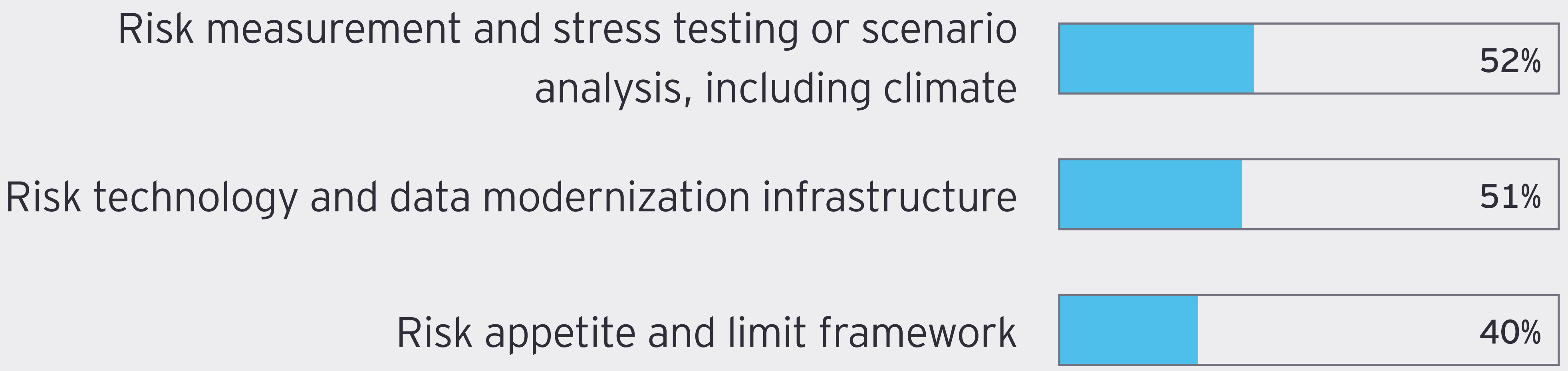


Figure 11:

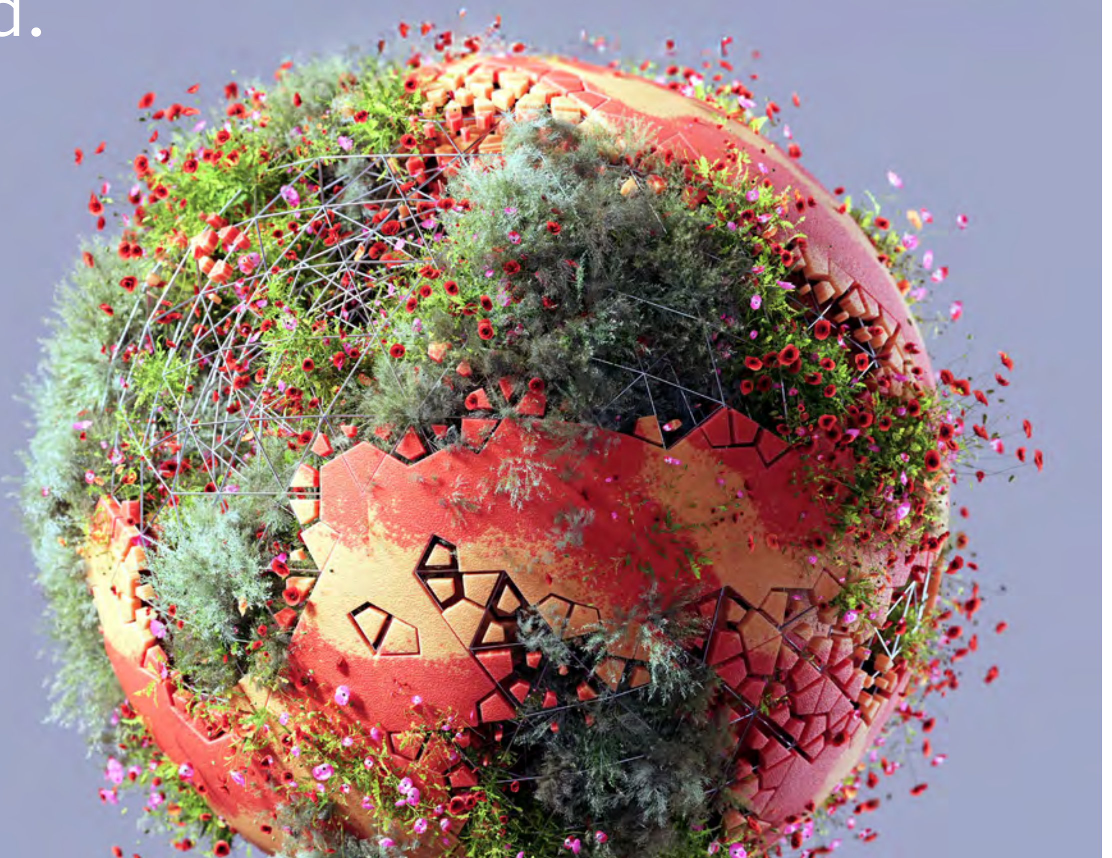
What key enhancements is your bank planning to make to its financial risk management capabilities over the next 12 months as part of business-as-usual risk management?



CHAPTER 4

CLIMATE AND SUSTAINABILITY

ESG concerns have receded somewhat on the CRO agenda from previous years, though not among G-SIBs. There's an expectation of regulatory changes based on recent election results, with potentially lighter oversight in some jurisdictions and the development and implementation of new rules in others. Sustainability disclosures continue to be a focal point, including the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD), though many analysts are predicting the proposed rules in other jurisdictions may not be implemented as originally planned.



This year's survey featured new climate-related questions that shed light on CRO priorities relative to climate risk and ESG requirements. More than half of CROs in our survey (53%) said disclosure-related risks were significant; nearly as many (48%) cited climate-related physical risks. Climate-related transition risks (44%) and management of public goals and targets (42%) are other areas where CROs expect to focus their risk management organizations.

Figure 12:

What do you view as driving sustainability-related risk or requiring increasing risk management focus within your organization?

CROs say they manage climate-change risks by embedding them in risk identification and assessment processes (75%, including 100% of G-SIBs and the largest banks) and conducting scenario analysis and/or stress testing (58% including 92% of G-SIBs and 89% of the largest banks, but only 34% of those with under US$50b in assets). CROs say they use scenario analysis outputs to inform capital adequacy assessments, including for the US Federal Reserve's Comprehensive Capital and Analysis Review (CCAR) and the Internal Capital Adequacy Assessment Process (ICAAP) as part of the Basel framework, for internal informational purposes, and for risk appetite setting.

CROs expect climate risks to have the biggest impacts on credit risk (63%) and reputational risk (53%) during the next 12 months. However, there's considerable variation among G-SIBs, which are much more focused on reputational risks, and non-G-SIBs, which expect bigger impacts from credit risk. Latin American banks and those with the smallest balance sheets in the sample are least worried about reputational risk, while 100% of the biggest banks expect climate risk drivers to present reputational risk in the near term. Looking out three years, CROs expect climate-driven credit risks to increase slightly and climate-driven reputational risk to be less of a concern.

Figure 13:

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

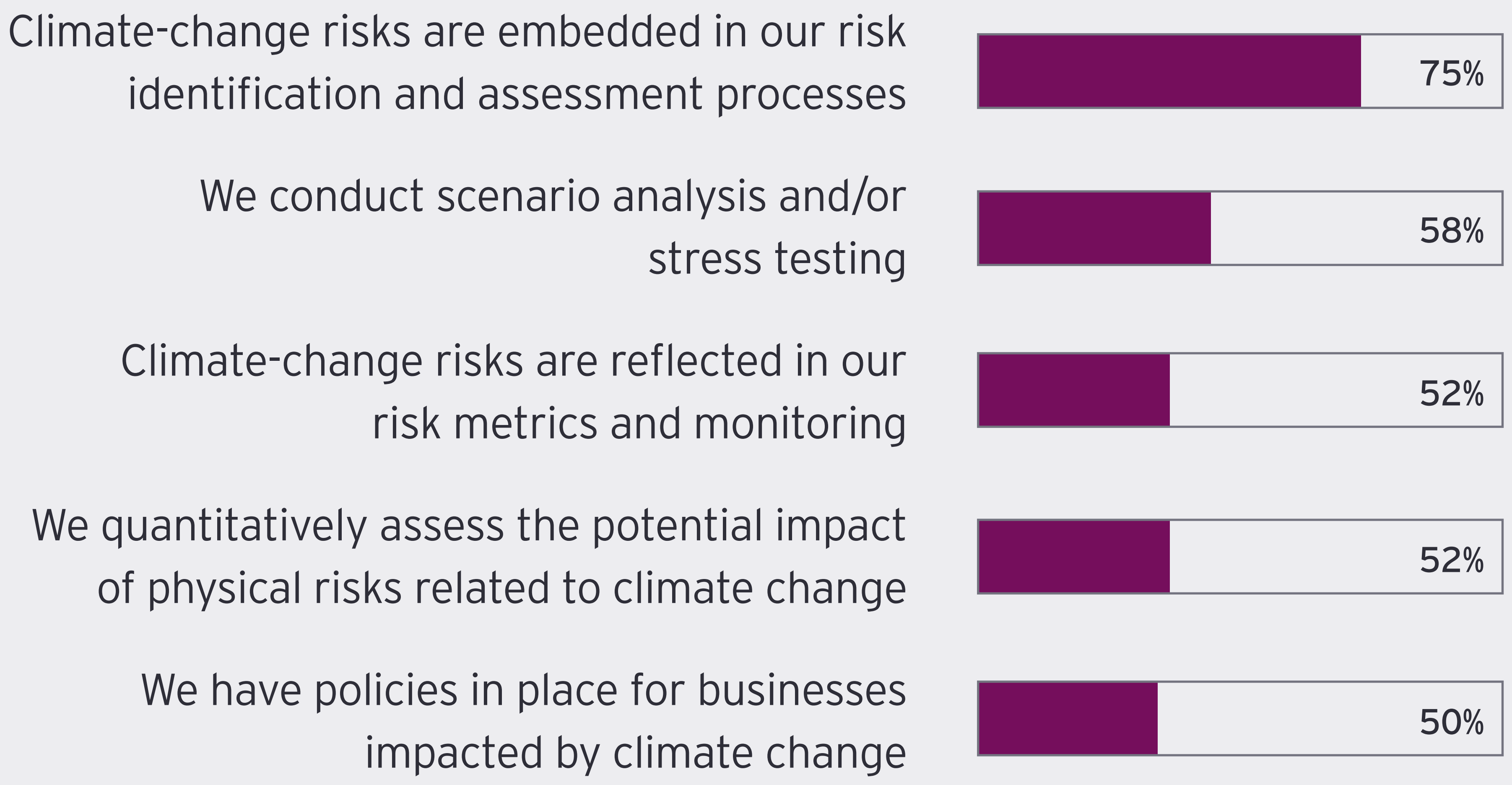


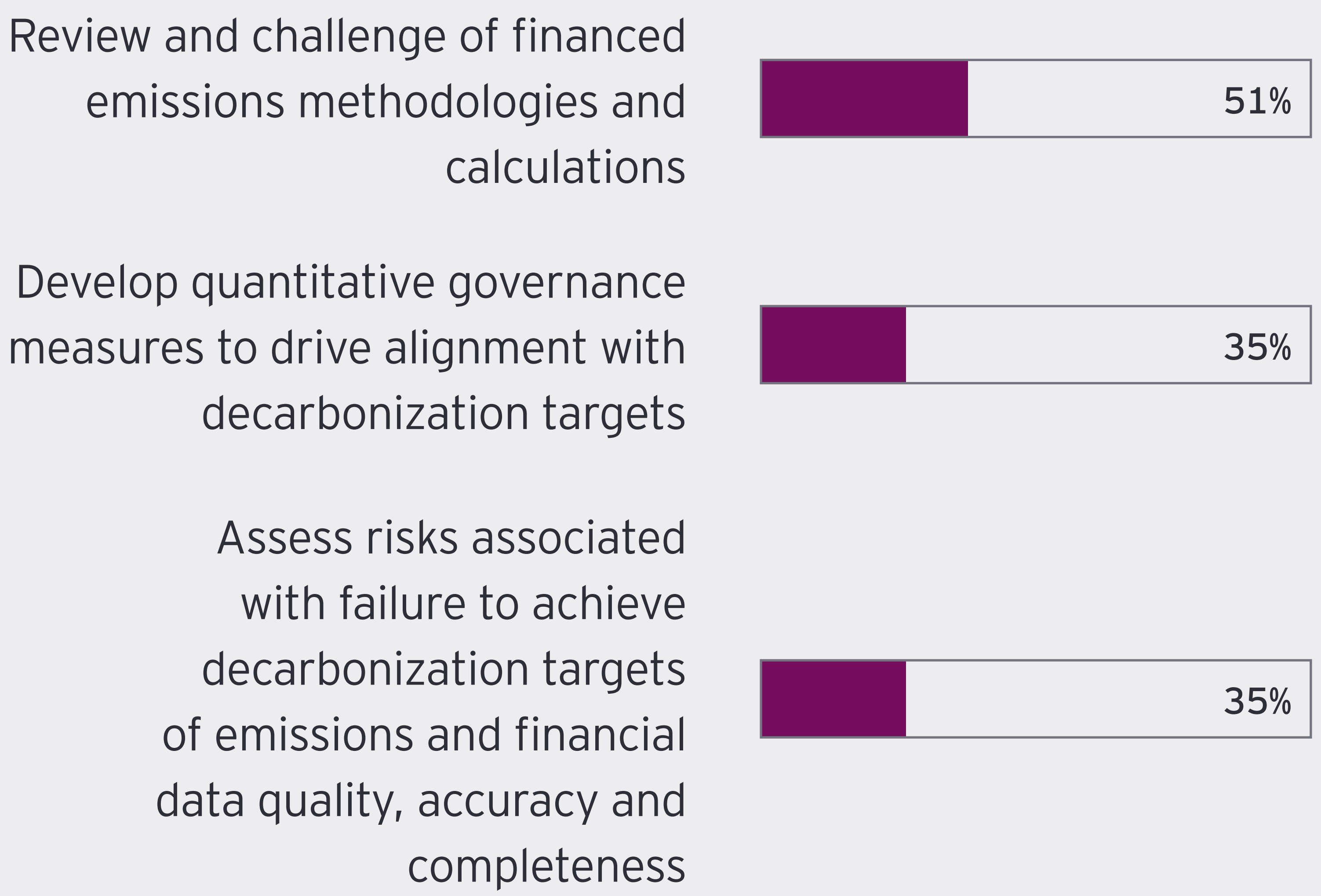
Figure 14:

For which risk types does your organization expect climate-change risk drivers to manifest most significantly?

CROs report that the second line is involved in multiple ways in meeting decarbonization commitments, including the development of financed emissions methodologies and calculations (especially at G-SIBs and banks in the Middle East), developing quantitative governance measures and assessing risks associated with failure to achieve decarbonization targets. All of these areas are of greater priority for G-SIBs than non-G-SIBs.

Figure 15:

What role does the second line of defense have at your organization in monitoring and the oversight of decarbonization commitments?



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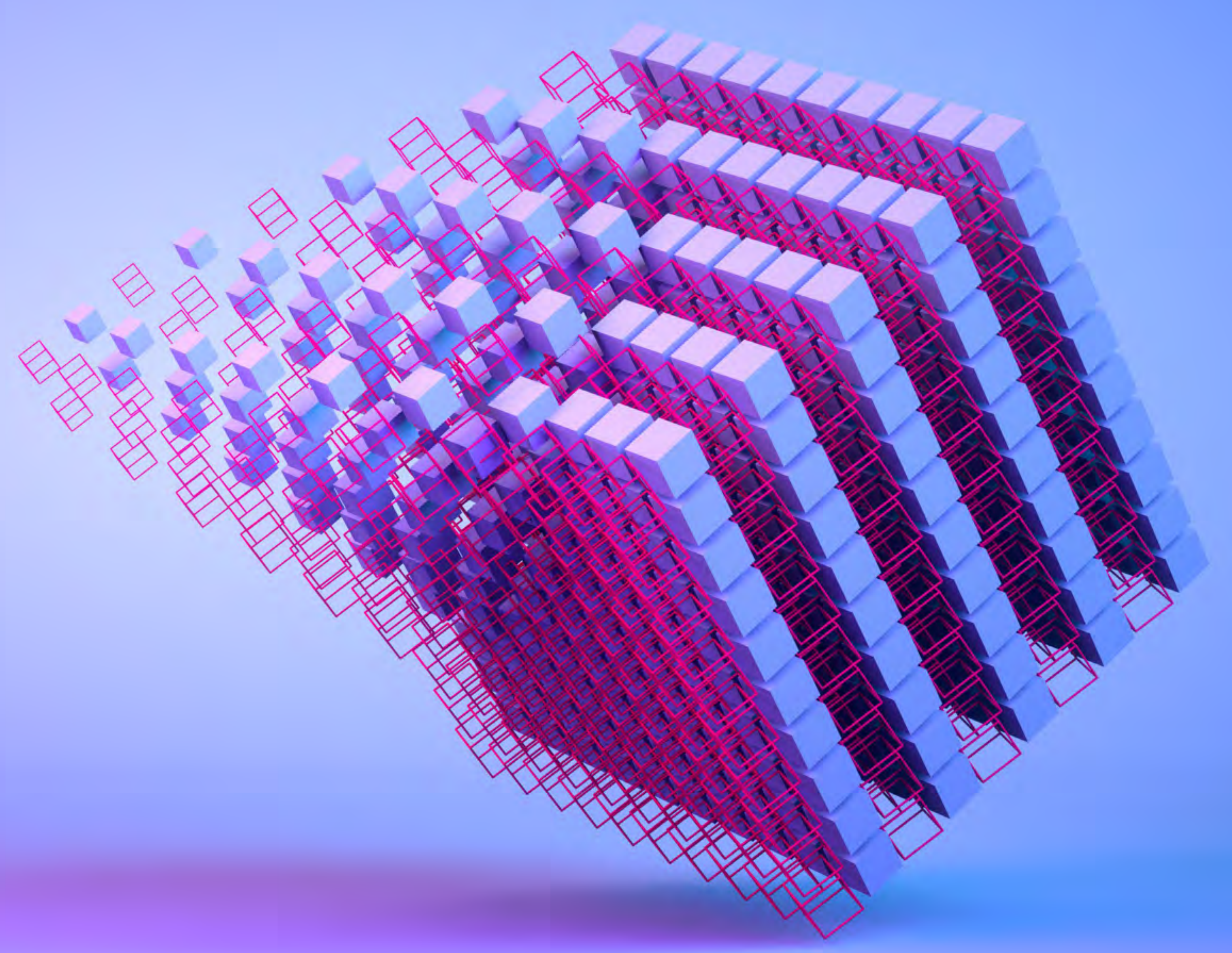
CHAPTER 5

REGULATORY RISK

Increasing regulatory scrutiny has been a consistent theme in our results for as long as we've conducted this survey. This year, the implementation of regulatory rules or supervisory expectations was the third highest priority in terms of where CROs will invest time and attention in the next 12 months. Consumer privacy and data protection will also remain focal points for authorities around the world.



Overlapping jurisdictions, some with varying priorities that vacillate between ensuring consumer safety and promoting innovation, will remain a complex challenge, often resulting in market fragmentation. CROs and other banking leaders will be closely monitoring regulatory trends in the jurisdictions with recent elections, as well as state-level regulation in the US, which could contribute to further fragmentation of the overall regulatory landscape.

Well over half of CROs (58%) see new prudential developments as being the most impactful in the event of shifting supervisory priorities. Operational and cyber resilience (46%) is expected to have the next largest impact. CROs at G-SIBs and the largest banks are much more focused on the potential impacts of these areas. ESG is on the radar of more than a third (37%) of respondents (and 61% of European CROs) and AI is on the radar of more than a quarter (28%) of respondents.

Figure 16:

In what areas do you envision the greatest impact to your bank in the event of a change in supervisory focus over the last 12 months?

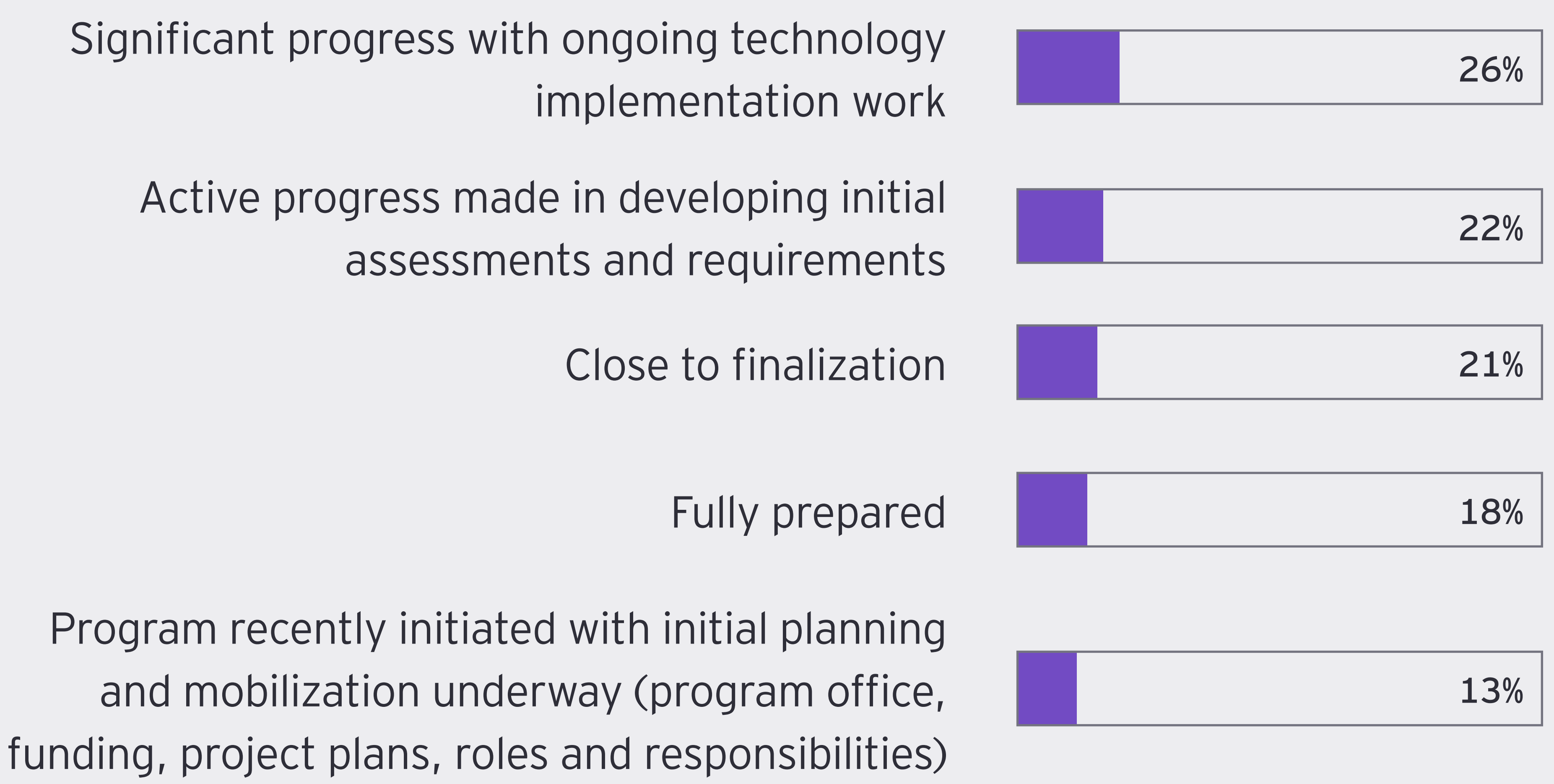
Relative to Basel III, most banks still have work to prepare for its implementation; fewer than four in 10 banks are either close to finalization (21%) or fully prepared (18%). G-SIB CROs report that their organizations are somewhat further along with their preparations.

The potential gap in requirements across regions, particularly between the US and EU, is another development to watch. In other jurisdictions, including Australia, Canada, and Japan, Basel III is already fully implemented. Larger banks are focused on both the competitive impacts of elevated capital requirements and higher compliance costs.

The potential gap in requirements across regions is another development to watch. Larger banks are focused on both the competitive impacts of elevated capital requirements and higher compliance costs.

Figure 17:

What is your readiness to handle the potential changes in the rulemaking and timing for Basel III capital requirements in the jurisdictions in which you operate?



The competitive implications of Basel III are much on the minds of CROs, dwarfing other potential impacts.

Figure 18:

What do you feel will be the most significant impact if there are differences in the implementation of the Basel III capital requirements in the jurisdictions in which you operate?

CHAPTER 6

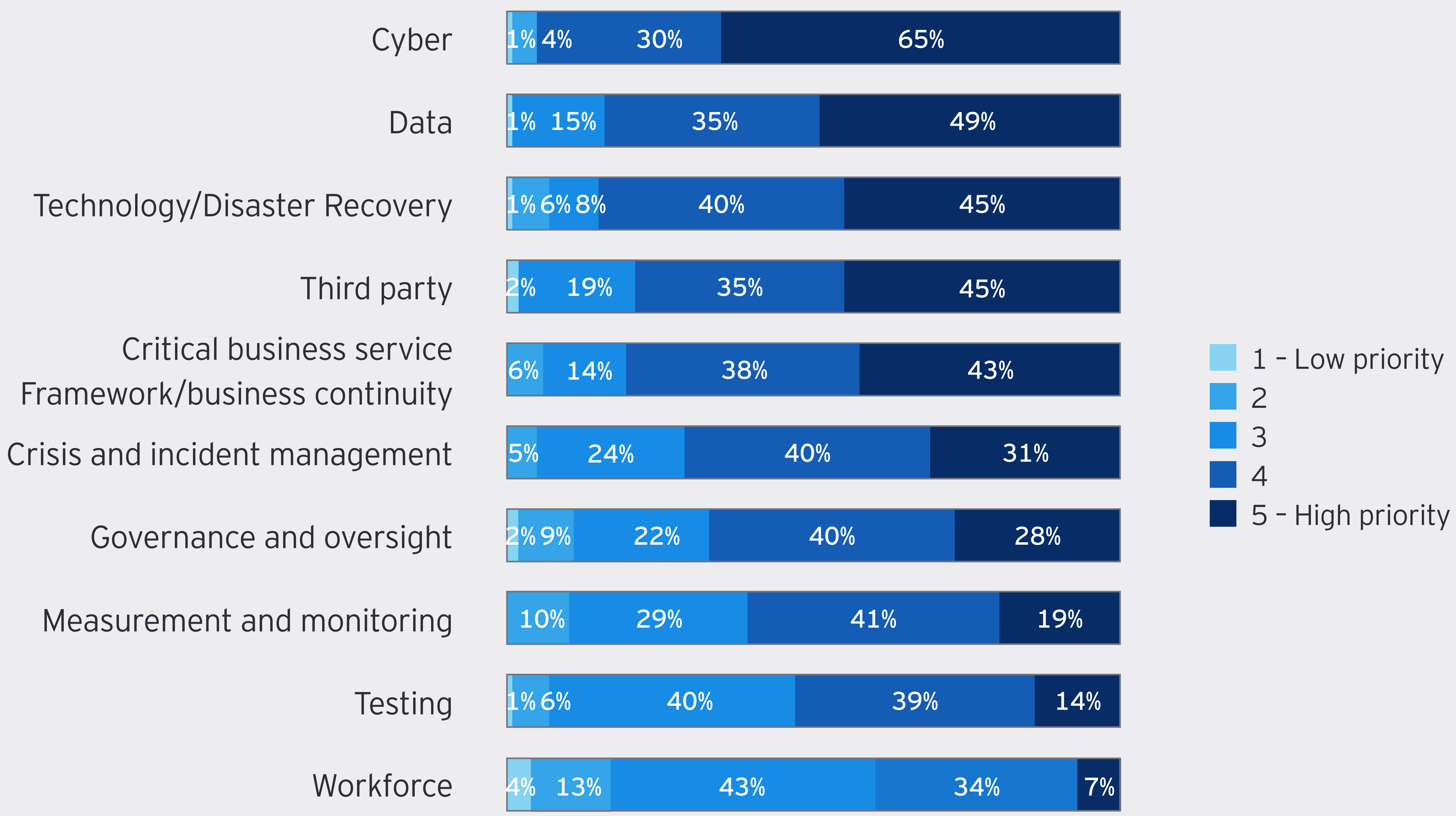
OPERATIONAL RESILIENCE

Operational resilience remains a perennial priority for risk management organizations, and recent events have done nothing to lessen that imperative. Indeed, CROs expect it to be the second most significant issue (behind only cybersecurity) in terms of requiring their time and attention. Operational resilience was a notably bigger concern (58%) among CROs from banks with assets of US$100b to US$500b and CROs from the Asia-Pacific region (53%), compared to 38% of all survey respondents. Notably, only 14% of CROs from the largest banks said operational resilience would be a top-five risk for the next year.

The high-profile IT disruptions of summer 2024 illustrated just how important it is for resilience strategies to be embedded across all parts of the business. CROs say their top priorities for enhancing operational resilience for the next three years involve cyber, data and technology risk.

Figure 19:

What level of priority would you assign to each of the following areas of operational resilience for enhancements over the next three years?



Board and management focus is driving prioritization of operational resilience in all areas of the business, with the exception of governance and oversight, which is primarily driven by a regulatory and supervisory focus.

Banks use a range of methods – direct and indirect, quantitative and qualitative – for factoring operational resilience into the bank's risk appetite. The use of specific, resilience-focused metrics by both the board and management saw significant increases since last year.

Figure 20:

What is the primary driver for prioritization selected in previous question as applicable to each of the following areas of operational resilience?

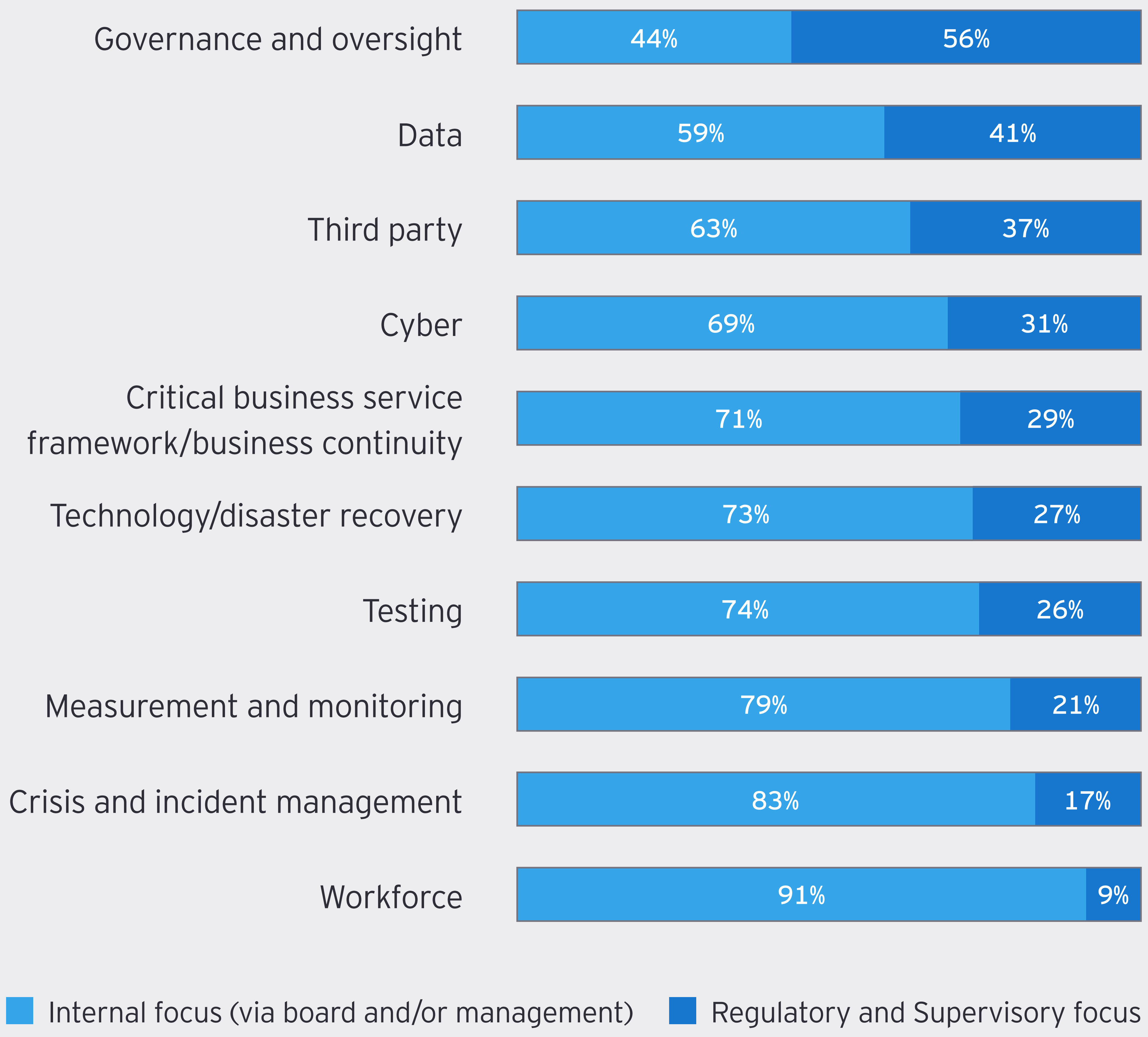
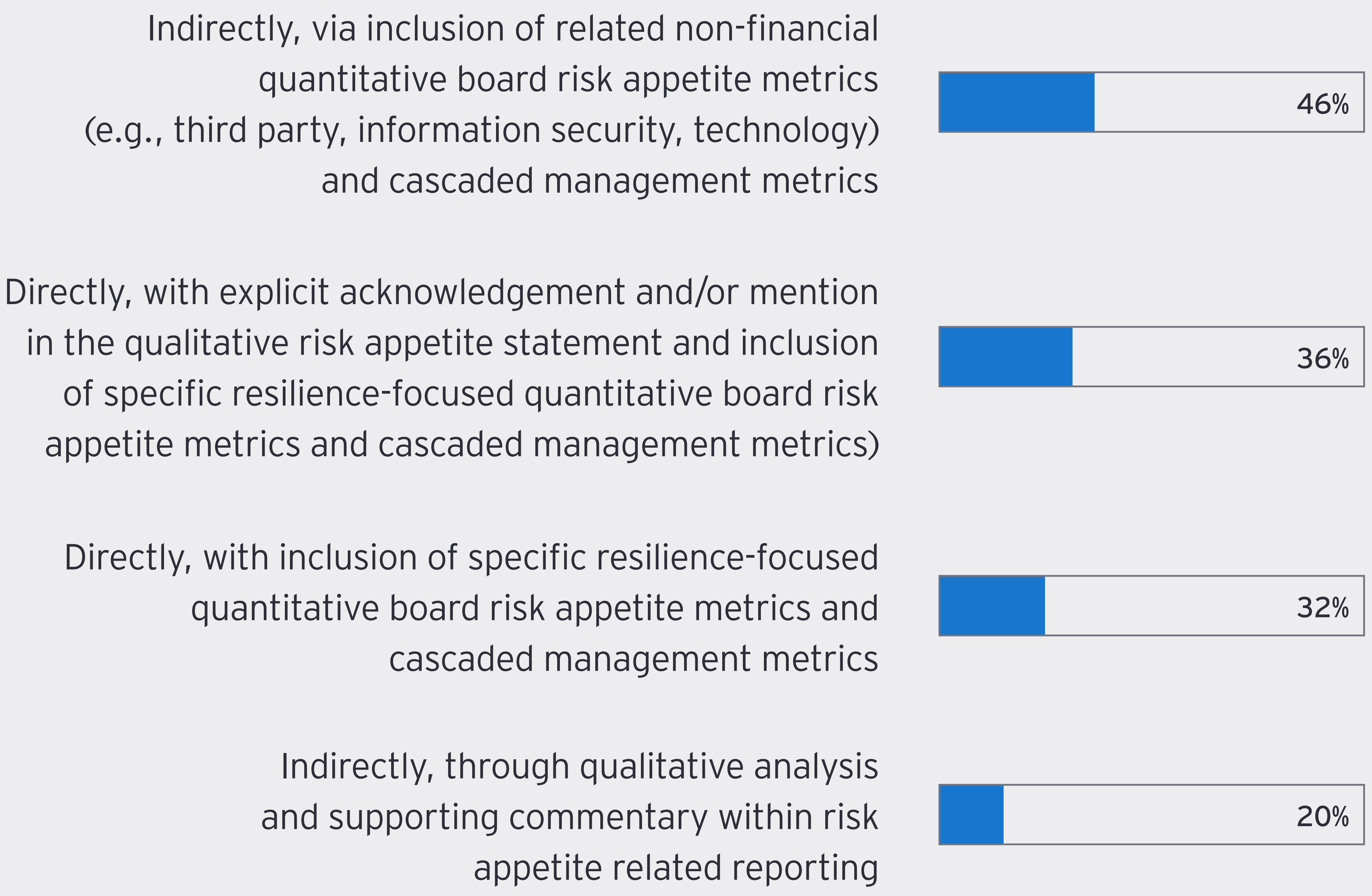


Figure 21:

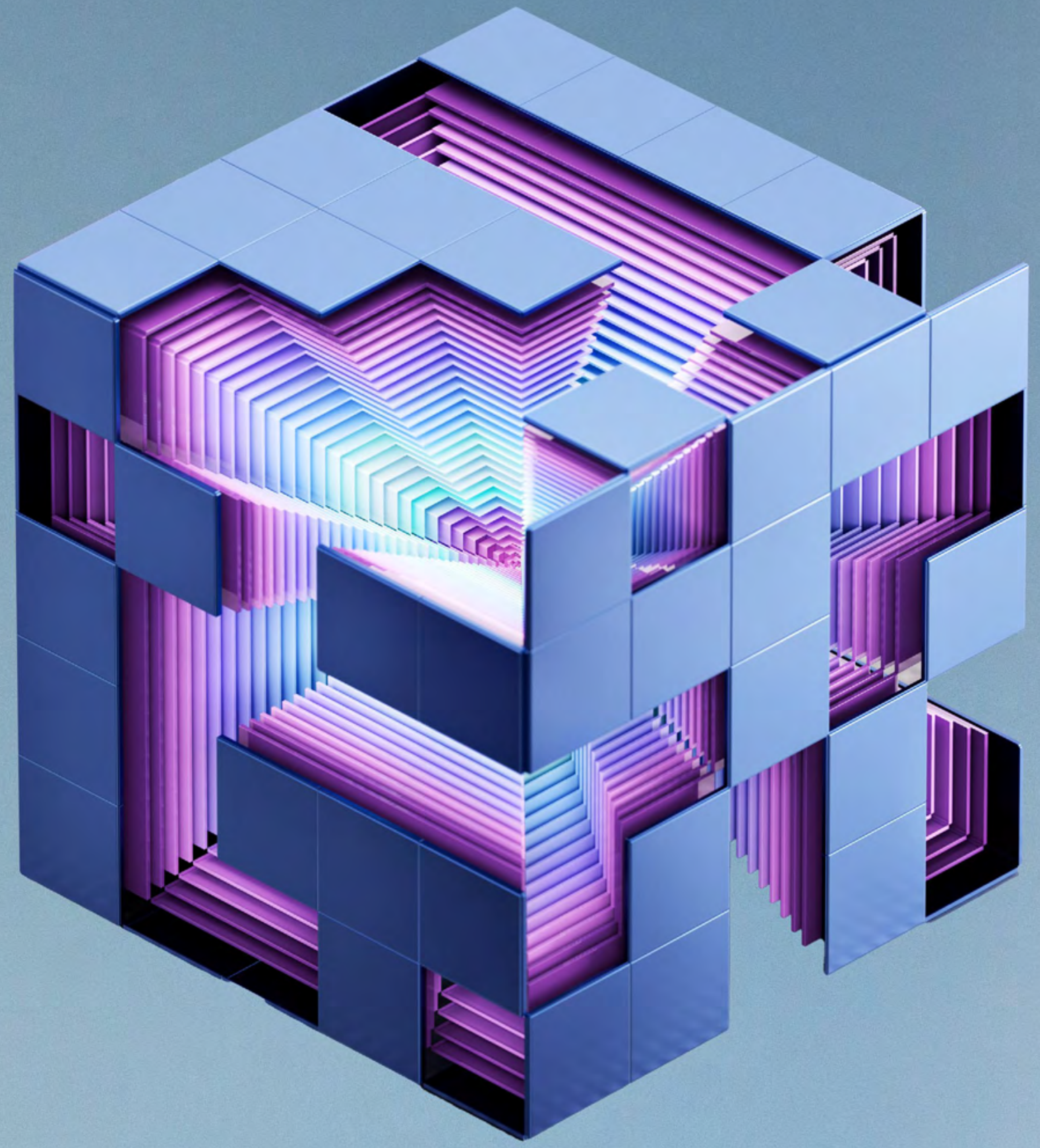
How is operational resilience addressed within the bank's risk appetite?



CHAPTER 7

RISK MANAGEMENT TRANSFORMATION AND INNOVATION

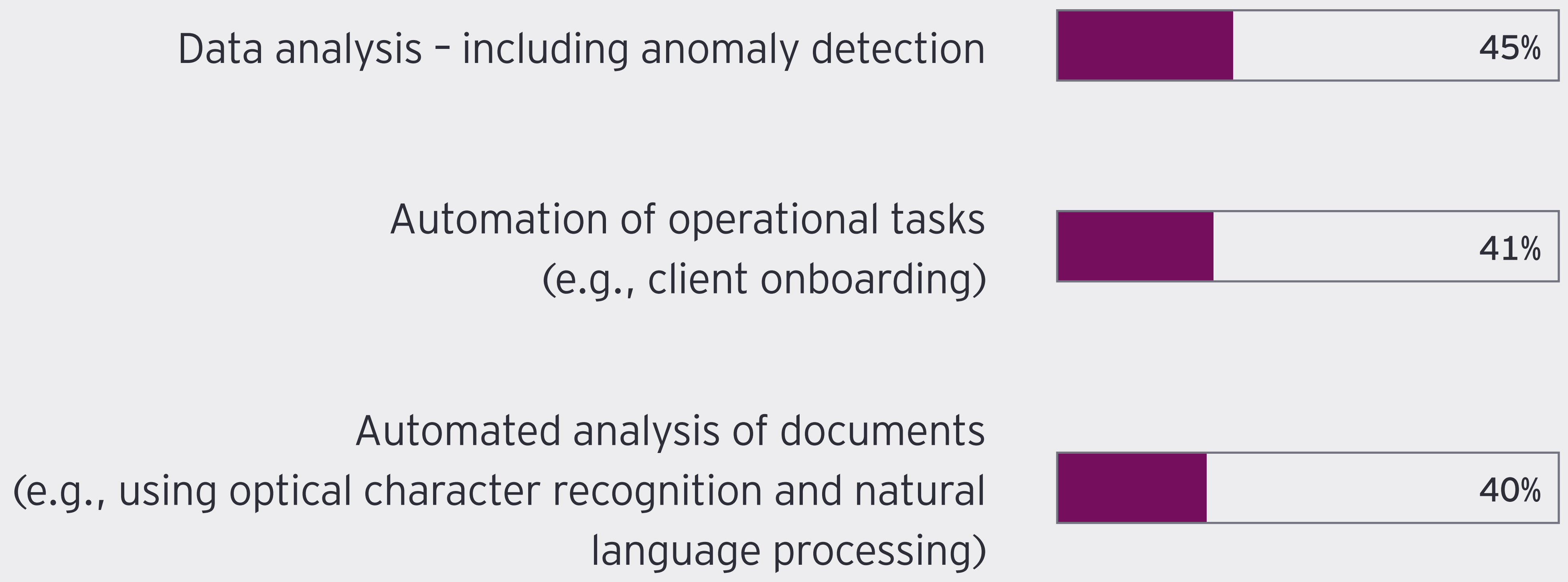
CROs' transformation plans for their own units show the impact of AI across the business. And their adoption patterns seem to follow a similar path as their counterparts across the business in that they are relying on AI to generate insights and streamline routine tasks and activities.



Data analysis, automation of operational tasks and document analysis are the top-three use cases within risk management today. Last year, data analysis was the third most common use of AI. Significantly more banks in Latin America (59%) are prioritizing the use of AI to automate operational tasks than their peers in Europe (21%) and globally (41%). Banks in the Asia-Pacific region (61%) and G-SIBs (58%) are most likely to say they are using AI to automate document analysis than all banks (40%).

Figure 22:

What are the most significant ways your organization is using ML and/or AI (including generative AI) to transform risk management practices?



Interestingly, AI is used to address many different types of risks, starting with operational fraud risks (according to 59% of our survey respondents, including only 13% of G-SIB CROs and 80% of Latin American CROs). Compliance risk is the next highest priority, named by 44% of respondents, 63% of CROs from the largest banks and 62% of CROs from European banks. Credit risk was cited by 40% of our participating CROs and 60% of those from Latin American banks.

G-SIBs are orienting their AI deployments in risk management toward compliance (83%) and credit risk (58%) to a much a greater degree than non-G-SIBs. And they are much less focused on operational fraud risks (25%) in using AI.

Figure 23:

For which of the following risks is your organization using ML and/or AI (including generative AI) to more efficiently or effectively identify, manage, monitor, and report on current or emerging areas of focus?

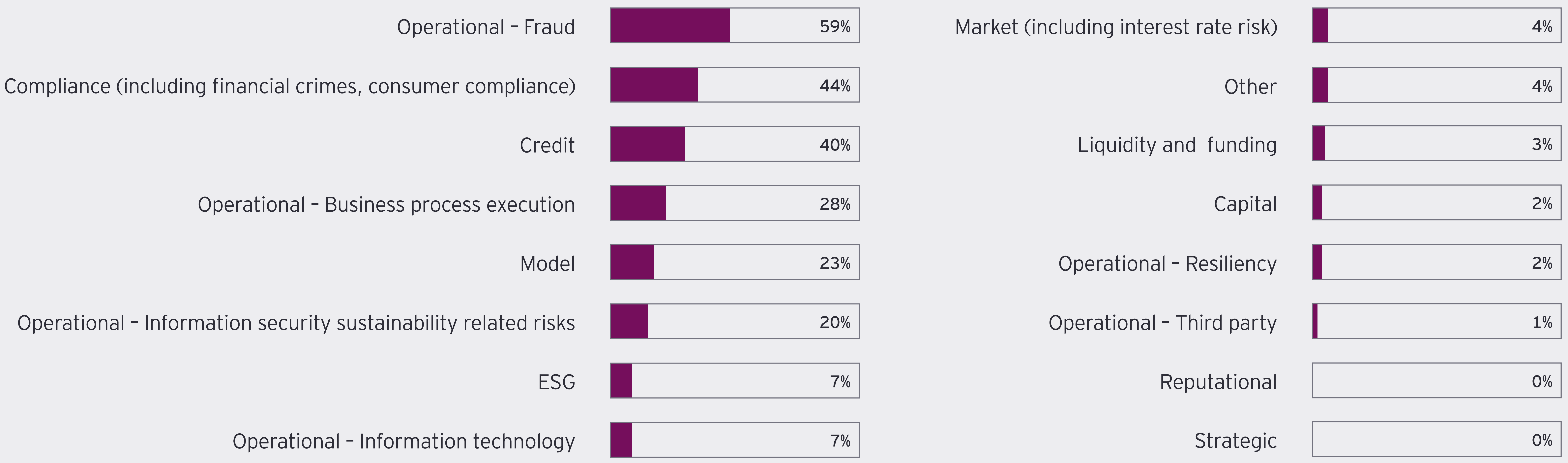
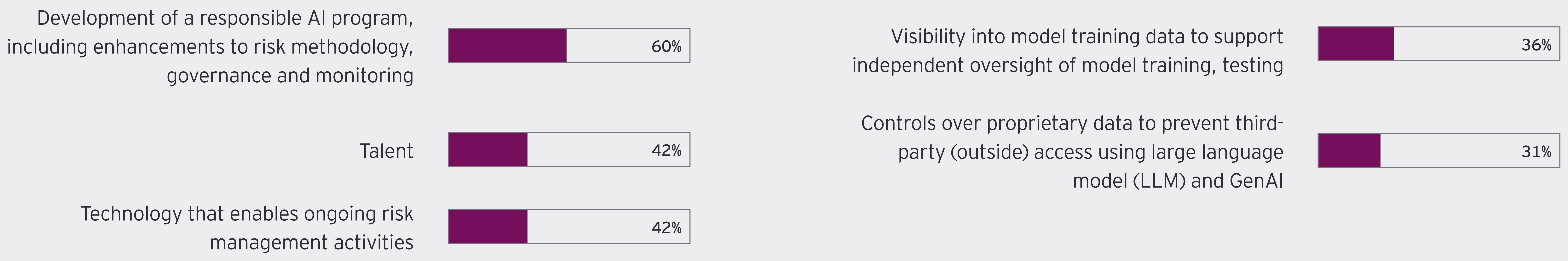


Figure 24:

What are the most significant constraints to your risk organization establishing oversight capabilities as it relates to the use of ML and/or AI (including GenAI)?



Limited budgets are the top constraint of CROs looking to operationalize AI, according to 41% of our survey respondents (and 67% of G-SIB CROs), while 33% cite that the scale of change required is a hindrance to broader deployment.

CROs are increasingly expected to oversee and manage risks related to AI deployments across the business. They face a range of critical constraints in this area too, starting with the development of overall programs to promote responsible AI usage. Talent and technological limitations are also significant barriers. The largest banks (75%) and G-SIBs (58%) are more likely to see technology that enables ongoing risk management activities as a bigger constraint than all banks (42%). Two-thirds (67%) of Asia-Pacific CROs say visibility into model training data to support independent oversight is a constraint, compared to slightly more than a third of all survey respondents (36%).

Data management capabilities are integral to AI success, both within risk management and across the business. A large majority (71%) of CROs cite regulatory requirements and supervisory expectations around risk data management as the top factor influencing data management priorities from a risk management perspective. Rapid risk reporting and enhanced risk data aggregation are expected to have nearly as much influence, according to 58% of CROs, while 53% (and 75% of G-SIB CROs) cite the ability to leverage data to provide better insights on a more frequent basis (e.g., intraday).

When asked to name the top data usage risk that will require attention during the next 12 months, 64% of CROs chose data quality (accuracy, completeness, timeliness, validity, consistency, uniqueness). Model risk (10%), cybersecurity (9%) and regulatory compliance (7%) were much farther down the priority list.

CHAPTER 8

INTERNAL CONTROLS

Internal controls are the foundation of effective risk management; and CROs in this year's survey largely report stability in terms of the culture around controls at their organizations. Most components of existing control frameworks are established and maturing, with a large majority of respondents (85%) saying controls are well or largely understood across organizations. But, there is clearly room for enhancing control frameworks, given that only 35% of CROs say control frameworks are functioning effectively across the business and 50% say the quality of controls varies across teams.

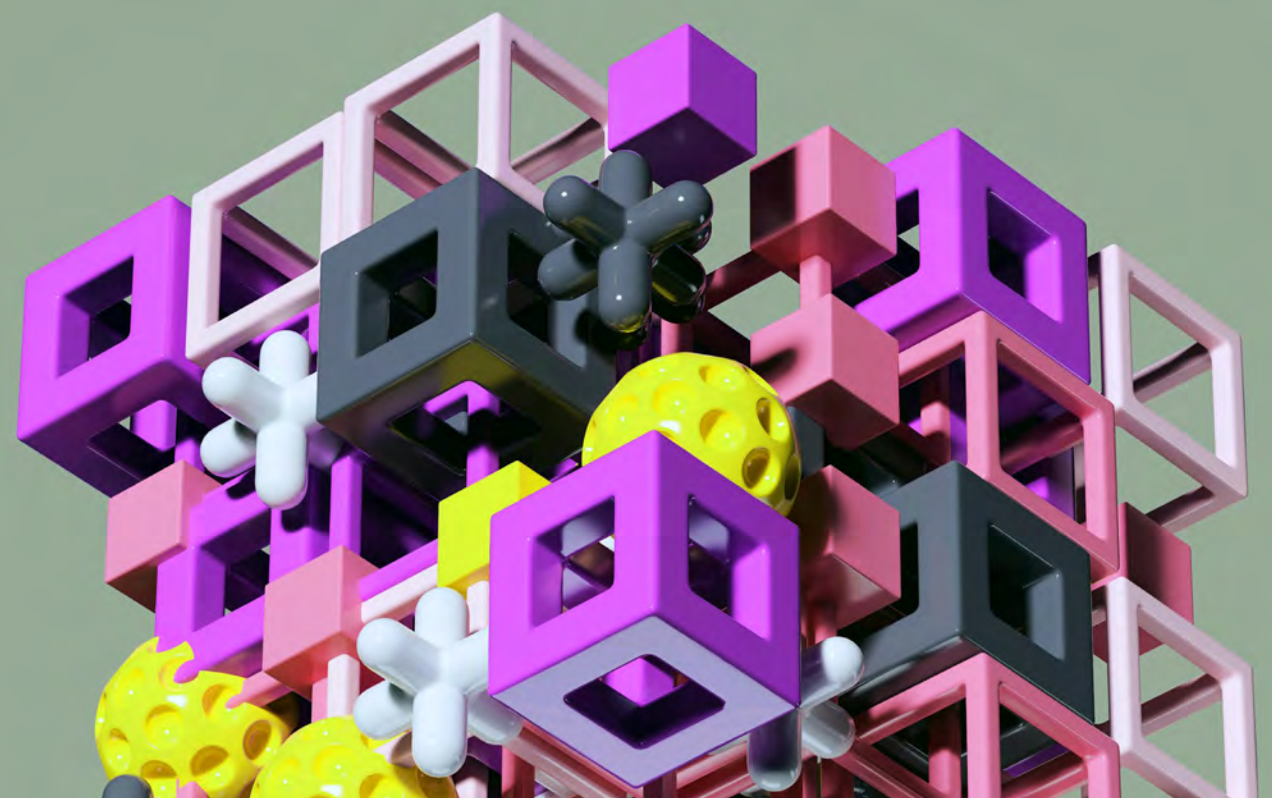
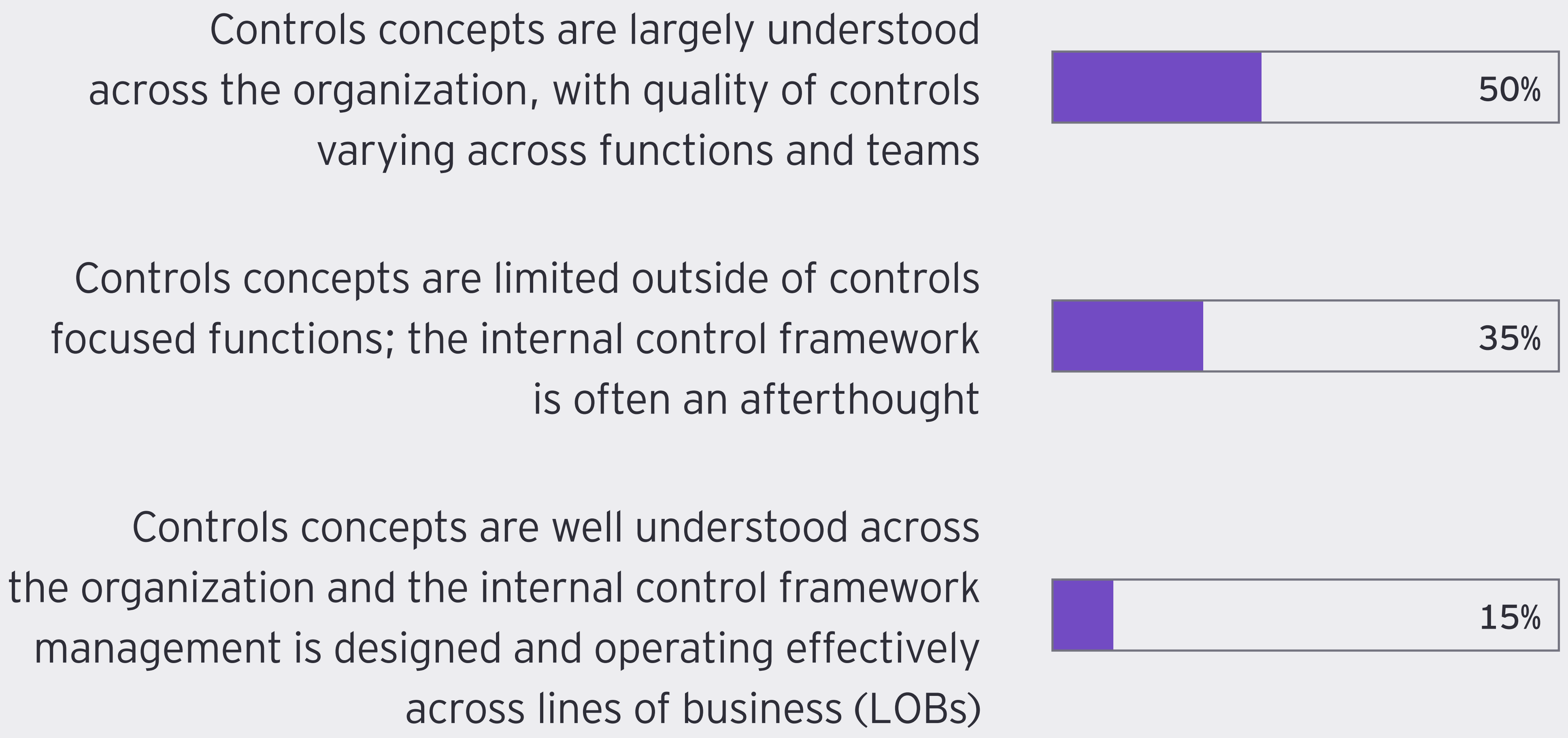


Figure 25:

How robust is your organization's culture around controls?



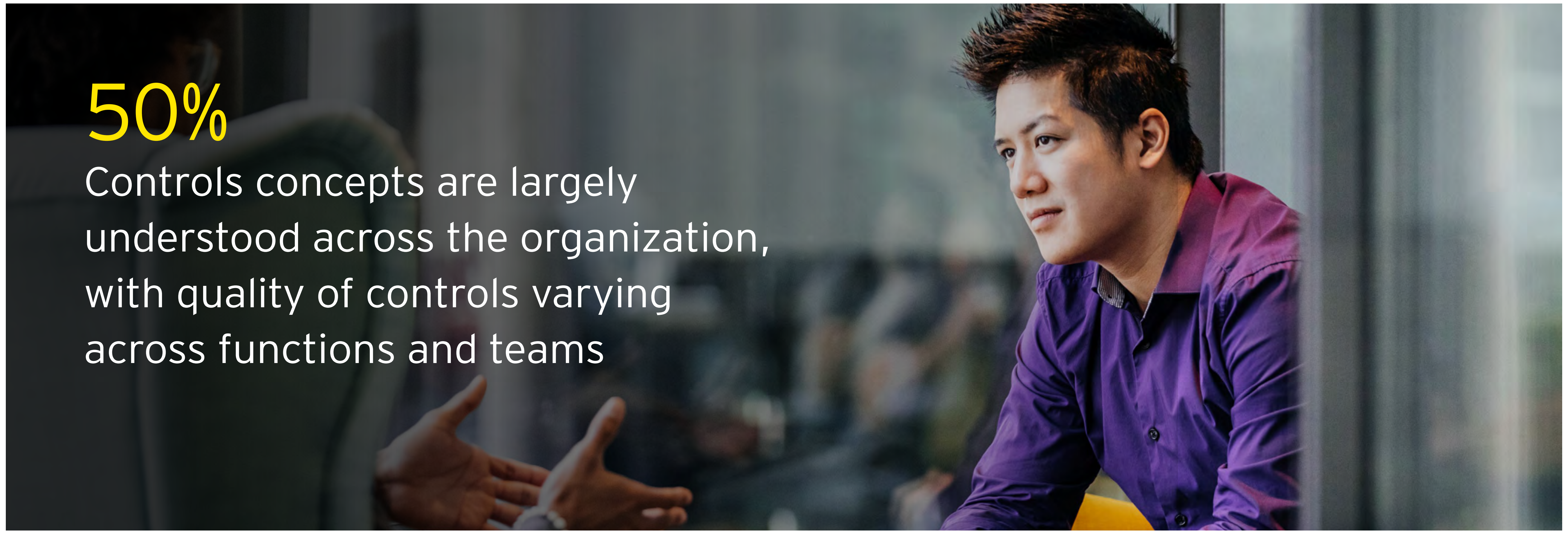
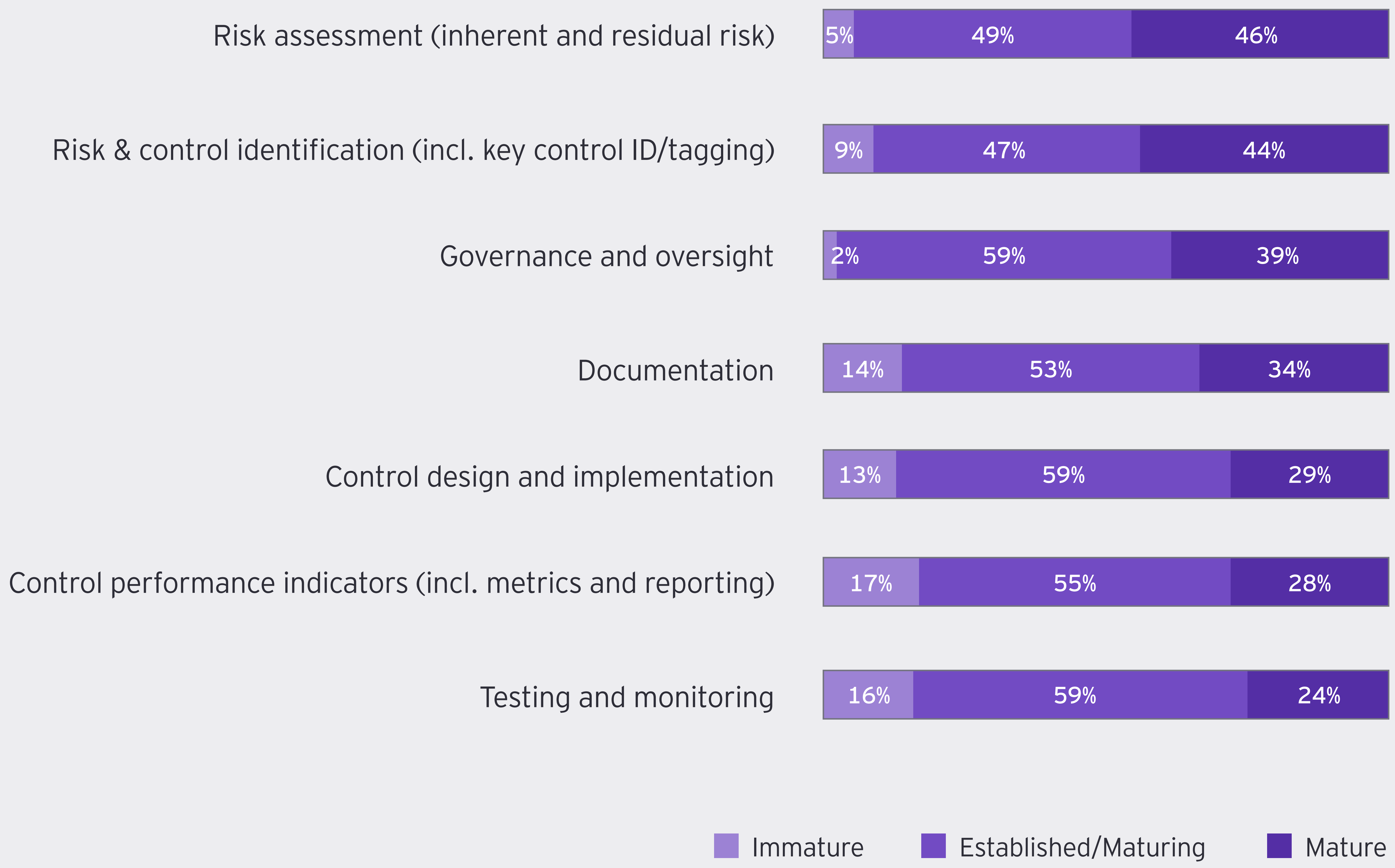
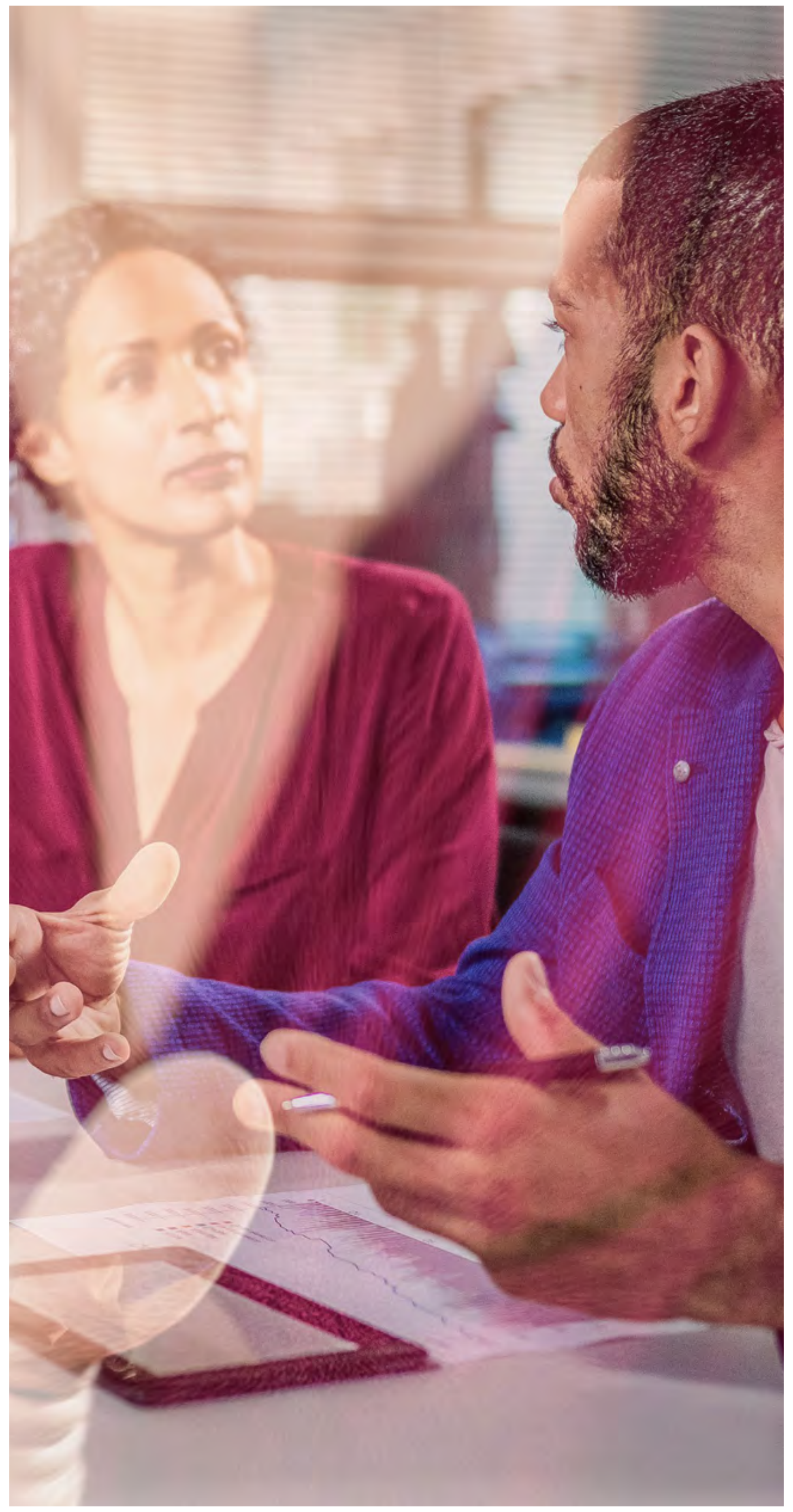


Figure 26:

How mature are the following internal control framework components in terms of second line development and implementation thereof, as well as first line adoption?



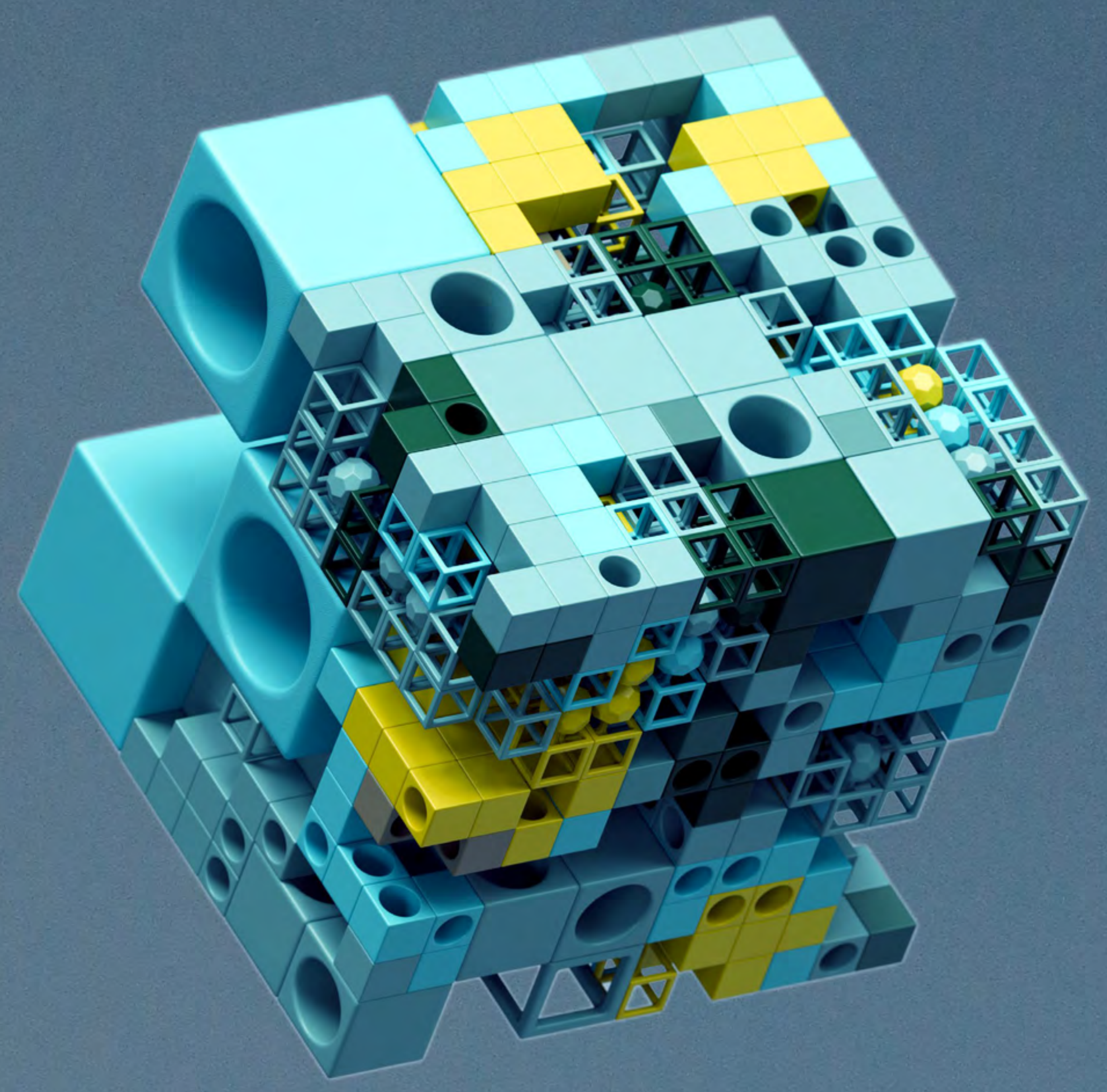
In terms of enhancing the internal control environment, CROs are prioritizing improvements to the internal controls framework (cited by 48% of respondents) and improving control design, including technical capabilities, such as controls automation (48%, and 75% of G-SIBs).



CHAPTER 9

RISK MANAGEMENT ORGANIZATION AND OPERATING MODEL

As with previous surveys, this year's results show CROs are clearly focused on optimizing their operations, including talent and culture, data and technology, and sourcing. And CROs need to be thoughtful stewards of finite resources, investing in capabilities that offer near-term upside and long-term value for the organization.



When asked how their role will change during the next three years, 55% of our respondents chose developing the next generation of leaders, just ahead of serving as an advisor to the business (selected by 50% of all respondents, but 71% of European CROs and 65% of those in Latin America). Creating a rigorous risk culture was the fourth top choice, cited by 38% of CROs, confirming that they understand how central people are to effective risk management. Interestingly, 63% of CROs from the largest banks (63%) are focused on strengthening the risk cultures.

Figure 27:

In what areas do you envision the role of the CRO will evolve over the next three years?

Looking at the most in-demand skill sets, CROs are clearly looking for well-rounded individuals who are digitally savvy and adaptive to changes in the risk environment and have business and specialized technical knowledge. Interestingly, considerably more G-SIB CROs (83%) say they are looking for risk management professionals with the ability to adapt to a changing risk environment (including impact of geopolitical uncertainties) than do all respondents (54%).

Half of our respondents say attracting and retaining talent will become increasingly difficult for the banking industry over the long-term, down from 66% last year. A third say finding and keeping talent is generally as challenging as it has always been. As with last year's results, cybersecurity remains the hardest skill set to attract, especially for G-SIB CROs ''83% of whom say it was challenging, compared to 52% of their peers at all banks. CROs from the largest banks (75%) and those in Latin America (71%) were also notably more likely to say cyber skills were the most challenging to find. AI skills are also prevalent in this year's results after being lower on the list last year. Cyber and AI are expected to be the most in-demand skills in three years.

Figure 28:

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

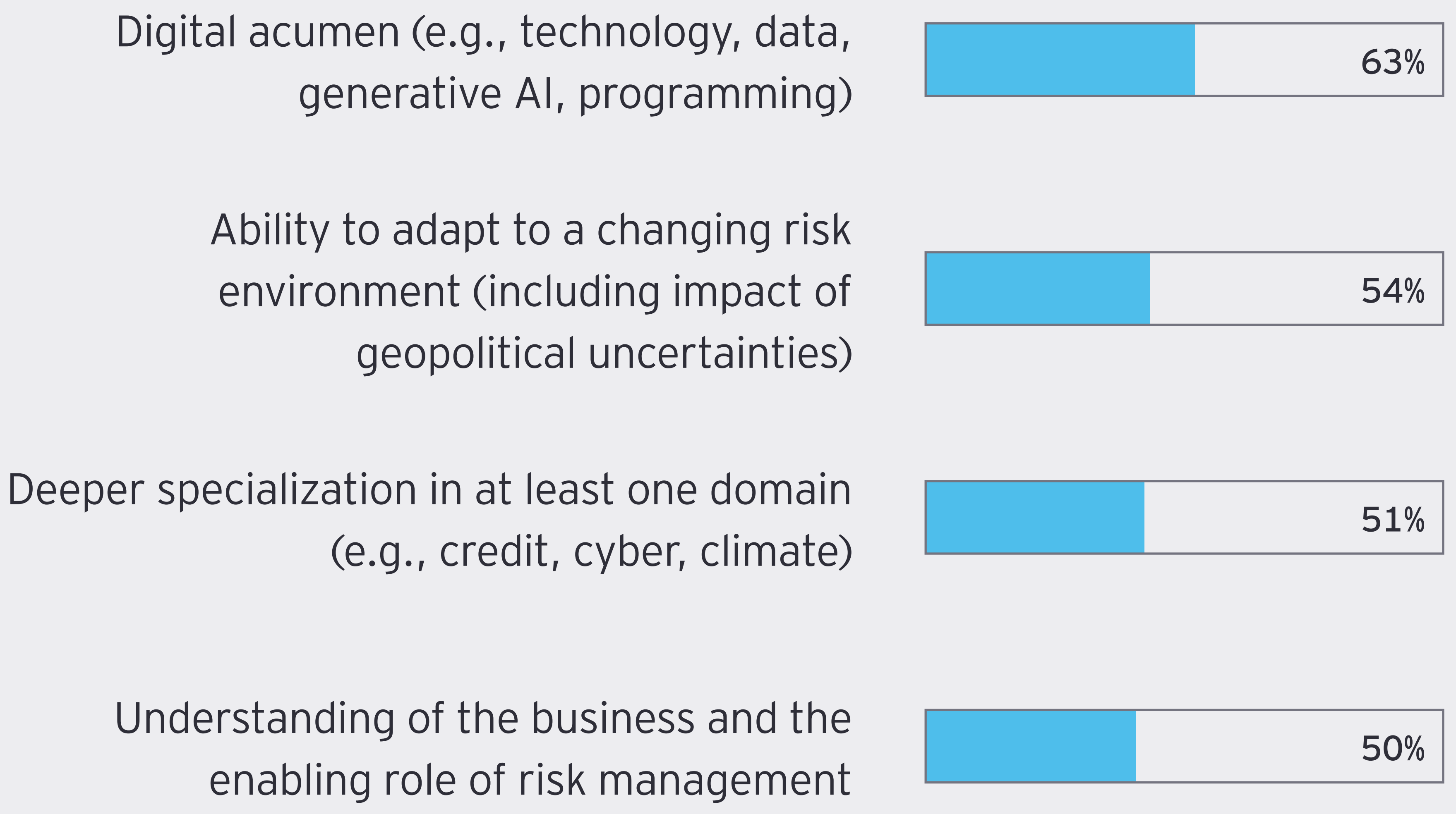


Figure 29:

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

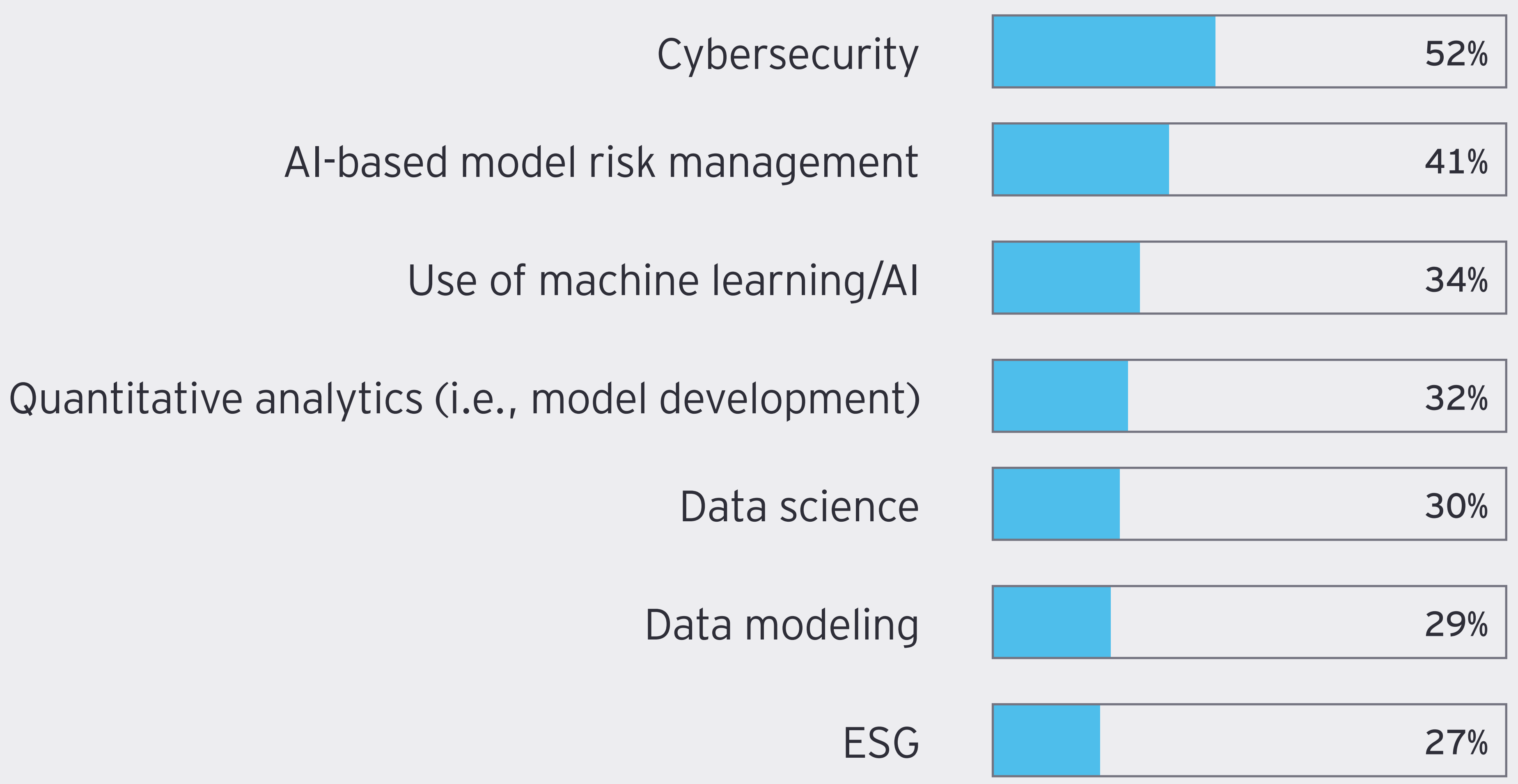
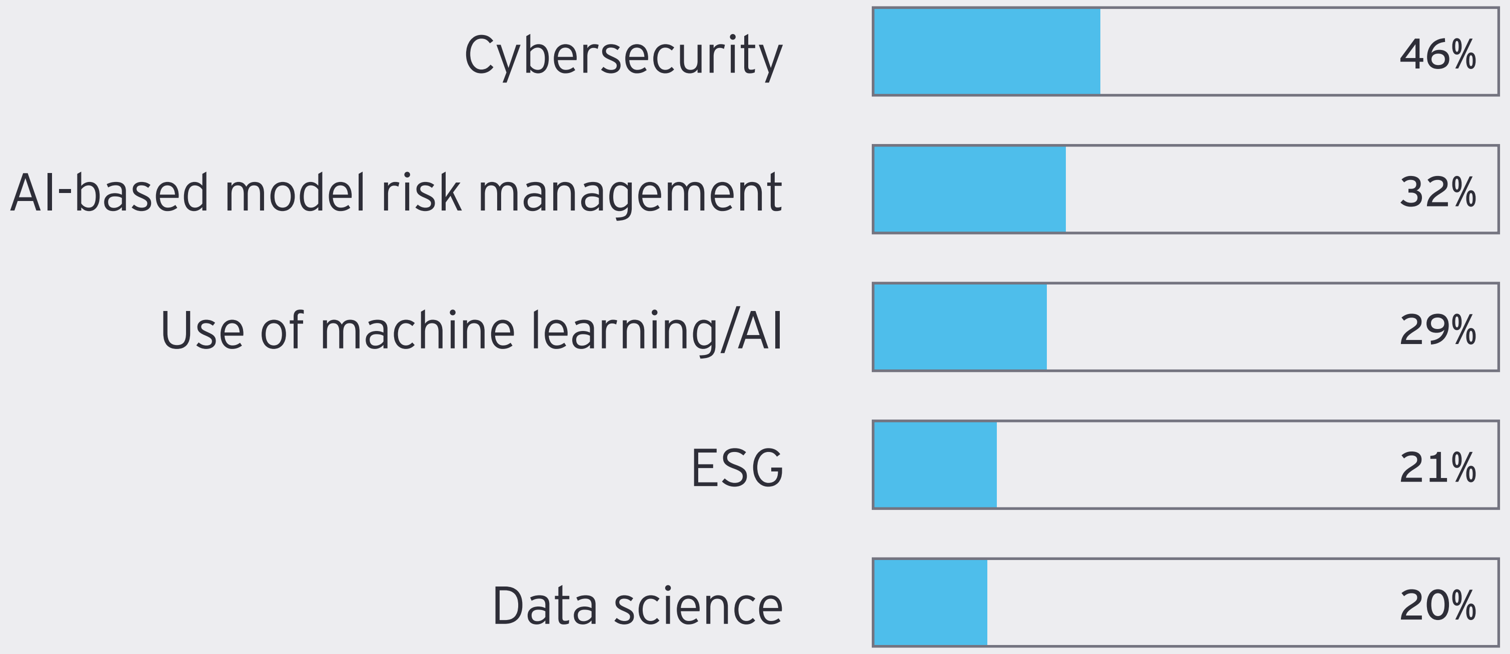


Figure 30:

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

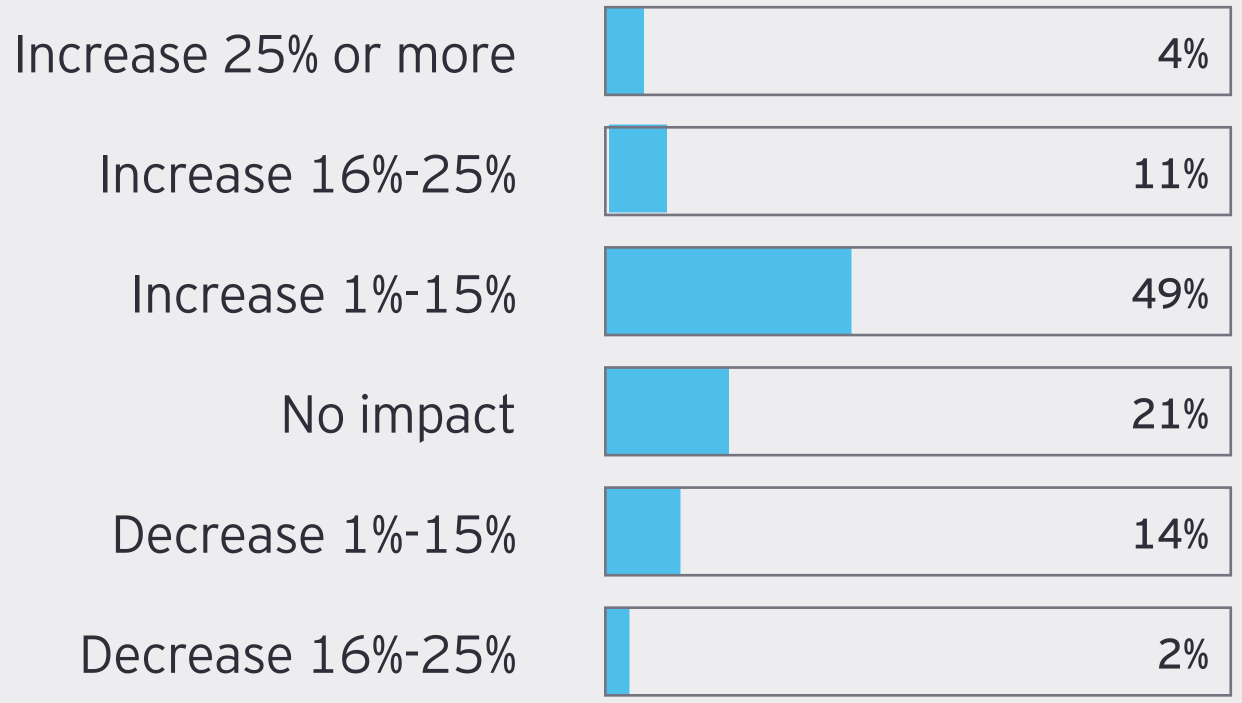


As for staffing levels, 64% of our respondents say their firms are planning to increase risk management staffing levels in the first line during the next three years, with 49% saying the increase will be between 1% and 15%. Slightly more (68%) say risk management resources in the second line will increase, with 51% projecting that increase to be 1% -15%.

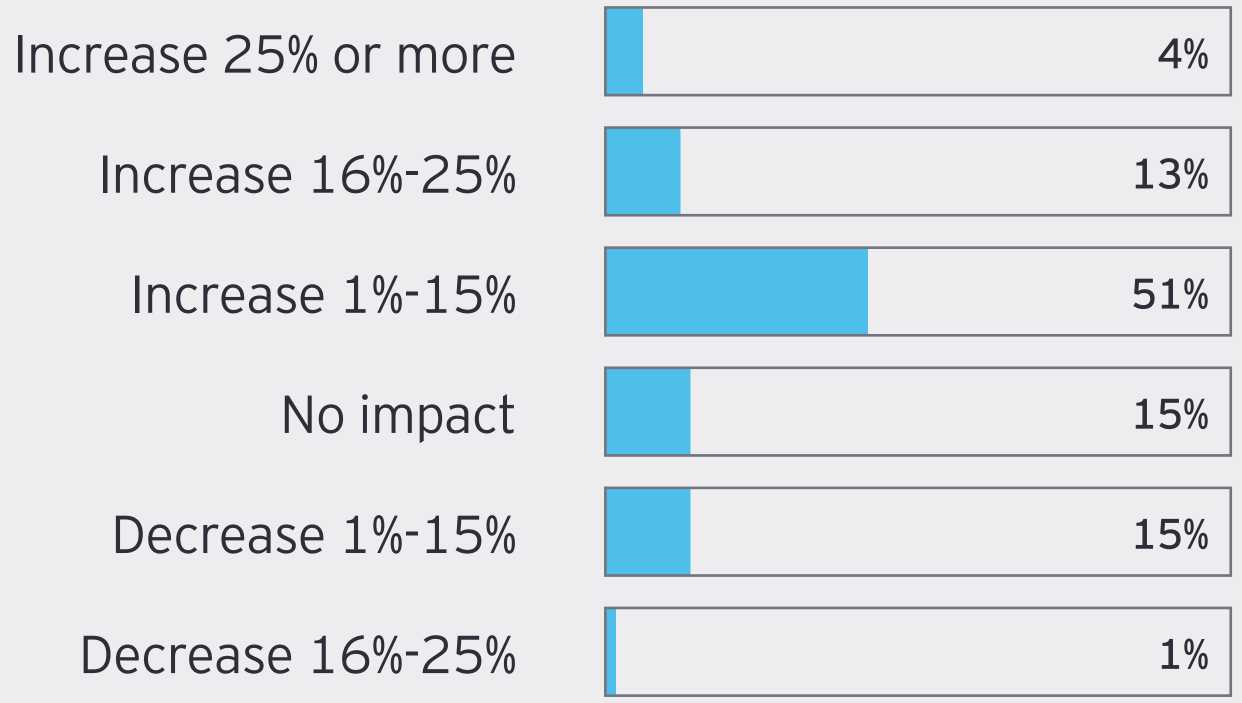
Figure 31:

How do you expect the number of full-time equivalents (FTE) risk management professionals (across the first and second lines) to change over the next three years?

First line: 49% Increase 1%-15%



Second line: 51% Increase 1% -15%



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About half of CROs (48%) say business growth is driving the need for additional risk management resources. The next most common driver – supervisory focus areas and/or feedback – was cited by 36% of respondents. For the 16% of firms that plan to reduce staff in both the first and second lines, the primary driver is the realization of efficiencies in execution of risk management activities, including increases in automation and use of AI, cited by 71% of respondents, a significant increase from 54% last year.

Most CROs are not making extensive use of outsourcing or right-shoring strategies to access talent or control labor costs at this time. But, our results make clear that such practices are likely to become more prevalent during the next three years.

Figure 32:

Currently, how significant is right-shoring (i.e., placement of a business operation in most efficient region based on cost and skill sets) and out-sourcing/co-sourcing as part of your overall talent strategy for the second line of defense risk organization?

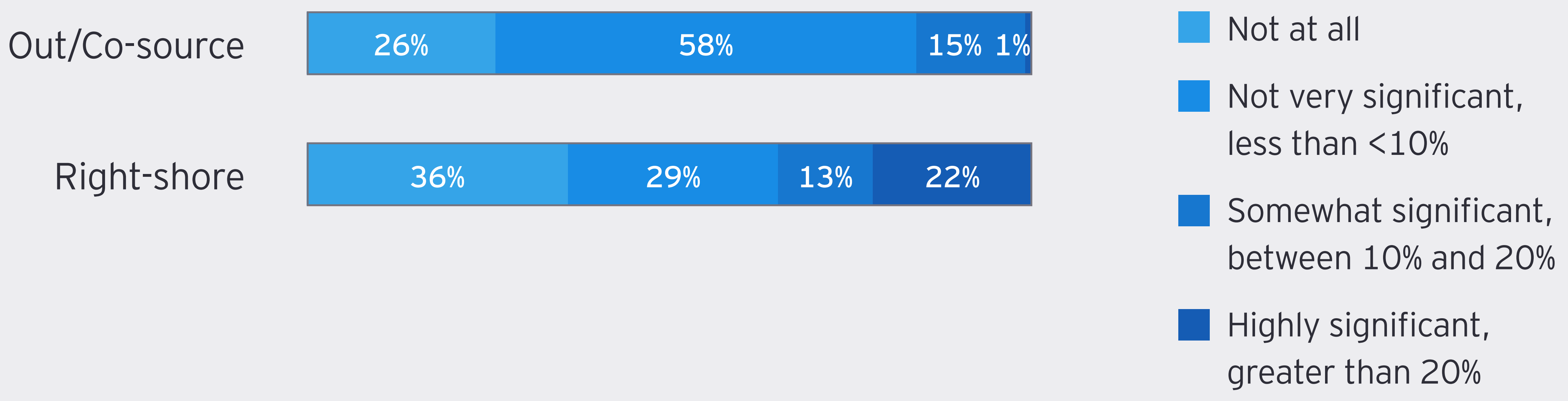
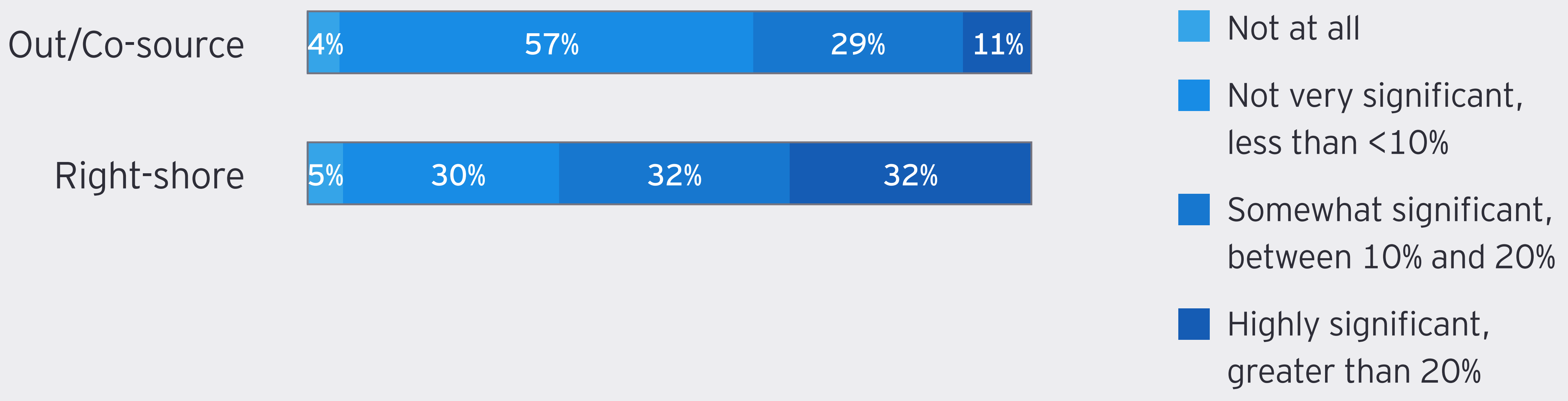


Figure 33:

How significant do you anticipate right-shoring and out-sourcing/co-sourcing to become as part of your overall talent-strategy for the second line of defense over the next three years?



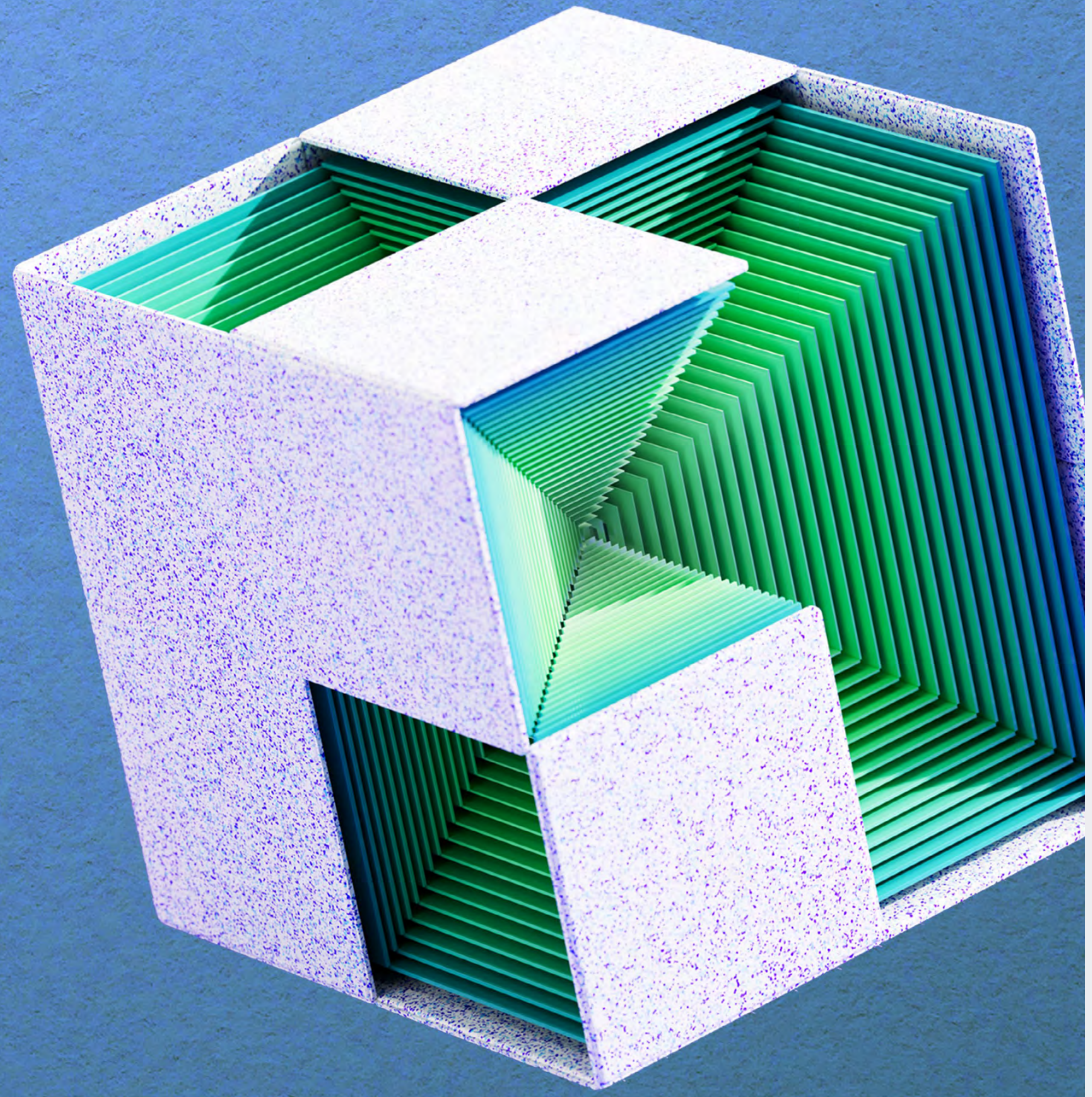
LOOKING AHEAD

Effective risk management, especially relative to financial risks, remains at the heart of the banking business. Increasingly, though, the firms that most effectively identify, manage and mitigate non-financial risks – including cyber, climate and other tests of operational resiliency – can gain a competitive advantage. How? By avoiding the cost increases, reputational impacts, litigation and regulatory actions that can limit growth.

Not that it's easy. Proliferating, diversifying and intensifying risks – and complex interconnections between different risk types – make the CRO's role one of the quickest-changing and most stressful in the banking C-suite today. And there's little doubt that the next year will bring unexpected challenges, emerging threats and even more disruption.

To effectively manage the many priorities on their agendas, CROs are turning to modernized technology, richer data sets and new skill sets. Risk management teams need deeper technical expertise and more tech-savvy and data-fluent workers. Broader strategic knowledge, business acumen, creative and critical thinking and the ability to see the "big picture" are just as important, as CROs are increasingly expected to predict new types of threats, monitor industry and regulatory developments and serve as effective leaders.

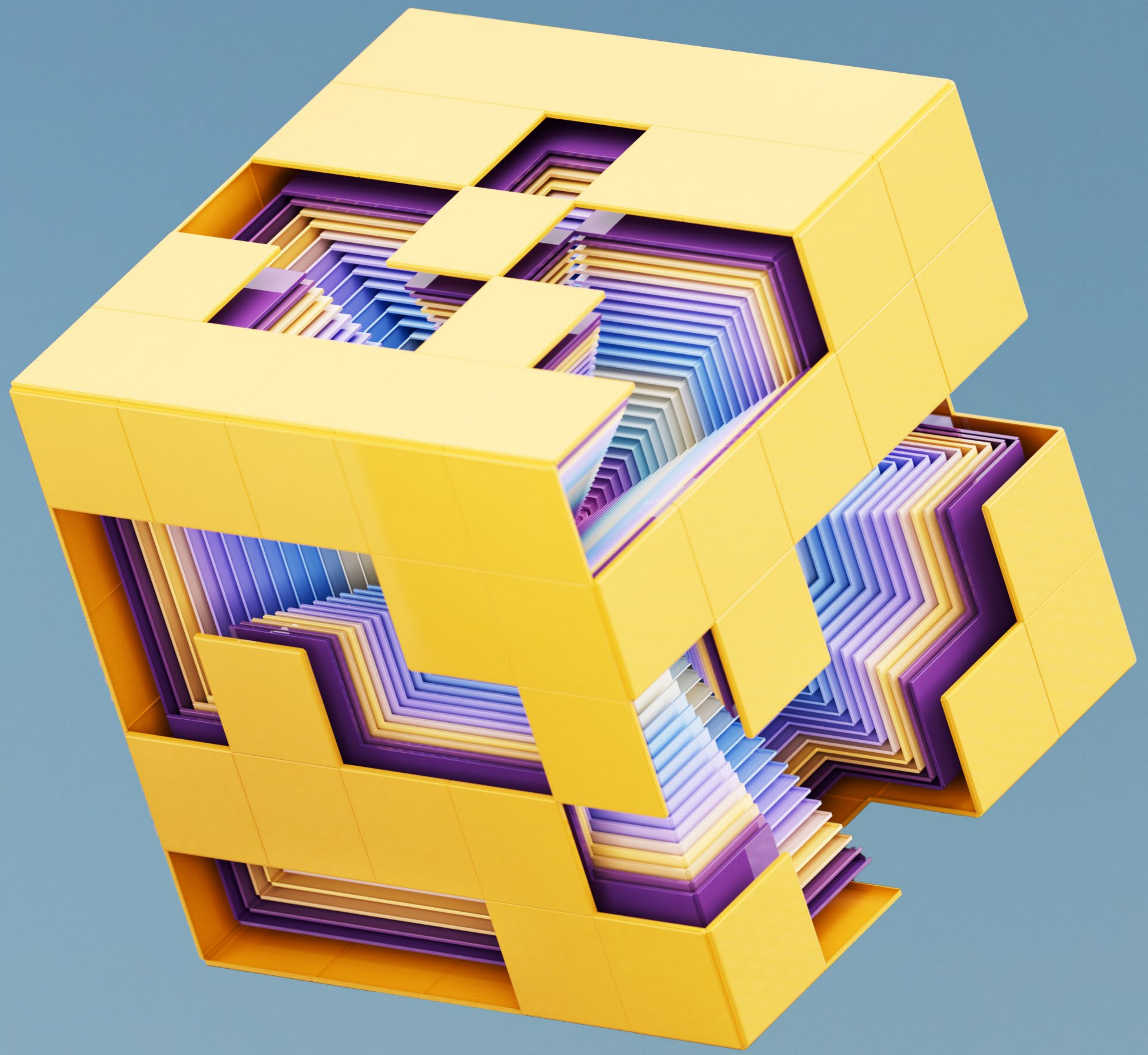
Our survey results suggest these attributes and capabilities will become hallmarks of high-performing risk management functions in the future. And CROs will continue to play a strategic role and, ultimately, seek to add more value to the business.



RESEARCH METHODOLOGY AND PARTICIPANTS

EY researchers, in conjunction with the IIF, surveyed IIF member firms and other banks in each region globally (including a small number of material subsidiaries that are top-five banks in their home countries) from September 2024 through November 2024.

Participating banks' CROs or other senior risk executives were interviewed, completed a survey, or both. In total, 115 banks across 45 countries participated. Participating banks were fairly diverse in terms of asset size, geographic reach and type of bank. Regionally, those banks were headquartered in Asia-Pacific (16%), Europe (25%), Latin America (15%), Middle East and Africa (13%) and North America (31%). Of those, 10% are G-SIBs.



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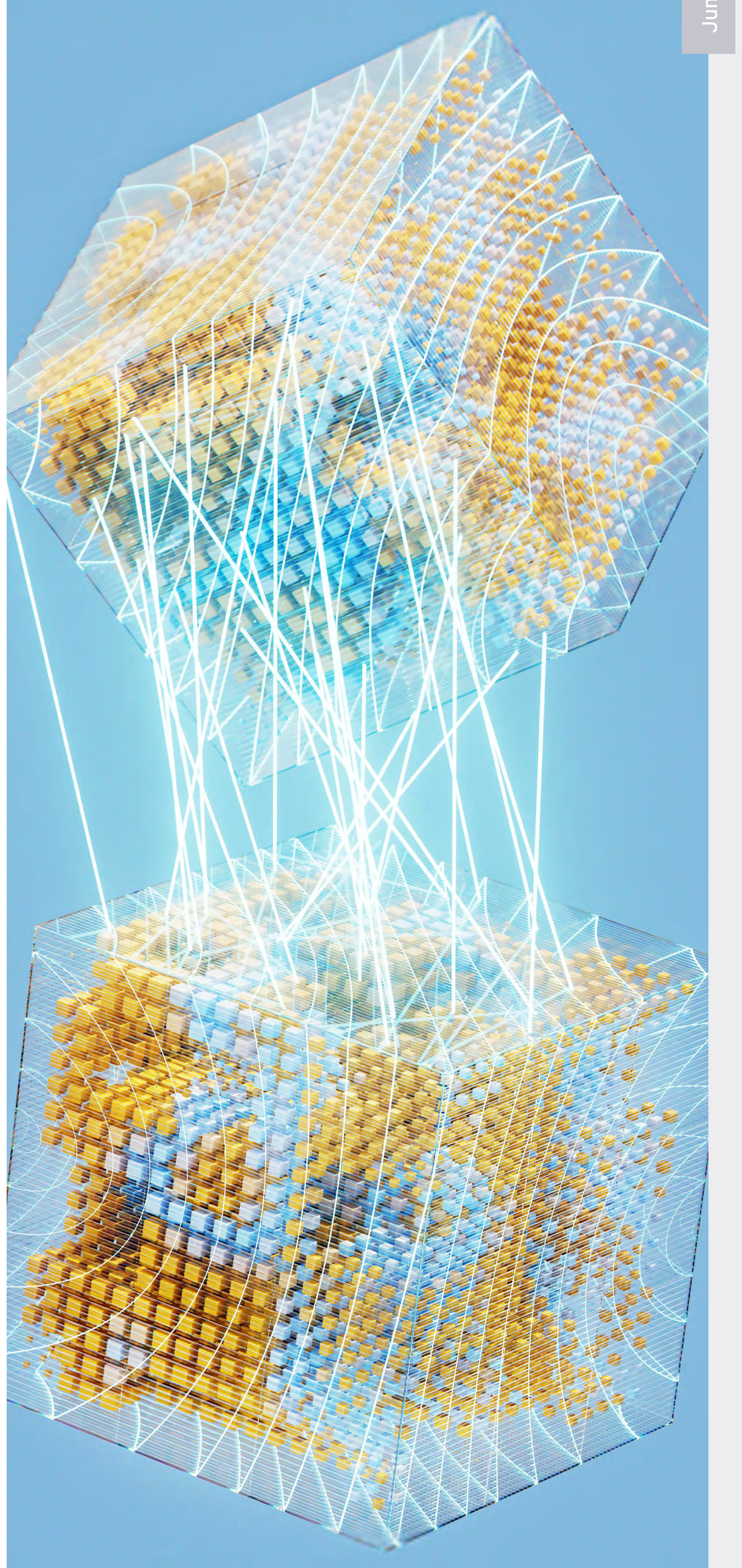

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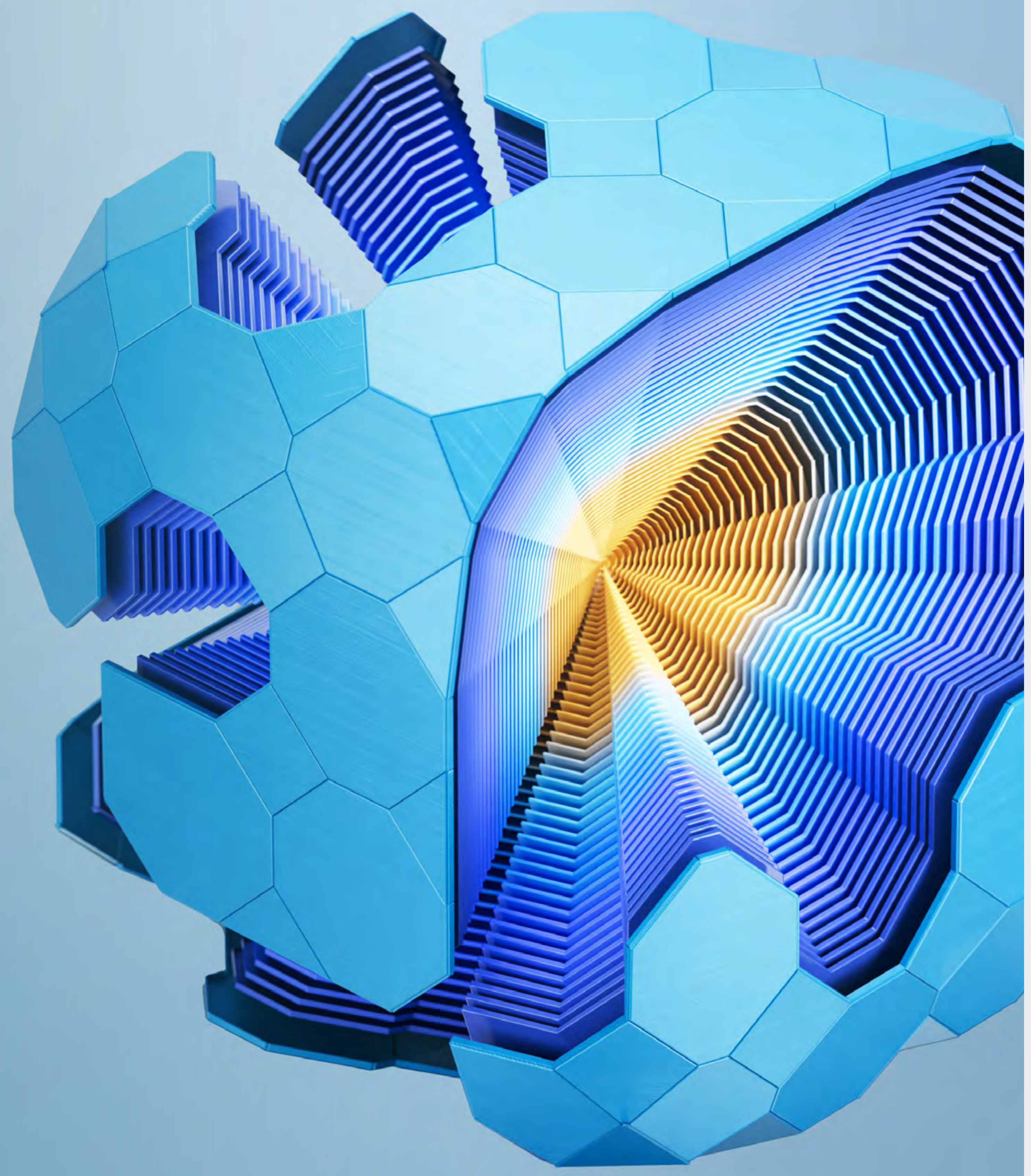

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