

2021  
&  
2030



# EXECUTIVE PERSPECTIVES ON TOP RISKS

## Pandemic-related policies and regulation, interest rate environment are top concerns in financial services industry

*The continuing global challenges and potential existential threat posed by the ongoing COVID-19 pandemic. Political divisiveness and polarization. Social and economic unrest. Gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. Rapid shift to virtual, remote work environments. Changes in the geopolitical landscape. Shifting customer preferences and demographics. Fragile supply chains. Wildfires and hurricanes. Volatile unemployment levels and record low interest rates. Escalating competition for specialized talent. Immigration challenges. Cyber breaches on a massive scale. Terrorism. Big data analytics. Future of work.*

These and a host of other notable risk drivers are all contributing to significant levels of uncertainties, making it extremely difficult to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. No one is immune to the significant levels of uncertainty, and C-suites and boards need to be vigilant in scanning the horizon for emerging issues. Because no one can possibly anticipate everything that lies in the future, organizations must focus on building trust-based, resilient cultures, led by authentic leaders, that can pivot at the speed of change

In this ninth annual [survey](#), Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2021 and, in a new dimension to this study, over the next 10 years, into 2030. Our respondent group, which includes 1,081 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:<sup>1</sup>

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy

---

<sup>1</sup> Each respondent was asked to rate 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

## Commentary – Financial Services Industry Group

For more than a decade dating back to the years following the global financial crisis, regulatory compliance concerns have topped the risk agenda of financial services companies. Over time, the industry began shifting its attention to the future, keeping pace with digital innovation and competing with “born digital” competitors, but the challenges of regulatory compliance remained the major concern. This was true in our 2020 Top Risks survey, when regulatory compliance concerns and the threat of digital disruption were once again revealed as the top two risks. In addition, the Financial Services industry last year also signaled growing apprehension about the softening global economy, citing concerns that economic conditions might restrict growth opportunities and that changing interest rates might have a significant effect on operations.

And then ... COVID-19 arrived and thoroughly upended financial institutions’ priorities, strategies, and how and where their employees work and serve their clients. Unsurprisingly, the effects of these dramatic changes dominate our Top Risks Survey results. In 2021, concerns about the economy and its impact on business have dislodged regulatory compliance concerns from its place at the top of the risk list, dropping it to the sixth place based on the aggregated global responses for the industry group. The two risks topping the list for financial services companies in 2021 are:

- **Pandemic-related policies and regulation impact business performance** – This is a new risk area that was added to the survey this year to recognize the environment in which we are living.
- **Current interest rate environment** – Interestingly, concern over this risk declined slightly from last year even as interest rates fell even further year over year. This likely reflects the expectation that ongoing extraordinarily high levels of fiscal stimulus across much of the world, coupled with increasing confidence that vaccine rollouts will enable an eventual economic recovery and surge, will finally create inflation pressure that will drive interest rates back to more normal (and for financial institutions, more profitable) levels.

Rounding out the 2021 top five risks for financial services are the adoption of digital technologies requiring new skills or significant efforts to upskill/reskill existing employees; economic conditions constraining growth opportunities; and privacy/identity management and information security.

The nexus between economic concerns and COVID-19 is apparent. While digital adoption is not new to the list, it, along with privacy/security risks, likely reflects the realities of COVID-19, which required financial organizations to pivot more quickly than planned to digital offerings requiring either limited or no face-to-face customer interaction. This raised new privacy/security concerns that were reinforced by frequent warnings and reported incidents of the cyber risks of remote operations.

Interestingly, although respondents’ views of the magnitude and severity of the risks their organizations face this year increased compared to last year, expectations that additional resources would be dedicated to risk identification and management declined. Concerns about the ability to coordinate risk activities across the three lines of defense declined as well. Coupled with declining scores on digital risks, this suggests that financial institutions expect to remain laser-focused on managing the impacts of COVID throughout 2021, and that pre-existing transformation and aligned assurance efforts that don’t directly benefit the COVID response may be deprioritized this year.

## **Economic Concerns Reflect a Current and Future View**

Since COVID-19 spread worldwide in Q1 2020, we've viewed the ultimate economic impact on financial institutions as being dependent on the duration and extent of government support for the economy on the one hand, versus the timeline and effectiveness of public health measures to bring the virus under control and allow economies to reopen on the other. Thus far across most of the world, ongoing government support has been sufficient to limit credit losses to a fraction of what many had anticipated as of Q2 2020, and many institutions have started to release loan loss reserves taken at that point. For most of the world, we expect this tenuous balance to hold and for COVID-19 ultimately to go down in the history books as a public health and economic disaster (particularly for lower income households and small businesses), but not one that spreads into a broader financial crisis.

In the United States, 2021 began both with the inauguration of a Democratic presidential administration and the Democrats now controlling both the House and the Senate. As a result, the likelihood increases that, if additional relief is needed to offset what has so far been a slower than expected vaccine rollout, it will be easier and faster to get bills to the floor for vote or to take advantage of the budget reconciliation process than what we observed in the second half of 2020.

After the immediate challenges posed by COVID-19 subside, the Financial Services industry faces a number of other economic risks. These include an uneven recovery likely to unfold as the economy moves into the "next normal" state, and the geographic and sector exposures that some institutions will face as a result. For example, how long will it take for the commercial office real estate market to recover, and will it ever fully recover to pre-COVID levels? Similar questions exist for industries dependent on business and international travel. Also, will the trend of migration out of larger cities and high-tax states continue if employees are no longer tethered to where their headquarters are based, and what does that mean for institutions that have credit or asset exposure in those "move from" markets? Finally, there is sure to be disruption in capital markets as all of the various government monetary and fiscal programs that took us through COVID are unwound – 2013's Federal Reserve "taper tantrum" may look tame by comparison – and many organizations likely will face higher corporate tax expenses as the bills for all of that deficit spending come due.

## **COVID-19 Advances the Digital Agenda**

Concerns about the pace of digital transformation efforts and the threat of digital disruption remain high among our respondents, but scores related to this attribute declined slightly year over year. We view this as a temporary pivot to address the urgent pressures posed by COVID-19 and believe the aftereffects of the pandemic will accelerate, rather than diminish, digital transformation efforts.

In a matter of days or weeks, business functions in which it once would have been unthinkable to operate remotely, such as trading desks, were doing so – and on the whole, made this transition effectively. This necessitated rapid rollout of technology solutions for both the delivery of these services as well as for the necessary risk and compliance oversight controls related to them. For many institutions, these efforts were eased significantly by recent investments in legacy modernization, consolidation of previously disparate platform systems, and transitions to cloud computing environments, helping to validate the business case behind these massive projects.

At the same time, one of the most significant resiliency surprises and failures observed during COVID-19 was the inability of many lower cost business process outsourcing firms to transition to remote environments as effectively as the clients they serviced. This led to urgent “reshoring” efforts as those institutions had to take back those functions during the peak of the spring COVID wave. We think this will lead to a reckoning as firms conduct their COVID after-action reviews. The delivery model for services once viewed as commodities and outsourced to the lowest cost bidder will be revisited. Many organizations have found they are able to continue to perform these functions more effectively and with a higher level of confidence from a business continuity perspective than prior outsourcing efforts offered. For services that will remain outsourced, resiliency will be a more significant buying criterion than before the crisis, and firms will likely be willing to pay more for quality and redundancy.

As a result, we expect to see an increasing movement to “high/low” strategies for many operations and functions, where additional investments in process automation and AI allow truly routine, lower value servicing tasks to be performed at very low or marginal cost. For example, consider things like next-generation chatbots that can answer an ever-widening range of common client inquiries, or automated decisioning logic that can proactively grant isolated and low dollar fee waiver requests without having to involve an agent. This will free up funding for more critical activities that directly impact client satisfaction or key risks to be performed by dedicated and more highly trained and compensated FTEs, many of them located onshore in the same markets as the clients they support.

### **Regulatory Risk Likely to Resurface as a Key Risk**

The perception that regulatory risk is not as high a concern as in the past may be short-lived and, to some extent, stems from the understandably overwhelming effect of COVID-19 as well as the timing of the survey (conducted from November 11 through December 18, 2020). Since the survey closed:

- The U.S. inaugurated a new president and learned that both houses of Congress would be controlled by Democrats.
- Following extensive negotiations, the UK and European Union finally agreed to a Brexit deal that came into effect on December 31, 2020.

In the U.S., the new administration and Democrat-controlled Congress portend a more challenging environment for the Financial Services industry, likely driven less by new laws and regulations than by the appointment of new leaders of industry regulatory agencies who are likely to be more enforcement minded. Congressional leaders have already made it clear that financial services companies can expect to participate in more hearings and congressional inquiries.

Even before the new Congress was in place, the prior Congress, in late December 2020, passed the most comprehensive anti-money laundering legislation, the AML Act of 2020, since the USA PATRIOT Act, which was enacted in 2001. Rulemaking for the new law will begin in 2021.

In the UK and Europe, now that Brexit is a reality, regulatory requirements and expectations will need to be revamped and reconciled.

Notwithstanding in-jurisdiction regulatory concerns, changes in regulation and supervision of financial institutions in the U.S. and the UK generally have far-reaching consequences given the significance of New York and London to the global financial services community.

## Looking Ahead to 2030

For the first time in conducting annual risk surveys, we asked this year's respondents for their views on the top risks that they expect to emerge over the next decade. The top five future risks identified by Financial Services industry board members and executives are shown in the chart on page 8. Following are our thoughts on these topics, along with several additional key insights we think industry stakeholders will need to address:

- Technology maturity and the ability to innovate quickly and effectively will be recognized as the most significant competitive advantage financial institutions can gain. Data is at the heart of these efforts and will increasingly be viewed as a priceless asset in a number of ways. Established providers will seek both to maximize the value of their vast historical data sets and protect them from upstart competitors in order to prevent disintermediation and loss of their clients. Of course, they must make sure they do so in a way that complies with what likely will be a rapidly evolving privacy compliance environment, which respondents also identified as a top emerging risk. Investments in data architecture, quality and accessibility will continue to accelerate and take an increasing share of firms' budgets, especially as ever more disruptive but exclusive enabling technologies like quantum computing come online. This will lead to difficult strategic choices between building the scale to be able to afford proprietary solutions in these areas – we expect M&A consolidation to accelerate significantly in the years ahead – and forging uneasy partnerships with the big tech firms that financial institutions will increasingly view as both indispensable and their most ominous future competitors.
- The fintech market will consolidate and the winners that emerge will be poised to take significant share from legacy providers. Jamie Dimon perhaps put it most directly on a recent analyst call, saying “Absolutely, we should be scared s---less about the threats posed from fintech competitors.”<sup>2</sup> All of the ingredients are coming together for this threat to materialize. Regulatory authorities worldwide are maturing their strategies for offering expanded licenses or charters to fintech organizations. Public pressure to address income inequality and reduce the population of unbanked consumers is growing, and fintechs have a compelling story to tell in terms of their ability to reach this segment with their use of alternative data sources for evaluating creditworthiness and otherwise assessing eligibility. Large technology firms have gotten significantly more exposure to the Financial Services industry and a better understanding of regulatory requirements and expectations over the past several years due to their offering of services like cloud infrastructure and are, therefore, closer to being able to build directly competitive platforms should they choose to do so.
- One of the most significant and direct impacts that may result from fintech competition is that the industry will face a growing trend of historically profitable products being priced down to zero. A worst-case scenario for established financial institutions would resemble the impact that Amazon has had on bookselling and retail businesses, or how Netflix and other streaming services have changed traditional movie and TV production business models. This is already occurring in key consumer segments such as fee-free retail deposit accounts (Revolut in Europe is a good example), commission-free brokerage trading (driven by Robinhood as a key first mover, but now adopted by many competitors) and low/no-cost peer-to-peer funds transfers (PayPal/Venmo as a disrupter, followed by competitive bank-supported platforms such as Zelle). Mass market asset management is another segment that could see expense ratios shrink dramatically. Although obviously not a “price down to zero” candidate, residential real estate lending is another category that could see significant pricing pressure at least as it relates to origination fees.

---

<sup>2</sup> [www.cnbc.com/2021/01/15/jamie-dimon-says-jpmorgan-chase-should-absolutely-be-scared-s-less-about-fintech-threat.html](https://www.cnbc.com/2021/01/15/jamie-dimon-says-jpmorgan-chase-should-absolutely-be-scared-s-less-about-fintech-threat.html).

Existing financial services providers will not take this threat lying down. There is a strong sense of urgency and increasing investments in and cultural support for innovation efforts to remain relevant. However, for established firms this is not as simple as merely addressing the need to modernize legacy technology and compete for talent in order to keep pace. They must also consider the threat posed if capital markets prove willing to fund the competition based on metrics that would apply to technology companies by prioritizing market share and top line growth at all costs while still expecting legacy financial institutions to produce at historical earnings per share levels. Advocating for structural changes to reduce regulatory arbitrage and monitoring anti-trust efforts against big tech firms will be part of the playbook in this area.

- Finally, the significance of ESG expectations on financial institutions will continue to grow. This will manifest in a number of ways, including the likely issuance of more specific requirements to analyze and disclose the climate impacts of lending and investing activities. Income inequality, as mentioned above, will become a more pressing area of focus across the globe. We'll see tactical impacts in this area, such as more scrutiny on the ratio of executive to average employee pay, but also much more substantively with increased government incentives and/or threats of regulatory sanctions designed to expand access to financial services to economically disadvantaged populations. Finally, ESG considerations will significantly impact the intersection of corporate strategy, cultural values, and how financial institutions attract and retain talent. In the U.S., for example, the banking industry has been whipsawed between Obama-era practices that discouraged serving certain politically disfavored industries,<sup>3</sup> to Trump-era guidance that sought to explicitly prohibit banks from blacklisting industries, to the likelihood that the Biden administration will unwind the recent Trump guidance. Even in the absence of specific legislative requirements or regulatory pressure, financial institutions will need to address increasingly vocal public pressure, as well as pressure from their employees and other business partners, to take a stand on their dealings with industries such as fossil fuels and firearms manufacturers. Getting to the right answer or balance will undoubtedly require more leadership time and attention to address effectively no matter what.

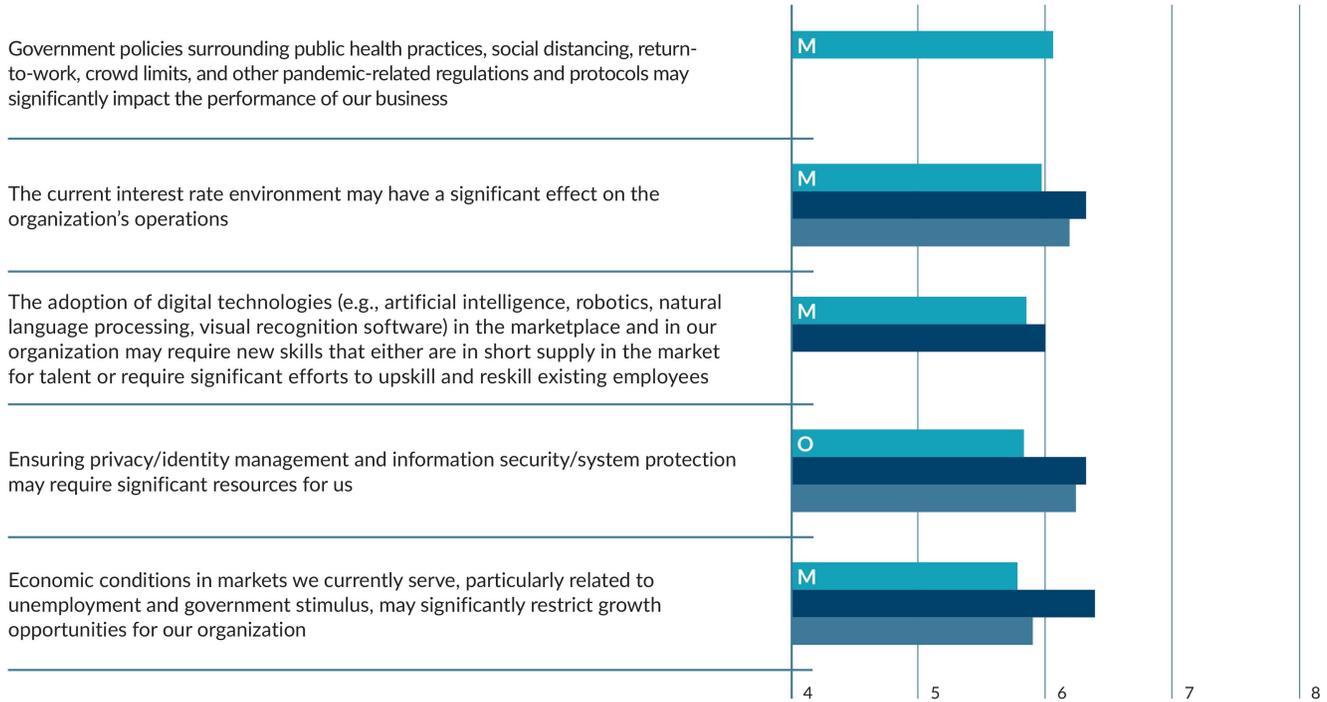
---

The significance of ESG expectations on financial institutions will continue to grow. This will manifest in a number of ways, including the likely issuance of more specific requirements to analyze and disclose the climate impacts of lending and investing activities.

---

<sup>3</sup> [www.americanbanker.com/opinion/beware-the-tidy-narrative-about-operation-choke-point](http://www.americanbanker.com/opinion/beware-the-tidy-narrative-about-operation-choke-point).

• • • Financial Services – 2021



**Legend**

M Macroeconomic Risk Issue    
 S Strategic Risk Issue    
 O Operational Risk Issue    
 ■ 2021    
 ■ 2020    
 ■ 2019

*“Unsurprisingly, our 2021 survey of financial services executives saw a dramatic shift away from prior areas of focus in order to manage the risks that COVID-19 poses to their organizations. However, we believe that work done to respond to the pandemic has laid the foundation eventually to accelerate – not delay – previous trends in digital modernization and building future-ready workforces.”*

**Michael Brauneis, Managing Director, Americas Financial Services Industry Leader, Protiviti**

• • • Financial Services – 2030

The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in our organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees

M

Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered

S

Rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyper-scalable platforms, increasing bandwidth, faster data transmission) and/or other market forces may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model

S

Ensuring privacy/identity management and information security/system protection may require significant resources for us

O

Our existing operations, legacy IT infrastructure, lack of digital IQ in the workforce and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are "born digital" with a hyper-scalable business model and low cost base for their operations, or established competitors with superior operations

O

4 5 6 7 8

Legend

M Macroeconomic Risk Issue    S Strategic Risk Issue    O Operational Risk Issue    ■ 2030

*“With the Asia-Pacific region the first to experience the full impact of COVID-19, the way Asia-Pacific financial institutions reacted to the unprecedented challenges and adapted their operations provided a first glimpse of how the global financial services industry would ultimately respond. The Top Risks Survey results for 2021 from Asia-Pacific signal that recovering from COVID-19 will be a complex undertaking with lingering effects that may have inalterably changed strategic priorities and business models.”*

**Carol Beaumier, Senior Managing Director, Asia-Pacific Financial Services Industry Leader, Protiviti**

## Contacts

### **Michael Brauneis**

Managing Director

North American Leader, Financial Services Industry

+1.312.476.6327

[michael.brauneis@protiviti.com](mailto:michael.brauneis@protiviti.com)

### **Carol Beaumier**

Senior Managing Director

Asia-Pacific Leader, Financial Services Industry

+1.212.603.8337

[carol.beaumier@protiviti.com](mailto:carol.beaumier@protiviti.com)

---

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the 2020 *Fortune* 100 Best Companies to Work For® list, Protiviti has served more than 60 percent of *Fortune* 1000 and 35 percent of *Fortune* Global 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.