



BANCO DE PORTUGAL
EUROSISTEMA

Emerging Risks – a Central Bank view

Gabriel Andrade

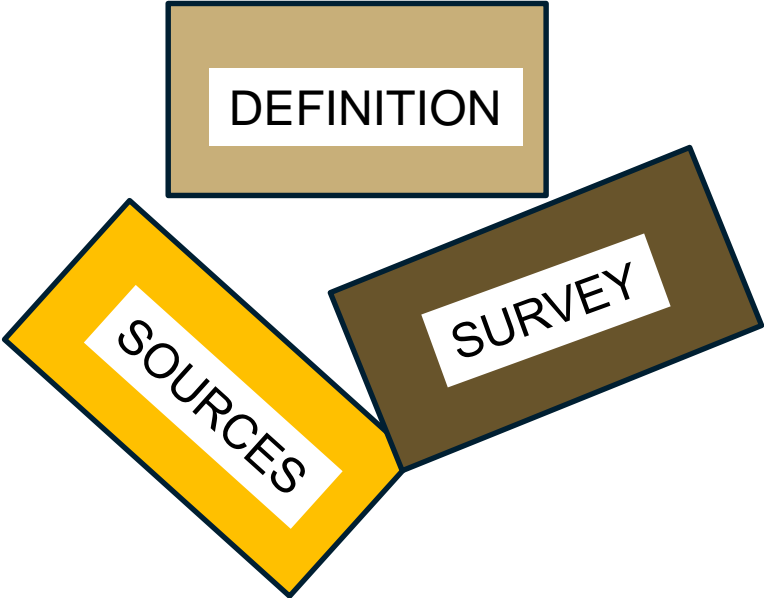
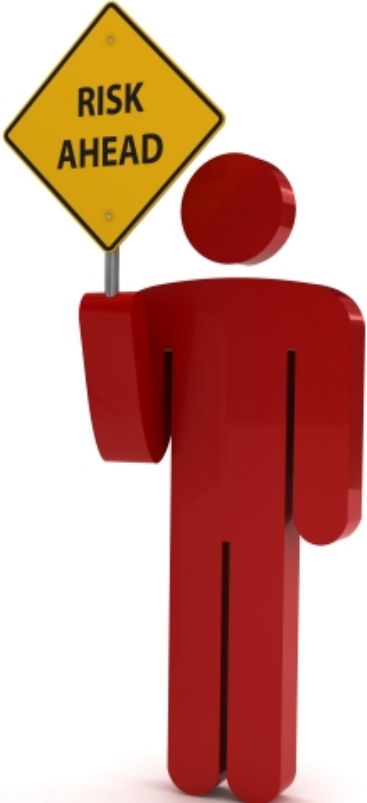
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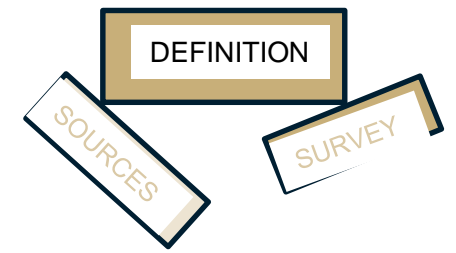
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Emerging Risks



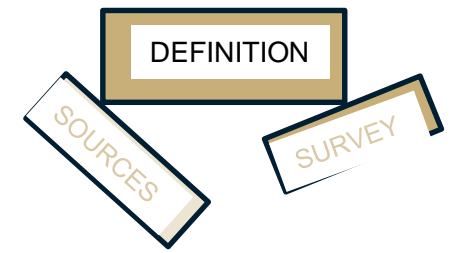


Emerging Risks = Uncertainty

'There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.'

Donald Rumsfeld

Predicting the future ?!



Expert Predictions about the Future

Willis Re MANAGING EXTREMES

"Stocks have reached what looks like a permanently high plateau."

Irving Fisher, economics professor at Yale University, 1929.

"I think there is a world market for maybe five computers."

Thomas Watson, chairman of IBM, 1943.

"We will bury you."

Nikita Krushchev, Soviet Premier, predicting Soviet communism will win over U.S. capitalism, 1958.

"It will be gone by June."

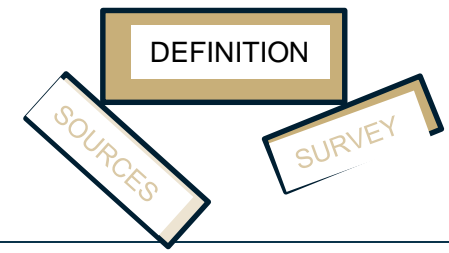
Variety, passing judgment on rock 'n roll in 1955.

"It will be years - not in my time - before a woman will become Prime Minister."

Margaret Thatcher, future Prime Minister, October 26th, 1969.

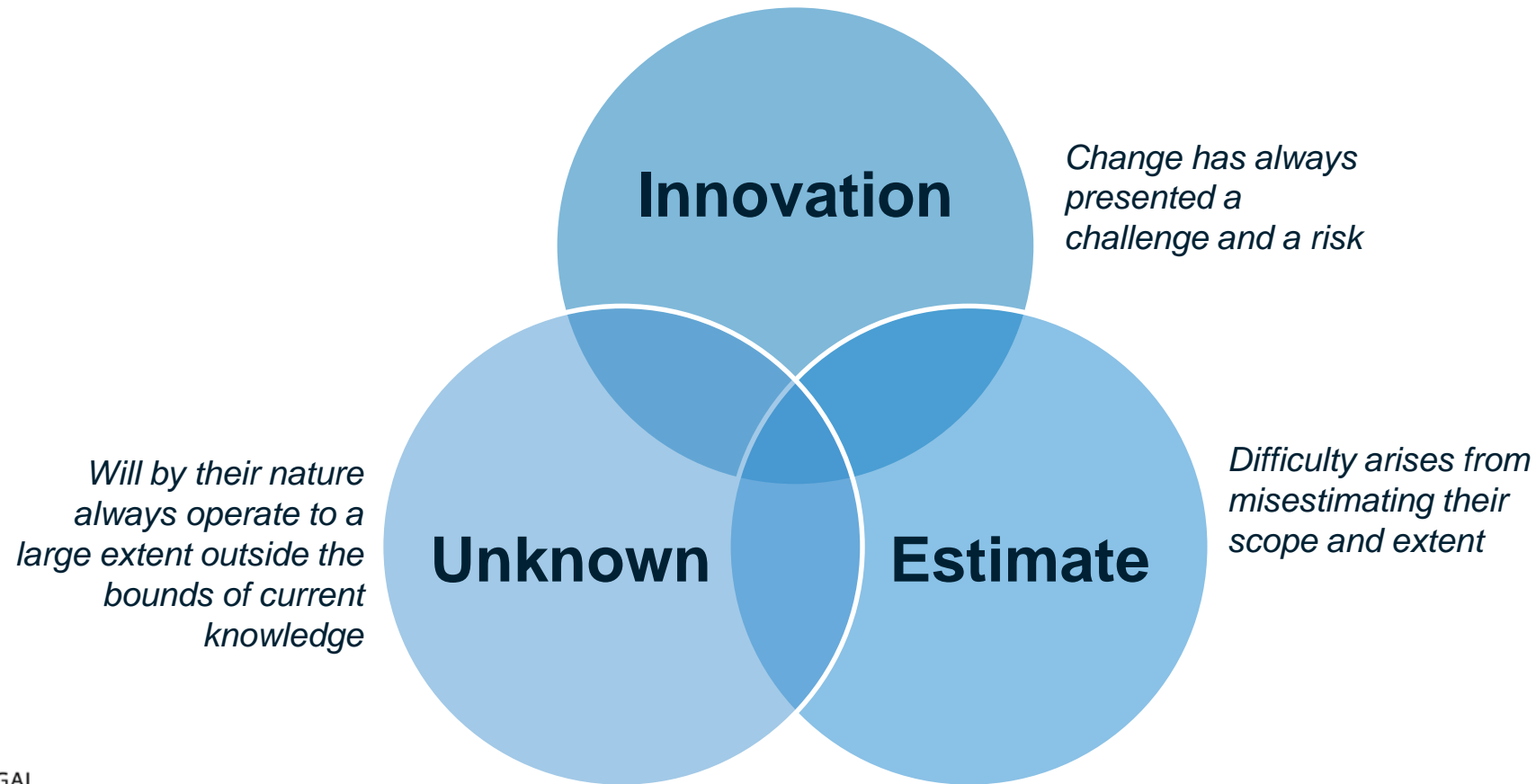
"Reagan doesn't have that presidential look."

United Artists Executive, rejecting Reagan as lead in 1964 film The Best Man.

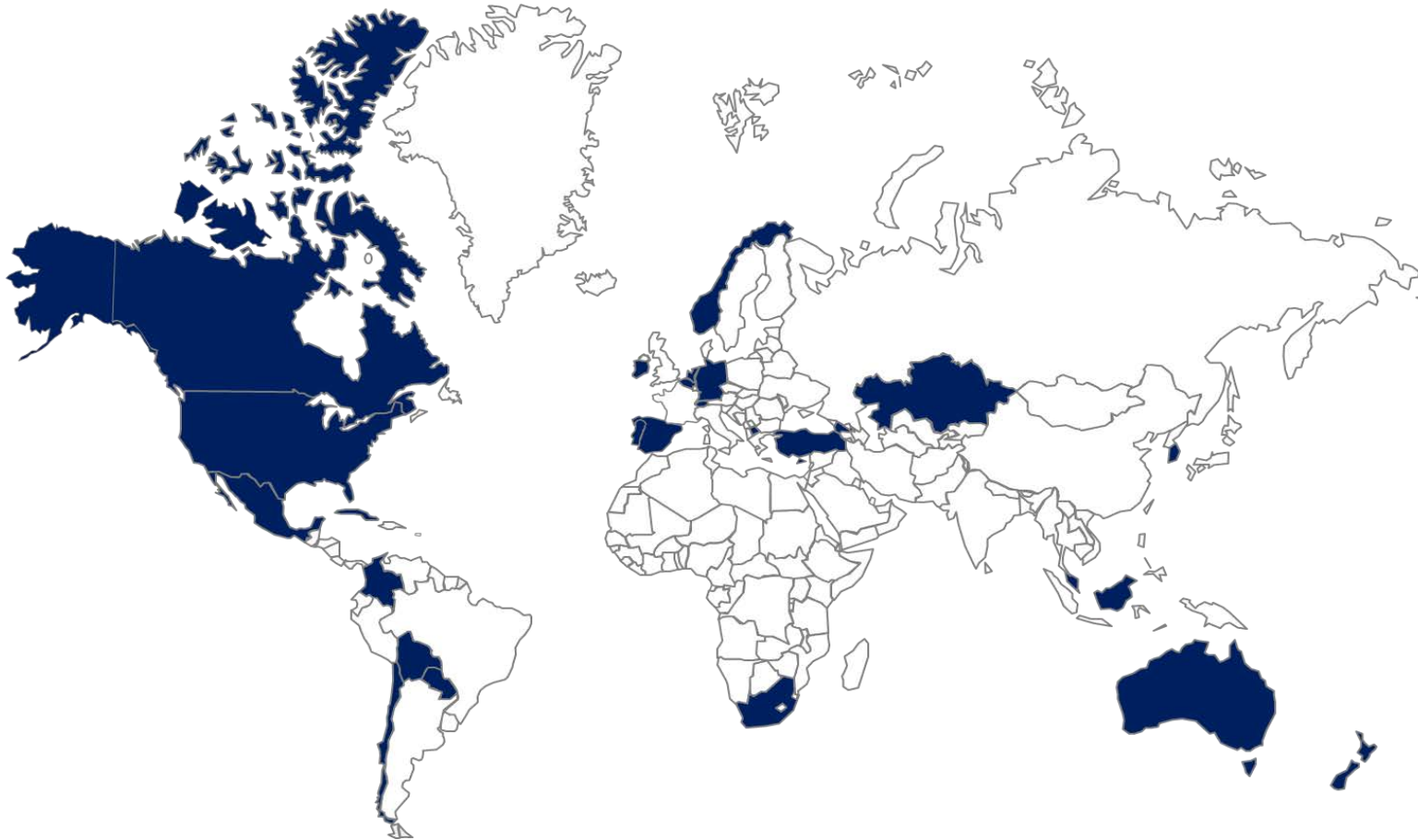


Definition

There is no regulatory definition for emerging risk and no common or best practice for defining and separating that risk category.

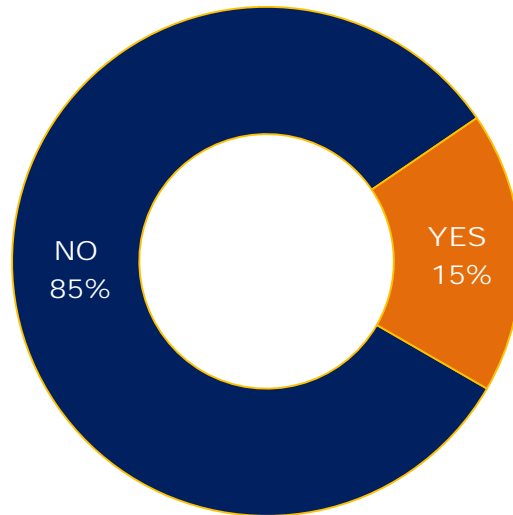


IORWG survey on Emerging Risks - 27 Central Banks



Do you have a definition of “emerging risks” in your CB ?

The vast majority of respondents do not have a formal definition of emerging risks



Some examples of definitions:

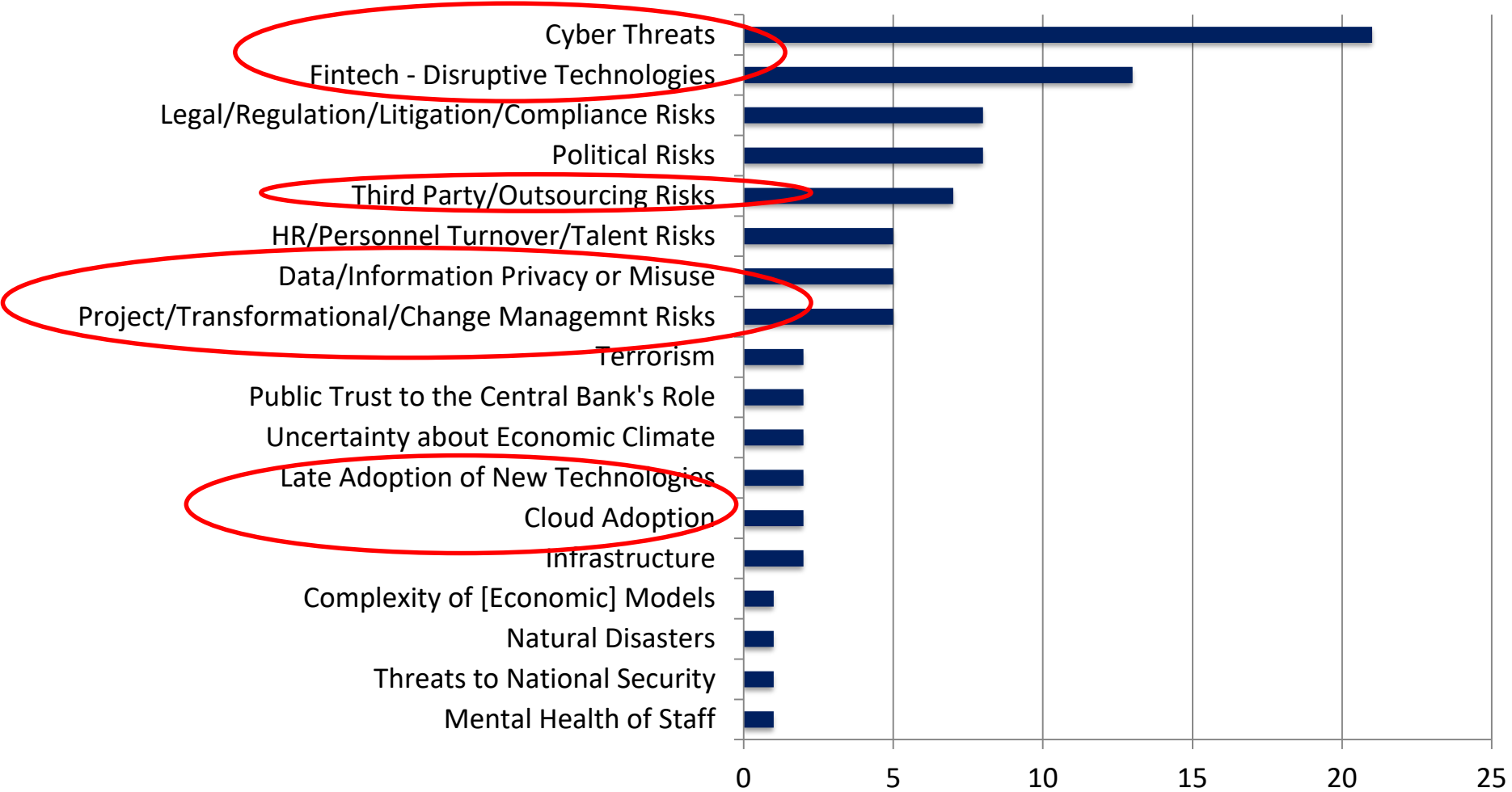
*“Emerging risks are events or issues that could have a **significant impact** on the Central Bank, country’s financial sector or economy over a one-year time horizon. They are **typically driven by external events/trends**, but they could also emanate from within the organisation”*

“Risks related to technologies that will fundamentally change the way we live, work and relate to each other”

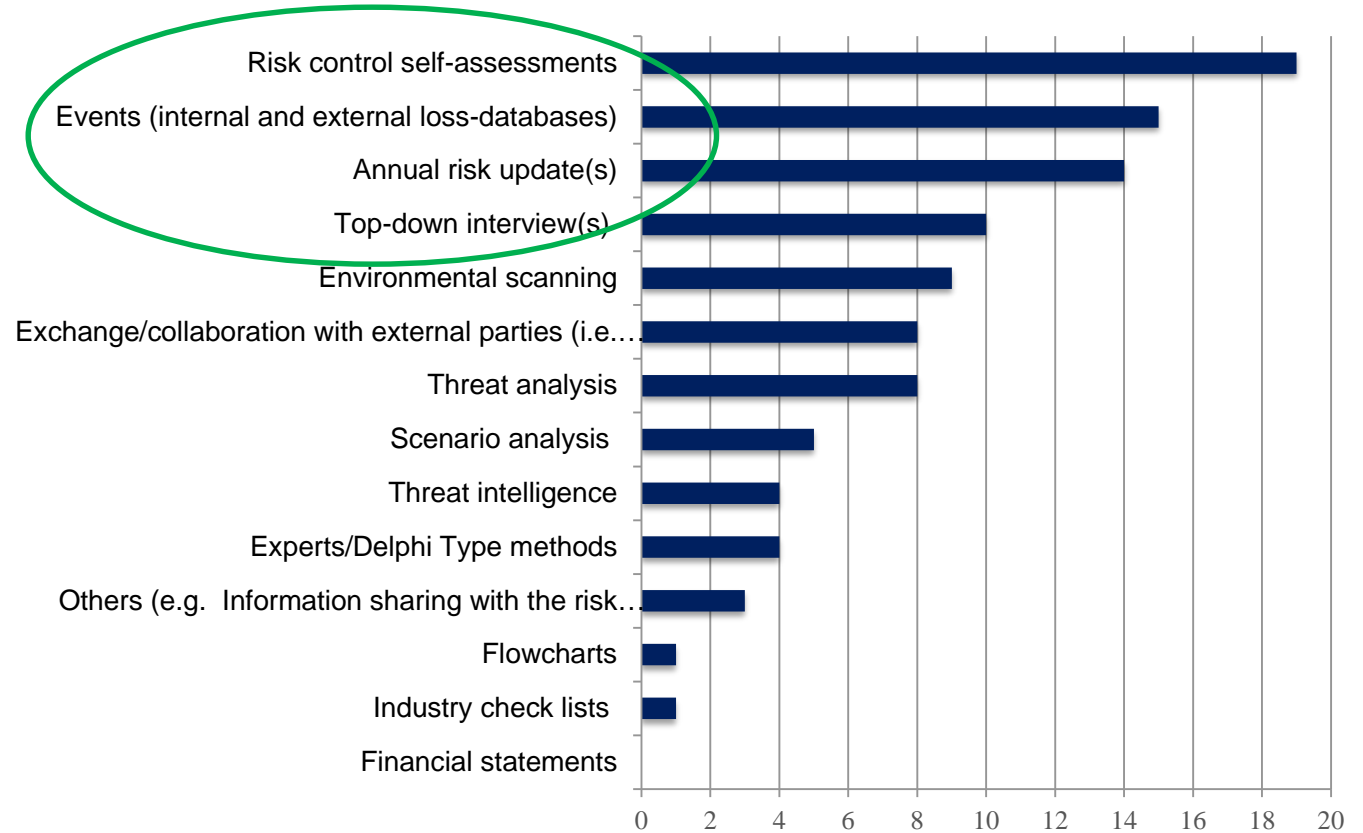
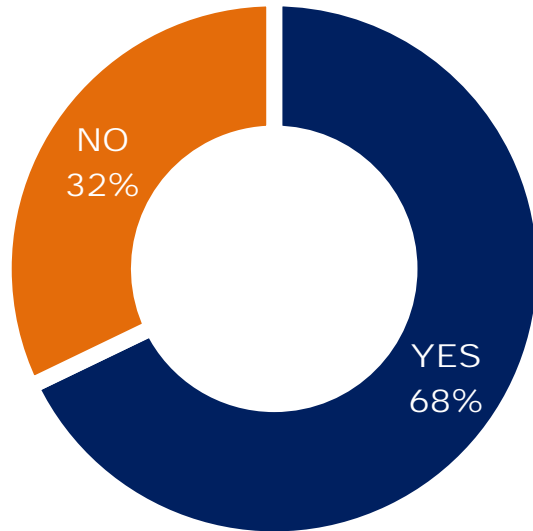
*“Emerging risk is one of the **undesirable or unplanned events** that negatively affected the implementation of the business process and led to: **material damage; stopping / interrupting activities; loss of reputation and (or) other negative consequences for our Central Bank**”*

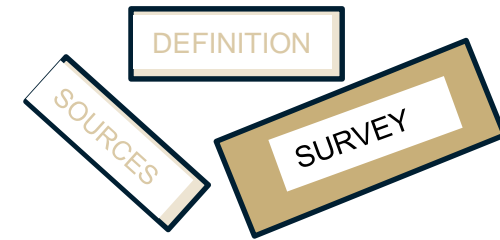


Emerging risks for your organisation:



Is your CB identifying emerging risks via a structured approach ? how?



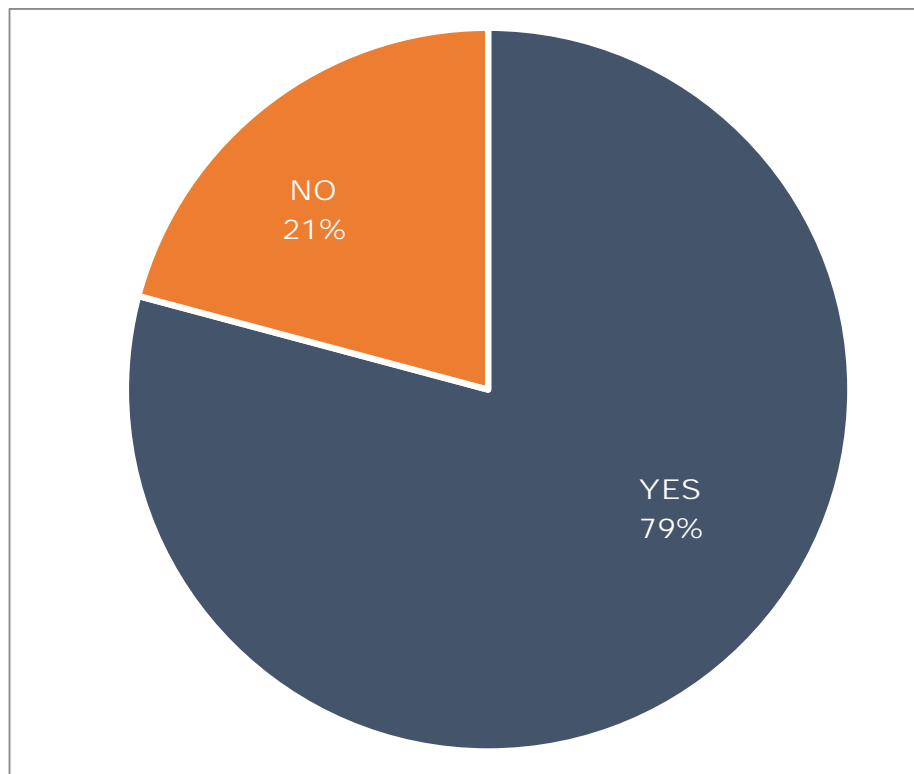


How are emerging risks monitored by your institution:

- **By the relevant business unit** (ex. cyber risks by cyber security and Fintech by supervision)
- **Working groups** related to specific emerging risks (trends: **cryptocurrencies and Fintech**)
- Aggregated in **reports**, prepared by **ORM unit**, on a **regular basis**. Results included as part of the **annual risk update / strategic planning** or provided to senior management.



Does the information on emerging risks feed into strategic planning /budget planning?



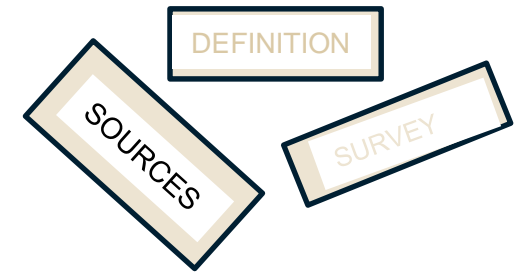
Yes for a large majority.

- 1) Allows better informed decision making;
- 2) Takes into account mitigation measures during the annual budgeting cycles.

Examples provided:

- Heads of Risk, CROs participating in the strategic planning process
- Strategic Risk Assessments provided to Strategic Planning Team
- Business units using information on risks to start new projects and request budget/funding

Suggested sources



- Quarterly Emerging Risks Report – CEB / Gartner
- Report on Emerging Risks and ERM - RIMS
- Center for Risk Studies - University of Cambridge
- Global Risks Report – World Economic Forum
- Emerging Risks 2017 – Willis Towers Watson
- Sonar Report – Swiss Re
- Guidance on cyber resilience for financial market infrastructures – CPMI / IOSCO (<https://www.bis.org/cpmi/publ/d146.htm>)

Challenges



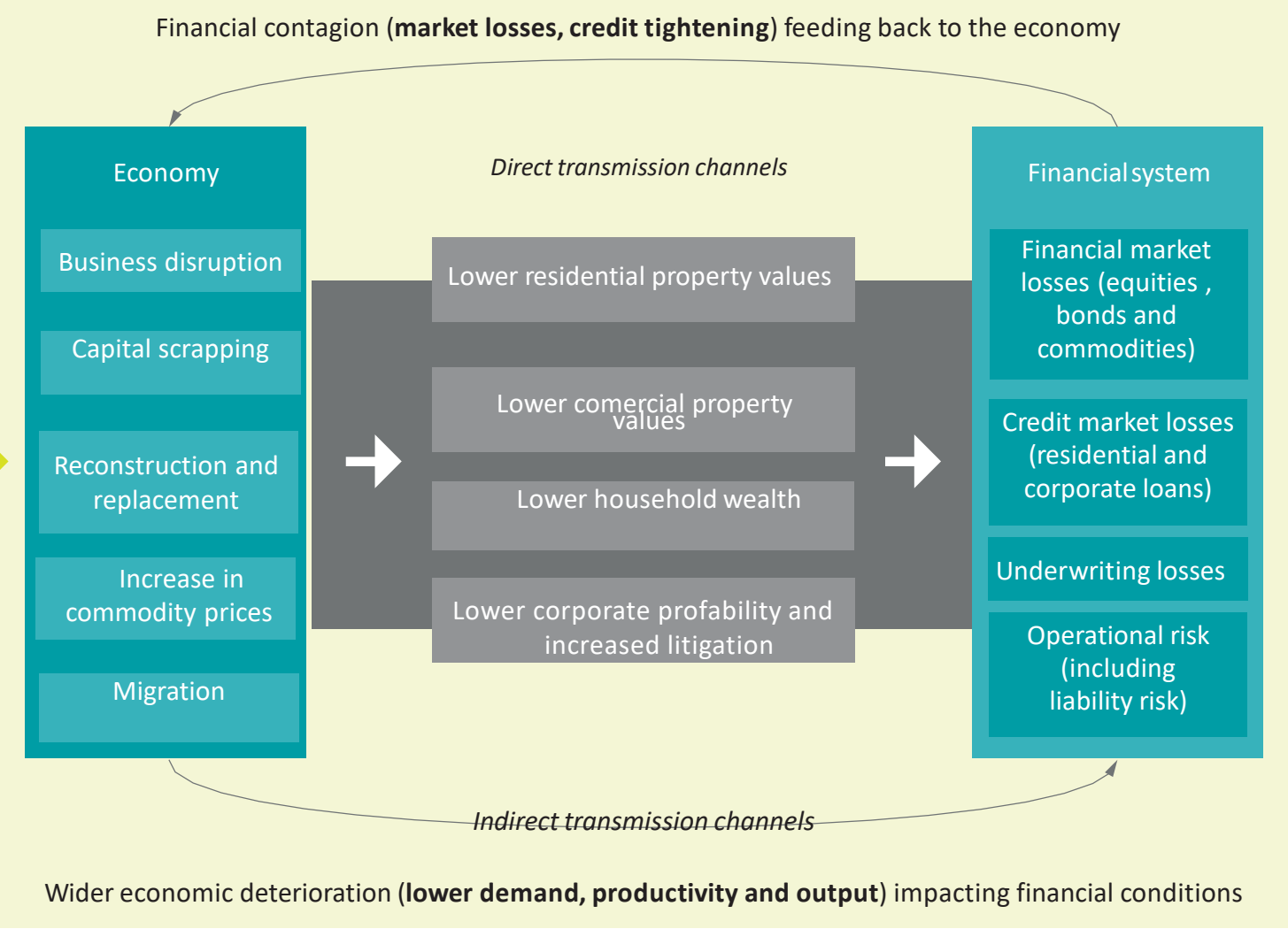
- **As long as there's no materialization, it's difficult to convince about the importance of a threat (and estimate impact or likelihood).**
- **A close relationship with the strategic planning office is very important.**
- **Resilience necessitates constant monitoring and innovation**
- **Creative responses and innovation, role of human factor and unpredictability highlight need to learn how to act in times of crisis rather than having a set of predefined rules/procedures.**



Figure 1 From physical risk to financial stability risks

A Non-innovation example!

Physical risk drivers
• Extreme weather events
• Gradual changes in climate



TRENDS PERCEPTION 2019

48 Central Banks / Monetary Authorities

Challenges for your ORM program last year?

- 1 Risk Culture
- 2 Incident management database
- 3 Cyber threats
- 4 ORM implementation or improvement
- 5 Resources constraints / Shortage of HR

Leading objective for the next years?

- 1 Risk Appetite / Risk Tolerance
- 2 Foster risk awareness
- 3 ORM IT solution
- 4 Risk as decision making support
- 5 KRI

