

# EXECUTIVE PERSPECTIVES ON TOP RISKS

2024 & 2034



## The economy, cyber and third parties among issues portending riskier times in financial services

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The combined analysis of risk insights from global executives for both 2024 and a decade out reveals several interrelated challenges that may result in significant events with the potential to test an organization's business agility and resilience.

Changes in the profile of top risks from the prior year disclose a number of shifting conditions that may disrupt markets, including events triggered by intensifying geopolitical conditions. Many of those events are expected to have long-lasting impacts on business models and the competitive balance in a nuanced global marketplace. Board members and C-suite leaders who recognize these shifting realities and address them through robust, enterprisewide risk analyses that are aligned with business strategy possess a differentiating skill that positions their organization's readiness and ability to adjust and pivot in the face of inevitable disruptive change as well as or better than their competitors.

In this 12th annual survey, Protiviti and NC State University's ERM Initiative report on the top risks currently on the minds of board members and executives worldwide. The results of this global survey reflect their views on the extent to which a broad collection of risks is likely to affect their organizations over the next year – 2024 – and a decade later – 2034. Our respondent group, which includes 1,143 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 rated 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

Protiviti and NC State University's ERM Initiative have been conducting our Top Risks Survey for the past 12 years. This journey began just as financial markets around the world were starting their long, slow recovery from the global financial crisis, and has since covered the worst global pandemic in 100 years as well as near record-low interest rates followed shortly by the fastest rate hiking cycle in history.

In this context, getting the first look at each year's survey results and comparing them to the prior year's is always interesting — but the most compelling years to analyze are those in which the market breaks from recent trends and gives us some new risks to talk about. It's safe to say that 2024 is one of those years.

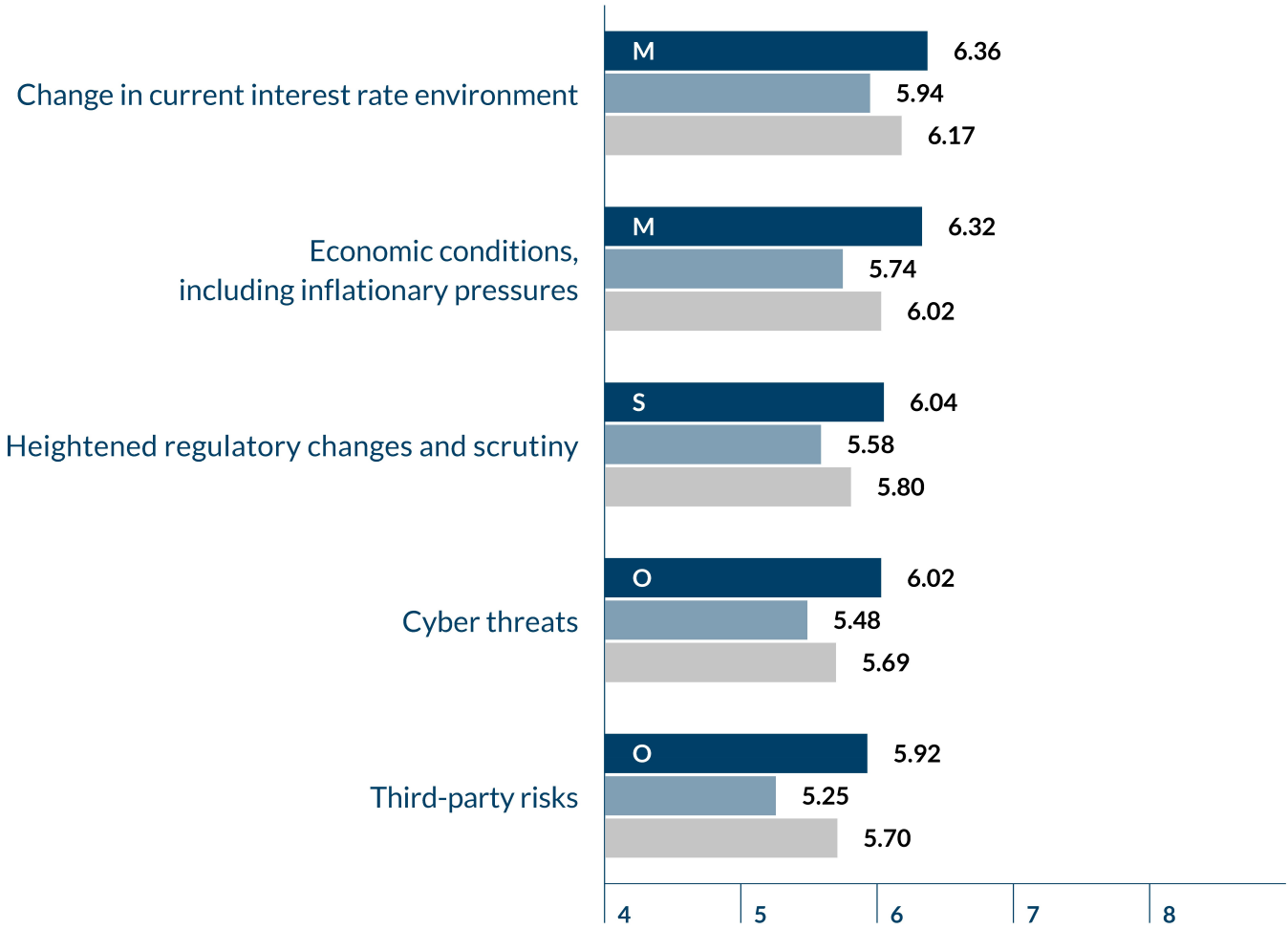
## Our observations

**Executives have arrived at a pessimistic consensus.** Our 2023 survey results reflected a deep sense of uncertainty and ambiguity, with many executives concerned that a recession was imminent even as they struggled to attract and retain staff in a red-hot job market. We commented in our 2023 report that we were surprised that the risk tied to economic conditions and inflation dropped from second place in 2022 to third in 2023, as we saw financial markets facing increasing headwinds. Fast-forwarding to the results for 2024, the liquidity crisis and resulting bank failures in early 2023, a tougher regulatory environment and push to raise capital, higher funding costs, and expectations of having to manage the business in a “higher for longer” interest rate environment have collectively convinced financial services leaders that the industry is indeed in a tougher economic cycle. Interestingly though, concerns about access to capital and liquidity only ranked 16th on the list of top risks, up slightly from 20th place last year. This suggests our respondents are more concerned about the impact that current market conditions are having on their profitability and growth prospects than as a threat to their survival.

**Partially as a result, the war for talent is abating.** In last year's survey summary, we predicted that concerns about talent would diminish by the time of our 2024 survey and that turned out to be an accurate forecast. Considering the economic challenges above, financial institutions have cut spending significantly and many have put hiring freezes in place. While there is still significant competition for talent in pockets — notably in data, AI/machine learning, and regulatory compliance — overall, attrition rates in the United States have come down significantly. Per data from the Bureau of Labor Statistics, voluntary attrition rates in financial services declined by 13% between October 2022 and October 2023. As a result, concerns about attracting and retaining talent saw a big drop in this year's survey results, from second to sixth place.

**In general, financial services leaders feel we are in a riskier time.** In addition to the risk ranking order, it's also instructive to look at the average scores assigned to the top risks and how those have changed year over year. We look at this as our survey's version of a VIX score or “fear gauge.” In 2023, the top risk (change in interest rate environment) received an average 5.94 score on our 10-point scale. In 2024, interest rates remained the top risk but the score for that factor increased to 6.36. The average score of the top five risks as a group in 2024 rose to 6.13 from 5.76 in 2023. Maybe most notably, the top four risks in 2024 all earned a higher score than the top risk in 2023 did. In other words, although several of the top concerns from last year remain near the top of the list this year, the level of concern has gone up across the board.

# Financial Services – 2024



M Macroeconomic Risk Issue   
 S Strategic Risk Issue   
 O Operational Risk Issue   
 ■ 2024    ■ 2023    ■ 2022

**Unsurprisingly, cyber risks took a big jump — and are likely to grow further.** Last year, we were surprised that cyber threats only ranked as the 11th highest risk, particularly as this was the top risk for 2022. For 2024, this trend has reversed and cyber risk has moved back into the top five. Notably, our 2024 results were collected before the high profile ICBC ransomware incident occurred in November, which is causing financial institutions around the world to reevaluate both their own cyber risk management controls as well as how they would address threats that impact their critical counterparties. As a result, we wouldn't be surprised to see this risk move even higher on the list for 2025.

**An increasingly complex third-party risk landscape drove that item up the list.** Third-party risk took the largest leap of all items on our list in 2024, rising 11 spots to fifth. We believe there are multiple factors behind this, including:

- Growing concerns about counterparty credit risk and financial stability driven by the economic conditions described above;
- An ever-larger list of security breaches caused by third-party vendors and/or technology platforms they provide;
- Growing reliance on cloud and software-as-a-service providers across the financial services industry; and
- Increasing regulatory scrutiny related to third-party partnerships, particularly at the intersection of banking and fintech where banking regulators have criticized insured depository institutions serving as a conduit for less regulated fintechs without appropriate review and oversight of their activities by the bank.

**While concerns about the economy and the regulatory response dominate the top of the list, technological innovation and related infrastructure needs follow closely behind.** “Existing operations and legacy IT infrastructure unable to meet performance expectations as well as ‘born digital’ competitors,” “adoption of digital technologies requiring new skills in short supply,” and “inability to utilize rigorous data analytics to achieve market intelligence and increase productivity and efficiency” all appear among the top 10 risks for the third year in a row. This presents a critical strategic challenge as financial institutions attempt to cut expenses aggressively even as the cost of technology modernization efforts continues to rise — and executives recognize that the only thing worse than incurring these costs is not making the investment and falling further behind more innovative competitors. This dynamic will put significant pressure to cut costs even further in other areas as technology consumes an ever-greater share of operating expenses in the financial services industry.

## Looking ahead to 2034

For the past few annual surveys, we’ve also asked respondents about the top risks they expect to face 10 years in the future. For our respondents, the 2034 view generally mirrors the decade-out results we received last year, with a few exceptions that seem to be colored by a focus on 2024’s top risks.

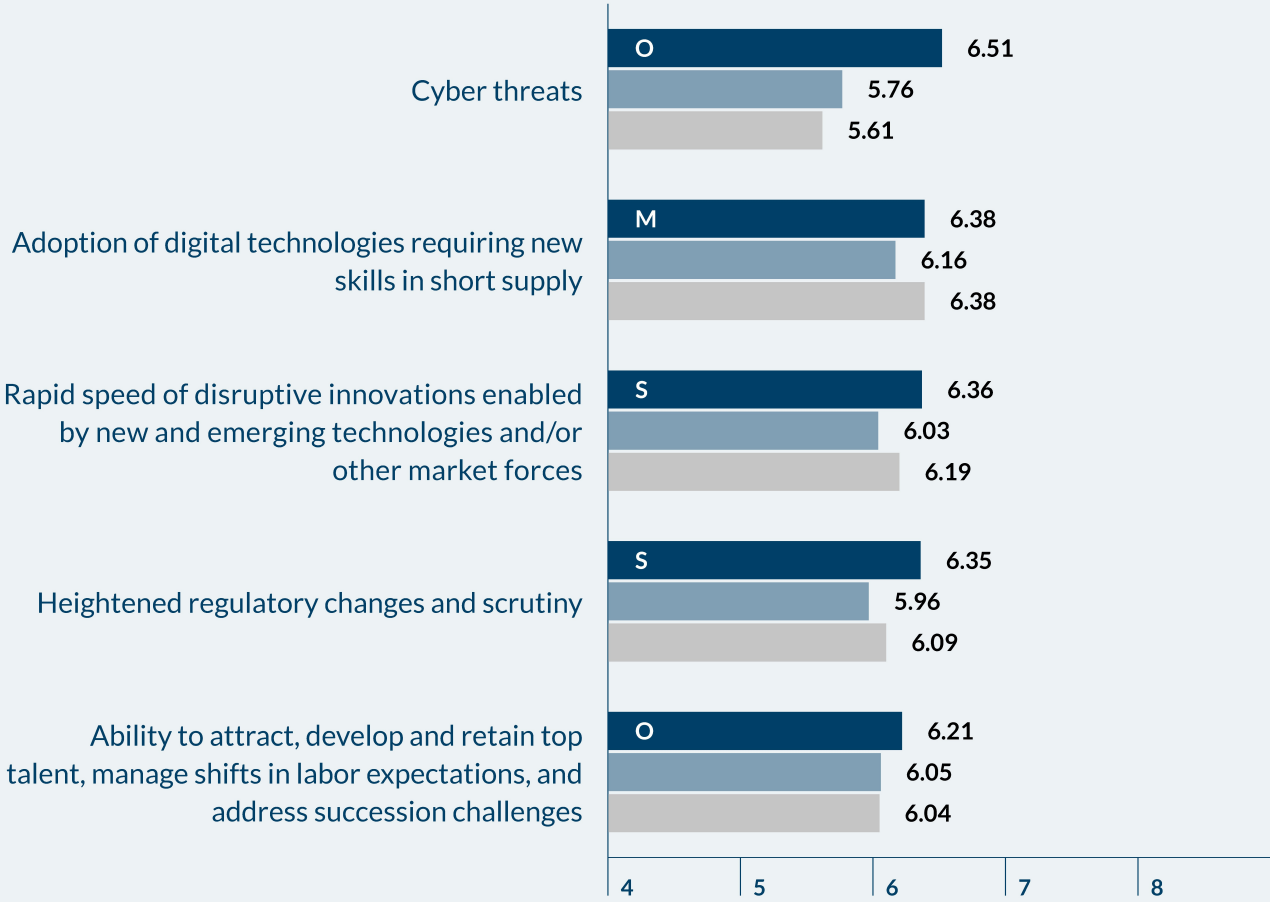
Consistent with our prior year results, concerns about keeping up with the threat of digital disruption continue to dominate the longer-term view. Cyber threats jumped and worries about attracting talent dipped a bit, which is consistent with the trend described above regarding 2023 vs. 2024 results.

Other noteworthy results in the 2034 review:

- Regulatory scrutiny remains high on the list both in the current and 10 years’ out view, and this has been the case for as long as we have conducted this survey. This is interesting given the exciting innovations coming online for compliance functions, particularly involving data analytics and generative AI. We think these will become truly groundbreaking advancements that will finally allow financial institutions to get ahead of regulatory expectations in key areas like financial crimes while bending the cost curve down over time. Is the market more pessimistic than we are about the opportunities that exist in this area, or does it simply believe that lawmakers and regulatory agencies will continue to move the bar just out of reach?
- “Change in current interest rate environment” jumped from 14th on last year’s 10-year outlook list to seventh in 2034. Is this just recency bias given the impact the rate environment has had in 2022 and 2023, or do our respondents think that rate trends will move higher in the foreseeable future? What we also found interesting is that historically, moderately higher rates are good for financial institutions’ margins — with most of the current stress being caused by short-term funding costs increasing while the value of long-dated assets has

fallen. This is a temporary problem that will diminish as longer-term assets that were priced during times of record-low rates run off. Perhaps concerns that higher-for-longer interest rates will constrain funding demands and deal flow are outweighing the margin upside that this scenario would represent for our respondents.

## Financial Services – 2034



**M** Macroeconomic Risk Issue   
 **S** Strategic Risk Issue   
 **O** Operational Risk Issue   
 ■ 2034    ■ 2033\*    ■ 2032\*

\* This data was reported as 2032 and 2031 results, respectively, in our prior year reports. We have shifted our terminology to reflect a decade out, thus have revised these year references in the interests of clarity.

- Finally, there are a few 2034 risks that fell closer to the bottom of the list than we would have expected:
  - “Geopolitical shifts, regional conflicts and instability in governmental regimes or expansion of global terrorism” moved up five spots from last year but is still only in 25th place, and “changes in global markets and trade policies” held steady at 33rd place, making it the fourth lowest-rated risk. These results are surprising in light of growing geopolitical conflicts from the Russian/Ukraine war, regional tensions in the Pacific, and renewed fighting between Israeli and Palestinians and heightened risk of broader conflicts in the Middle East as a result.
  - “Formulating business response to legal, political and social issues that are polarizing” was a new addition to our survey this year but only came in at 29th place. Likewise, “impact of social issues and DEI priorities on ability to attract/retain talent and compete” actually dropped from 24th to 30th place this year. Given that both issues have continued to consume a greater share of business leaders’ attention as well as media scrutiny regarding their companies over the past year, it’s interesting that our respondents think they will be so much less significant as concerns a decade out.
  - Lastly, “managing demands on or expectations of workforce to work remotely or as part of a hybrid work environment” dropped nine spots from 22nd to 31st place. While we’ve certainly seen progress over the past 12 months in financial institutions bringing a larger share of their workforces back into the office, overall attendance rates vary significantly by geography and many financial institutions have told us that they are still not consistently where they would like to be in this regard. Our survey results suggest the market believes these challenges will be fully resolved, though, and that a significant percentage of remote or hybrid work is not part of the long-term future of financial services.

## About the Executive Perspectives on Top Risks Survey

We surveyed 1,143 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 36 unique risks on their organization over the next 12 months and over the next decade. Our survey was conducted in September and October 2023. Respondents rated the impact of each risk on their organization using a 10-point scale, where 1 reflects “No Impact at All” and 10 reflects “Extensive Impact.” For each of the 36 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

Read our *Executive Perspectives on Top Risks Survey* executive summary and full report at [www.protiviti.com/toprisks](http://www.protiviti.com/toprisks) or <http://erm.ncsu.edu>.

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