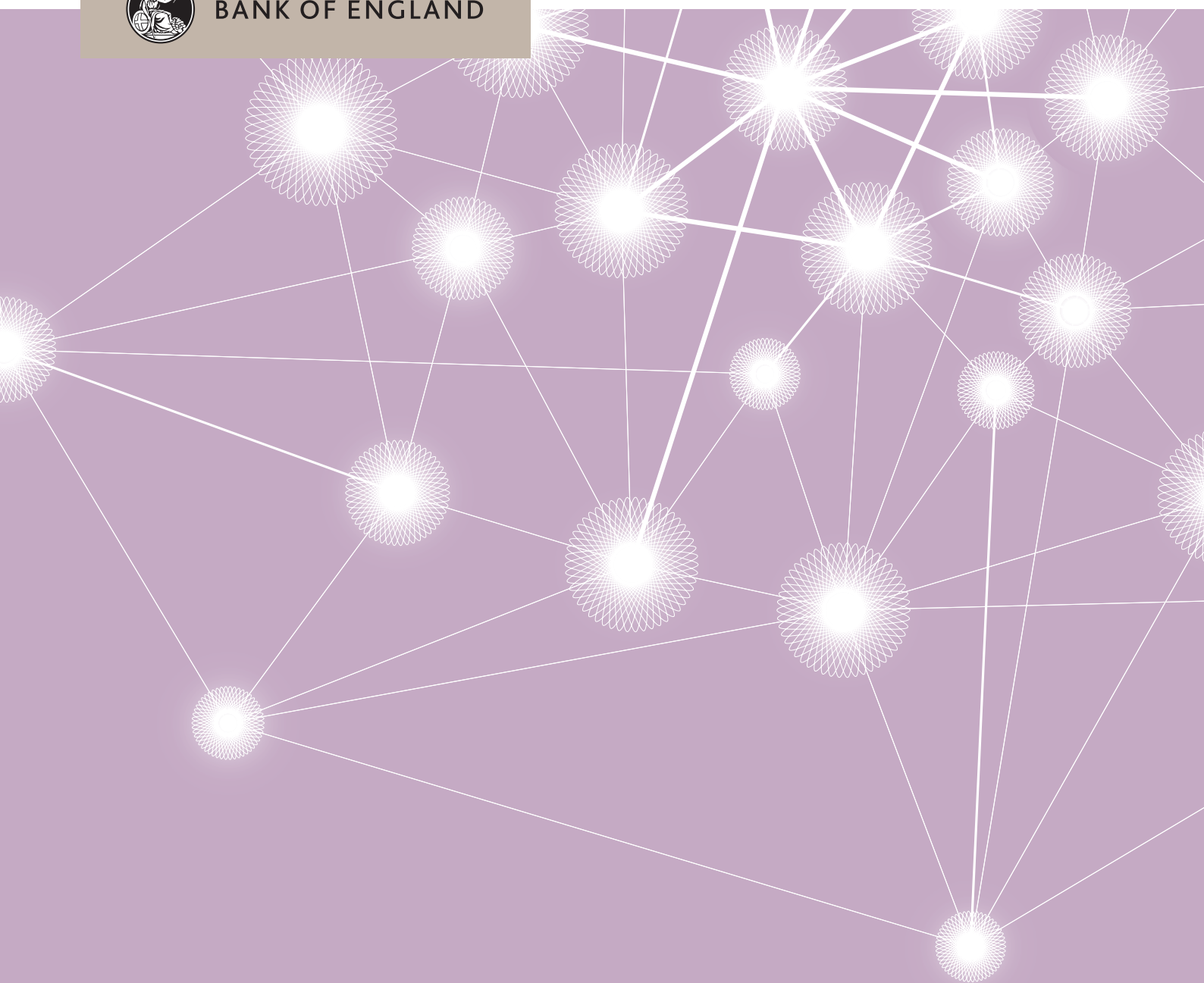


# Systemic Risk Survey

Survey results | 2014 H1



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## The Systemic Risk Survey

- The *Systemic Risk Survey* is conducted by the Bank of England on a biannual basis to quantify and track market participants' views of risks to, and their confidence in, the UK financial system.
- This report presents the results of the 2014 H1 survey, which was conducted between 7 April and 12 May 2014.

## Probability of a high-impact event and confidence in the UK financial system

- The perceived probabilities of a high-impact event in the UK financial system over both the short and medium term continue to fall, setting new lows since the Survey began in 2008. 64% (+9 percentage points since October 2013) of respondents now consider the probability low or very low over the next year, 28% (+12 percentage points) between one and three years ahead.
- Confidence in the UK financial system on average has also risen, but only slightly. 24% (+5 percentage points) were completely confident or very confident in the stability of the UK financial system as a whole over the next three years, 69% fairly confident (-8 percentage points) but there has been a slight increase in respondents who were not very confident (+3 percentage points to 7%).

## Key risks to the UK financial system

- Citations of risks were less skewed towards one particular risk category and there was less consensus amongst respondents relative to the previous survey on both the number one key risk to UK financial stability and the risk most challenging to manage as a firm.
- The main risk to the UK financial system identified was from an economic downturn, although citations have fallen: 61% of respondents mentioned this risk (-6 percentage points since October 2013). Perhaps unsurprisingly given the tensions in Ukraine, the importance of geopolitical risk (mentioned by 57% of respondents) grew markedly from a low base. This is now the second most cited risk. Concerns around sovereign risk (cited by 40% of participants, down by 33 percentage points) have dropped sharply but remain important, with the overwhelming majority of specific responses focusing on the eurozone.
- Risk of property price falls continued to rise for the third survey in succession, cited by 40% of respondents. Other top risks include those arising from the low interest rate environment (cited by 39% of respondents, down 5 percentage points since October 2013), risks around regulation/taxes (-6 percentage points to 35%) and operational risk (+4 percentage points to 29%). Outside of the top seven risks, household/corporate credit risk, UK political risk and risks surrounding monetary and fiscal policy have grown in prominence.

## Risks most challenging to manage as a firm

- Six of the top seven key risks were also those listed as the most challenging to manage as a firm, but with a different ordering. Geopolitical risk is now the risk category most widely cited as challenging to manage.

The *Systemic Risk Survey* is a biannual survey that asks market participants about perceived risks to, and their confidence in, the UK financial system. The survey is generally completed by executives responsible for firms' risk management activities. This report presents the results of the 2014 H1 survey, which was conducted by the Bank of England in the period between 7 April and 12 May 2014. The results presented are based on responses to the survey and do not necessarily reflect the Bank of England's views on risks to the UK financial system. Seventy-two market participants took part in the survey, representing a 95% response rate. Participants ranged from hedge funds, banks, building societies, large complex financial institutions, asset managers and

insurers. Summary statistics are calculated by giving equal weight to each survey response.

This report is available on the Bank's website at [www.bankofengland.co.uk/publications/Pages/other/srs/default.aspx](http://www.bankofengland.co.uk/publications/Pages/other/srs/default.aspx). Additional background information on the survey is available in the 2009 Q3 *Quarterly Bulletin* article 'Bank of England Systemic Risk Survey' available at [www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb090305.pdf](http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb090305.pdf).

The publication date for the next *Systemic Risk Survey* is 1 December 2014.

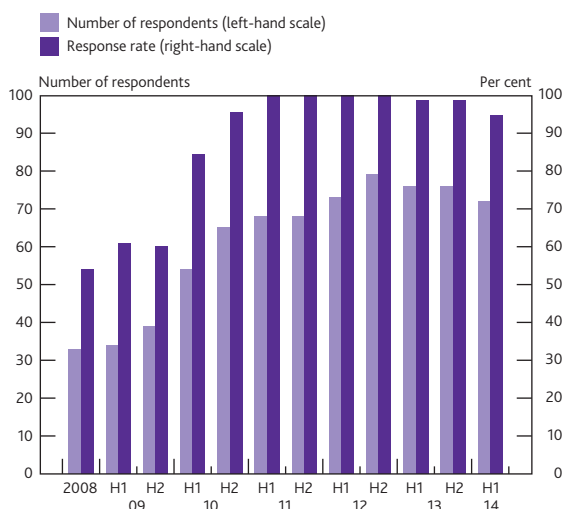
# Systemic Risk Survey

## Introduction

As part of its statutory objective to protect and enhance financial stability in the United Kingdom, the Bank works to identify risks to the stability of the UK financial system. The *Systemic Risk Survey* contributes to this activity by quantifying and tracking, on a biannual basis, market participants' perceptions of such risks.<sup>(1)</sup>

The survey is typically completed by executives responsible for risk management at institutions including UK banks and building societies, large foreign banks, asset managers, hedge funds and insurers. Seventy-two participants took part in the 2014 H1 survey between 7 April and 12 May 2014, representing a 95% response rate (Chart 1). This report describes the results.

**Chart 1** Survey response rates<sup>(a)(b)</sup>



Sources: Bank of England *Systemic Risk Surveys* and Bank calculations.

- (a) The percentage and number of contacts that answered at least one question in the *Systemic Risk Survey*.  
 (b) Surveys from 2010 H1 onwards were carried out by the Bank. Earlier surveys were carried out by British Market Research Bureau (BMRB) on behalf of the Bank.

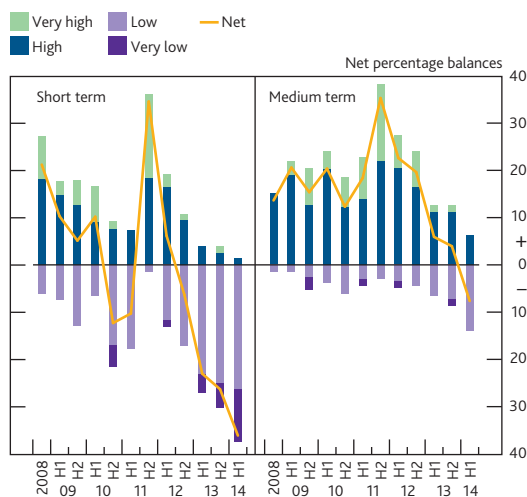
## Probability of a high-impact event

Respondents were asked for their view on the probability of a high-impact event in the UK financial system in the short and medium term, and how those probabilities had changed over the past six months.<sup>(2)</sup>

In the 2014 H1 survey, the perceived probabilities of a high-impact event over both the short and medium term continued to fall, setting new lows since the survey began in 2008. In the short term, the results are driven by an increase

in the percentage of respondents considering the risk to be low or very low (+9 percentage points to 64% since October 2013). Only 3% judge the probability as high or very high (-4 percentage points). In the medium term, the proportion of respondents considering the risk very high or high has halved (-11 percentage points to 13%). And the percentage of respondents regarding the risk as low or very low has risen materially (+12 percentage points to 28%). Chart 2 reflects these responses by weighting the probabilities into one measure.

**Chart 2** Probability of a high-impact event in the UK financial system<sup>(a)</sup>



Sources: Bank of England *Systemic Risk Surveys* and Bank calculations.

- (a) Respondents were asked for the probability of a high-impact event in the UK financial system in the short and medium term. From the 2009 H2 survey onwards, short term was defined as 0–12 months and medium term as 1–3 years. The net percentage balance is calculated by weighting responses as follows: very high (1), high (0.5), medium (0), low (-0.5) and very low (-1). Bars show the contribution of each component to the net percentage balance.

These results concur with respondents' views on how the probability of a high-impact event has changed over the past six months. Almost half of respondents (46%) perceive the probability of a high-impact event in the short term to have fallen, whilst only 6% thought it had increased.

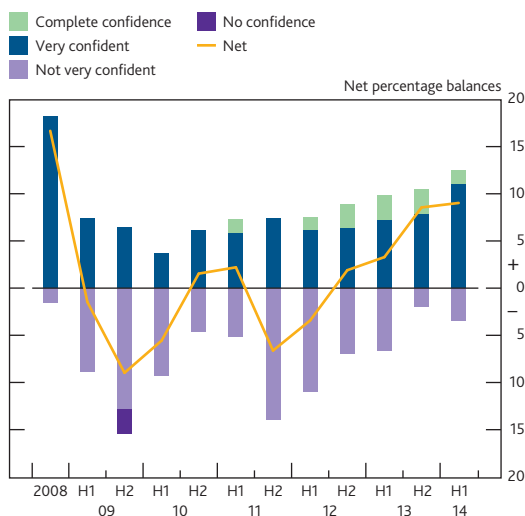
## Confidence in the UK financial system

Confidence in the UK financial system has risen slightly since the October 2013 survey. 24% (+5 percentage points) of

- (1) The *Systemic Risk Survey* has been undertaken biannually since 2009, following a pilot survey conducted in July 2008. It was published for the first time in November 2011. The survey results complement other sources of information used by the Bank to identify system-wide risks.  
 (2) Since the 2009 H2 survey, short and medium term have been specifically identified as 0–12 months and 1–3 years respectively. These terms were not explicitly defined in earlier surveys.

respondents are completely confident or very confident in the stability of the UK financial system as a whole over the next three years and 69% fairly confident (-8 percentage points). But there has been a slight increase in the proportion of respondents who were not very confident (+3 percentage points to 7%). **Chart 3** reflects these responses by weighting the probabilities into one measure. And, consistent with this, a net balance of respondents (18%) said their confidence had increased over the past six months (25% increased, 7% decreased).

**Chart 3** Confidence in the stability of the UK financial system as a whole over the next three years<sup>(a)</sup>



Sources: Bank of England Systemic Risk Surveys and Bank calculations.

(a) Respondents were asked how much confidence they had in the stability of the UK financial system as a whole over the next three years. The net percentage balance is calculated by weighting responses as follows: complete confidence (1), very confident (0.5), fairly confident (0), not very confident (-0.5) and no confidence (-1). Bars show the contribution of each component to the net percentage balance.

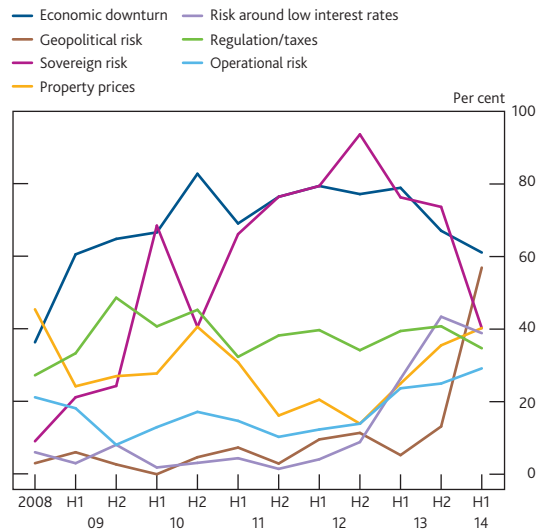
### Key risks to the UK financial system

Turning to specific sources of risk to the UK financial system, respondents were asked to list the five risks they thought would have the greatest impact on the UK financial system if they were to materialise. Answers were provided in free format, but have been grouped into the 20 categories shown in **Table A2** in the data appendix to give an overview of the results.<sup>(1)</sup>

The seven risks most frequently cited in the 2014 H1 survey were (**Chart 4**):

- Risk of an economic downturn (cited by 61% of respondents).
- Geopolitical risk (57%).
- Sovereign risk (40%).
- Risks around property prices (40%).
- Risks surrounding the low interest rate environment (39%).
- Risks around regulation/taxes (35%).
- Operational risk (29%).

**Chart 4** Key risks to the UK financial system<sup>(a)(b)</sup>



Sources: Bank of England Systemic Risk Surveys and Bank calculations.

- (a) Respondents were asked to list the five risks they thought would have the greatest impact on the UK financial system if they were to materialise. Answers were in a free format and were coded into categories after the questionnaires had been submitted; only one category was selected for each answer. Chart figures are the percentages of respondents citing a given risk at least once, among respondents citing at least one key risk. The chart shows the top seven categories; see the data appendix for additional categories.
- (b) Risks cited in previous surveys have been regrouped into the categories used to describe the latest data.

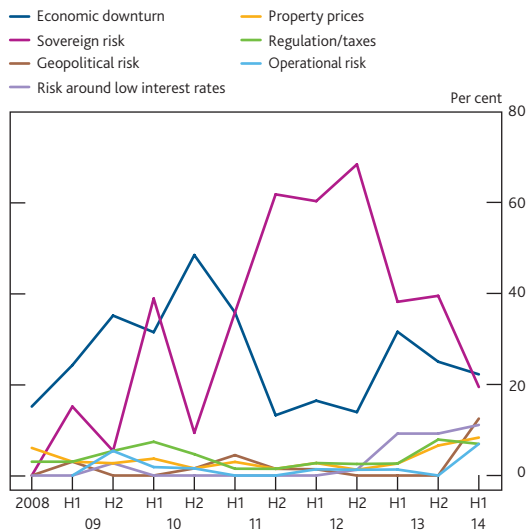
The top seven risks have changed since the October 2013 survey, with geopolitical risk now included and risk of financial institution failure/distress dropping off. Outside of the top seven risks, household/corporate credit risk, risks surrounding monetary and fiscal policy and UK political risk have grown in prominence, each rising by 7–9 percentage points since October 2013.

Compared to the previous survey, there was weaker consensus among respondents over the risk that would have the greatest impact if it crystallised (ie respondents' number one risk). But the two largest impact risks for the UK financial system remained the risk of a further economic downturn and a crystallisation of sovereign risk (although the order has changed) (**Chart 5**):

- Risk of an economic downturn (22% of respondents viewed it as their number one risk).
- Sovereign risk (19%).
- Geopolitical risk (13%).
- Risks surrounding the low interest rate environment (11%).
- Risks around property prices (8%).
- Risks around regulation/taxes (7%).
- Risks surrounding monetary and fiscal policy (7%).

(1) These summary categories are adjusted over time in order to better capture current risks; risks cited in previous surveys have been regrouped into the new categories to ensure comparability across survey rounds.

**Chart 5** Number one key risks to the UK financial system<sup>(a)(b)</sup>



Sources: Bank of England Systemic Risk Surveys and Bank calculations.

- (a) Respondents were asked to list the five risks they thought would have the greatest impact on the UK financial system if they were to materialise, in order of potential impact (ie greatest impact first). Answers were in a free format and were coded into categories after the questionnaires had been submitted; only one category was selected for each answer. Chart figures are the percentages of respondents citing a given risk as their number one key risk, among respondents citing at least one key risk. The chart shows the top seven categories; see the data appendix for additional categories.
- (b) Risks cited in previous surveys have been regrouped into the categories used to describe the latest data.

Although concerns over an economic downturn (mentioned by 61% of respondents) is the most cited risk in this survey, it has decreased further since October 2013 (-6 percentage points). Within that, risks to the global and UK economic outlooks are both prominent, cited in 43% and 40% respectively. A further 7% of respondents referred to China.

Perhaps unsurprisingly given the ongoing tensions in Ukraine, geopolitical risk was the fastest growing risk category compared to six months ago. It appeared among the top seven most cited risks for the first time (mentioned by 57% of respondents), becoming the second most cited risk overall. All responses citing a specific region mention the Russian/Ukrainian conflict.

Concerns over sovereign risk have dropped markedly, to their lowest point since 2010 (cited by 40% of respondents, down 33 percentage points since October 2013). But it remains the third most cited risk and the second most frequently cited as the number one risk for the UK financial system. The overwhelming majority (88%) of those mentioning a specific region in this regard cited the EU.

Risk of property price falls continued to rise for the third survey in succession, cited by 40% of respondents, up 5 percentage points since the previous survey. The majority of responses focused on the residential market (75% of responses that specified a sector) as opposed to the commercial property market.

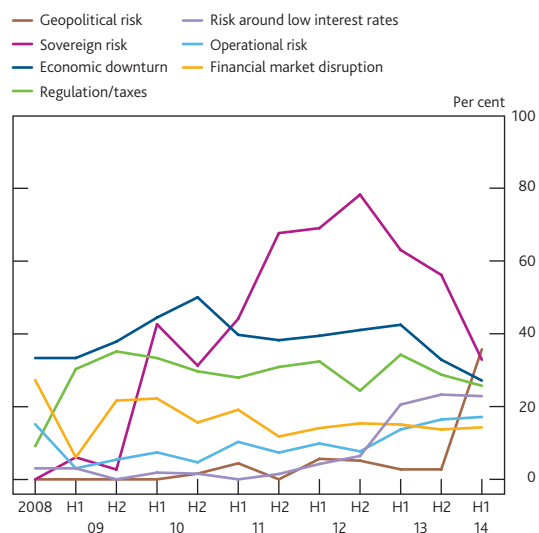
Risks surrounding the low interest rate environment have decreased but remain important, mentioned by 39% of participants (-5 percentage points since October 2013). The majority (65%) of those providing some detail cited risks related to a (rapid) rise in interest rates while others emphasised the risks linked to sustained low rates.

### Risks most challenging to manage as a firm

Respondents were also asked which three of the key risks they had listed would be most challenging to manage as a firm.

**Chart 6** presents the seven most cited risks. Compared to the previous survey, this list now includes, and is headed by, geopolitical risk, while the risk of financial institution failure or distress has dropped off.

**Chart 6** Risks most challenging to manage as a firm<sup>(a)(b)</sup>



Sources: Bank of England Systemic Risk Surveys and Bank calculations.

- (a) After respondents had listed the five risks they believed would have the greatest impact on the UK financial system if they were to materialise, they were asked which three of these risks they would find most challenging to manage as a firm. Answers were in a free format and were coded into categories after the questionnaires had been submitted; only one category was selected for each answer. Chart figures are the percentages of respondents citing a given risk at least once, among respondents citing at least one key risk. The chart shows the top seven categories only; see the data appendix for additional categories.
- (b) Risks cited in previous surveys have been regrouped into the categories used to describe the latest data.

Respondents indicated they would find six of the seven risks from **Chart 4** the most challenging to manage. Risks around property prices do not appear in the top seven, perhaps indicating that they are easier for firms to manage:

- Geopolitical risk (36% of respondents).
- Sovereign risk (33%).
- Risk of an economic downturn (27%).
- Risks around regulation/taxes (26%).
- Risks surrounding the low interest rate environment (23%).
- Operational risk (17%).
- Risk of financial market disruption (14%).

## Data appendix

The tables in this appendix in Excel format and the survey questionnaire are available on the Bank's website at [www.bankofengland.co.uk/publications/Pages/other/srs/default.aspx](http://www.bankofengland.co.uk/publications/Pages/other/srs/default.aspx).

**Table A1: Aggregate risks to the UK financial system<sup>(a)(b)</sup>**

	2008	2009		2010		2011		2012		2013		2014
		H1		H1	H2	H1	H2	H1	H2	H1	H2	H1
<b>Probability of a high-impact event in the UK financial system in the short term<sup>(c)</sup></b>												
Very high	9	3	7	2	0	18	3	1	0	1	0	
High	36	29	19	15	15	37	33	19	8	5	3	
Medium	42	53	61	45	50	43	40	46	42	38	33	
Low	12	15	13	34	35	3	23	34	46	50	53	
Very low	0	0	0	5	0	0	1	0	4	5	11	
<b>Probability of a high-impact event in the UK financial system in the medium term<sup>(c)</sup></b>												
Very high	0	3	4	6	9	16	7	8	1	1	0	
High	30	38	41	25	28	44	41	33	22	22	13	
Medium	67	56	48	57	56	34	44	51	63	61	60	
Low	3	3	7	12	6	6	7	9	13	14	28	
Very low	0	0	0	0	1	0	1	0	0	1	0	
<b>Change in the probability over the past six months of a high-impact event in the UK financial system in the short term<sup>(d)</sup></b>												
Increased	55	18	31	15	26	88	27	11	7	5	6	
Unchanged	24	24	50	57	57	10	48	54	54	39	49	
Decreased	21	59	19	28	16	1	25	34	39	55	46	
<b>Change in the probability over the past six months of a high-impact event in the UK financial system in the medium term<sup>(d)</sup></b>												
Increased	64	15	41	23	21	69	29	11	12	14	14	
Unchanged	33	53	52	55	66	29	60	72	62	51	61	
Decreased	3	32	7	22	13	1	11	16	26	34	25	
<b>Confidence in the stability of the UK financial system as a whole over the next three years<sup>(e)</sup></b>												
Complete confidence	0	0	0	0	1	0	1	3	3	3	1	
Very confident	36	15	7	12	12	15	12	13	14	16	22	
Fairly confident	61	68	74	78	76	57	64	71	70	78	69	
Not very confident	3	18	19	9	10	28	22	14	13	4	7	
No confidence	0	0	0	0	0	0	0	0	0	0	0	
<b>Change in confidence over the past six months<sup>(f)</sup></b>												
Increased			19	25	10	3	12	11	22	33	25	
Unchanged			61	65	79	35	77	81	67	62	68	
Decreased			20	11	10	62	11	8	11	5	7	

Sources: Bank of England Systemic Risk Surveys and Bank calculations.

(a) Entries are percentages of respondents and may not sum to 100% due to rounding.

(b) The survey has been undertaken biannually since 2009, following a pilot survey conducted in July 2008. Due to insufficient space in this table, 2009 H2 results have not been included.

(c) Respondents were asked what the probability of a high-impact event in the UK financial system was in their view, for both the short and medium term. In the 2009 H2–2014 H1 surveys, short term was defined as 0–12 months and medium term as 1–3 years.

(d) Respondents were asked how the probability had changed over the past six months for the short and medium term. In the 2009 H2–2014 H1 surveys, short term was defined as 0–12 months and medium term as 1–3 years.

(e) Respondents were asked how much confidence they had in the stability of the UK financial system as a whole over the next three years.

(f) Respondents were asked how their confidence had changed over the past six months. The question was asked from 2010 H1 onwards.

**Table A2: Key risks to the UK financial system<sup>(a)(b)</sup>**

	2008	2009		2010		2011		2012		2013		2014
		H1	H1	H2	H1	H2	H1	H2	H1	H2	H1	
<b>Key risks<sup>(c)</sup></b>												
Risk of an economic downturn	36	61	67	83	69	76	79	77	79	67	61	
Geopolitical risk	3	6	0	5	7	3	10	11	5	13	57	
Sovereign risk	9	21	69	41	66	76	79	94	76	74	40	
Risk of property price falls	45	24	28	41	31	16	21	14	25	36	40	
Risks surrounding the low interest rate environment <sup>(d)</sup>	6	3	2	3	4	1	4	9	26	43	39	
Risks around regulation/taxes	27	33	41	45	32	38	40	34	39	41	35	
Operational risk	21	18	13	17	15	10	12	14	24	25	29	
Risk of financial institution failure/distress	85	33	22	17	18	26	25	25	26	30	22	
Household/corporate credit risk	12	36	17	19	25	10	14	14	18	11	19	
Risk of financial market disruption/dislocation	45	24	30	27	31	19	21	22	20	18	18	
Risks surrounding monetary and fiscal policy	6	0	7	6	7	0	5	4	5	8	15	
Funding risk	18	33	30	39	43	57	45	32	17	16	14	
Risk of infrastructure disruption	12	9	6	9	6	10	10	9	11	11	14	
UK political risk	0	0	17	8	6	1	3	5	4	5	14	
Other	12	9	9	9	3	7	1	1	9	13	8	
Inflation risk	6	9	13	9	19	6	5	5	7	7	6	
Risk of loss of confidence in the authorities	3	9	9	6	7	10	15	11	11	9	4	
Risk of tightening in credit conditions	15	24	20	13	13	12	16	16	14	8	4	
Risks around public anger against, or distrust of, financial institutions	0	0	6	0	1	0	0	10	1	1	4	
Risk of lack of confidence in ratings, valuations and disclosure	12	18	11	2	4	4	4	1	0	0	0	
<b>Number one key risks<sup>(e)</sup></b>												
Risk of an economic downturn	15	24	31	48	36	13	16	14	32	25	22	
Sovereign risk	0	15	39	9	36	62	60	68	38	39	19	
Geopolitical risk	0	3	0	2	4	1	1	0	0	0	13	
Risks surrounding the low interest rate environment <sup>(d)</sup>	0	0	0	0	0	0	0	1	9	9	11	
Risk of property price falls	6	3	4	2	3	1	3	1	3	7	8	
Risks around regulation/taxes	3	3	7	5	1	1	3	3	3	8	7	
Risks surrounding monetary and fiscal policy	0	0	2	2	0	0	1	1	1	0	7	
UK political risk	0	0	4	0	0	0	0	0	3	1	3	
Risk of financial institution failure/distress	55	12	2	5	4	1	4	3	4	3	1	
Risk of infrastructure disruption	0	0	0	2	0	1	0	1	3	1	1	
Risk of financial market disruption/dislocation	12	3	4	3	3	4	3	0	3	1	1	
Funding risk	6	12	4	13	9	7	5	4	0	1	1	
Other	0	0	0	5	0	0	0	0	0	1	1	
Inflation risk	0	0	2	2	1	0	1	0	0	0	1	
Household/corporate credit risk	0	15	0	2	0	0	0	0	0	0	1	
Risk of loss of confidence in the authorities	0	3	2	2	0	6	1	4	1	3	0	
Operational risk	0	3	0	0	1	0	0	0	1	0	0	
Risk of tightening in credit conditions	3	0	0	2	0	0	0	0	0	0	0	
Risk of lack of confidence in ratings, valuations and disclosure	0	3	0	0	0	0	0	0	0	0	0	
Risks around public anger against, or distrust of, financial institutions	0	0	0	0	0	0	0	0	0	0	0	
Number of respondents citing at least one key risk	33	33	54	64	68	68	73	79	76	76	72	

Sources: Bank of England *Systemic Risk Surveys* and Bank calculations.

(a) Respondents were asked which five risks they believed would have the greatest impact on the UK financial system if they were to materialise, in order of potential impact (ie greatest impact first). Answers were provided in a free format and were subsequently coded into the above categories; only one category was selected for each answer. Risks cited in previous surveys have been regrouped into the categories used to describe the latest data.

(b) The survey has been undertaken biannually since 2009, following a pilot survey conducted in July 2008. Due to insufficient space in this table, 2009 H2 results have not been included.

(c) Percentages of respondents citing each risk at least once in their top five, among those citing at least one risk.

(d) The definition of this risk includes risks associated with a snapback in low rates to more normal levels, as well as risks directly associated with low rates.

(e) Percentages of respondents citing each risk as their number one risk (ie the risk with the greatest potential impact), among those citing at least one key risk.

**Table A3: Risks most challenging to manage as a firm<sup>(a)(b)</sup>**

	2008	2009		2010		2011		2012		2013		2014
		H1	H1	H2	H1	H2	H1	H2	H1	H2	H1	
Geopolitical risk	0	0	0	2	4	0	6	5	3	3	36	
Sovereign risk	0	6	43	31	44	68	69	78	63	56	33	
Risk of an economic downturn	33	33	44	50	40	38	39	41	42	33	27	
Risks around regulation/taxes	9	30	33	30	28	31	32	24	34	29	26	
Risks surrounding the low interest rate environment <sup>(c)</sup>	3	3	2	2	0	1	4	6	21	23	23	
Operational risk	15	3	7	5	10	7	10	8	14	16	17	
Risk of financial market disruption/dislocation	27	6	22	16	19	12	14	15	15	14	14	
Risk of financial institution failure/distress	48	18	15	16	12	21	15	17	14	14	13	
Risk of property price falls	18	6	6	8	4	0	4	3	10	14	11	
Risk of infrastructure disruption	6	6	4	6	4	6	7	6	8	10	11	
Funding risk	18	15	17	27	25	35	23	18	7	7	11	
Risks surrounding monetary and fiscal policy	3	0	7	3	1	0	4	4	3	5	9	
Other	6	3	2	6	3	3	0	1	3	5	7	
Household/corporate credit risk	6	18	9	8	12	3	4	6	8	3	7	
UK political risk	0	0	0	2	1	0	1	1	4	4	6	
Risk of loss of confidence in the authorities	0	3	7	3	6	7	8	8	4	7	4	
Inflation risk	0	0	6	6	4	3	1	3	5	1	3	
Risk of tightening in credit conditions	6	3	7	3	6	0	7	1	5	4	1	
Risks around public anger against, or distrust of, financial institutions	0	0	2	0	1	0	0	3	0	1	0	
Risk of lack of confidence in ratings, valuations and disclosure	6	9	7	2	3	3	0	0	0	0	0	
Cited at least one key risk, but did not cite any risk as challenging to manage (per cent)	0	3	2	2	0	0	3	1	4	4	3	
Number of respondents citing at least one key risk	33	33	54	64	68	68	73	79	76	76	72	

Sources: Bank of England *Systemic Risk Surveys* and Bank calculations.

(a) After respondents had listed the five risks they believed would have the greatest impact on the UK financial system if they were to materialise, they were asked which three of these risks they would find most challenging to manage as a firm. Answers were provided in a free format and were subsequently coded into the above categories; only one category was selected for each answer. Risks cited in previous surveys have been regrouped into the categories used to describe the latest data. Table entries are the percentages of respondents citing each risk at least once in this second question, among those citing at least one key risk.

(b) The survey has been undertaken biannually since 2009, following a pilot survey conducted in July 2008. Due to insufficient space in this table, 2009 H2 results have not been included.

(c) The definition of this risk includes risks associated with a snapback in low rates to more normal levels, as well as risks directly associated with low rates.