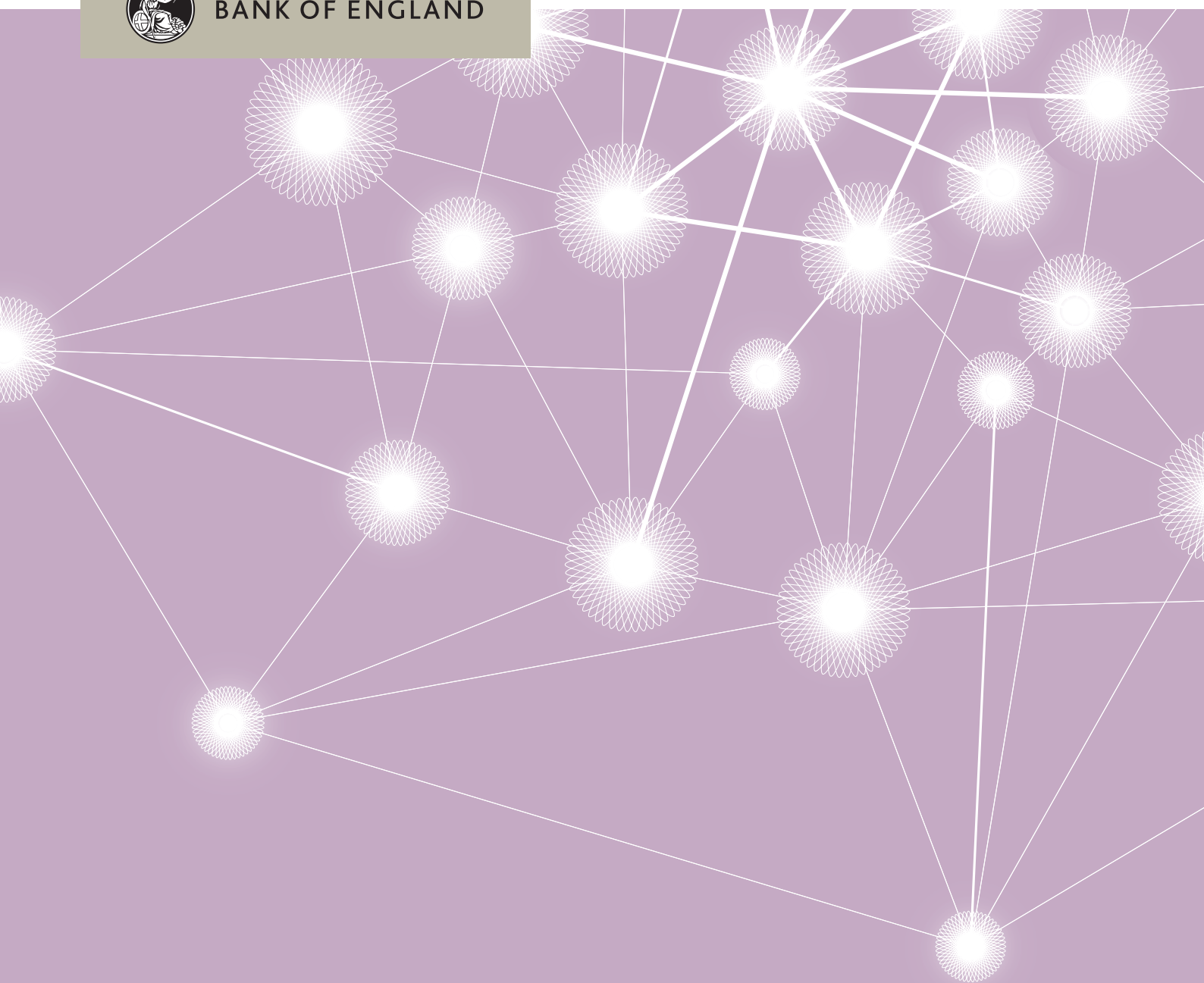


# Systemic Risk Survey

Survey results | 2014 H2



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# Systemic Risk Survey

## Survey results | 2014 H2

### 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 H2 survey, which was conducted between 22 September and 22 October.

### 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 have increased, ending the downward trend since 2011 H2. 8% (+5 percentage points since the 2014 H1 survey) of respondents now consider the probability high or very high over the next year, 21% (+8 percentage points) between one and three years ahead.
- However, confidence in the UK financial system has continued its upward trend. This has been driven by an increase in respondents who were very confident (36%, +13 percentage points since 2014 H1) rather than fairly confident (58%, -12 percentage points).

### Key risks to the UK financial system

- The two main risks to the UK financial system identified by respondents remain geopolitical risk (mentioned by 66% of respondents, +9 percentage points since 2014 H1) and the risk of an economic downturn (64%, +3 percentage points) with the former now the most cited risk. These are also the two most frequently cited number one risks. Responses on geopolitical risk focus mostly on the Russian/Ukrainian conflict and, to a somewhat lesser extent, on the Middle East/ISIS.
- Perceived risks from regulation have ticked up slightly (+2 percentage points to 37%) while the risk of property price falls (36%, -5 percentage points) has fallen back to its level a year ago, ending an upward trend since the 2012 H2 survey. Concerns over sovereign risk (34%, -6 percentage points) continued to decrease for the fourth survey in succession and most often relate to concerns about the future of the euro area. Other top risks include those arising from the low interest rate environment (cited by 33% of respondents, down 6 percentage points since 2014 H1) and operational risk (29%, unchanged since 2014 H1). UK political risk, although still outside of the top seven most cited risks, also increased in prominence, in line with the electoral cycle (25%, +11 percentage points).

### 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 continues to be 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 H2 survey, which was conducted by the Bank of England in the period between 22 September and 22 October 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-three market participants took part in the survey, representing a 97% 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).

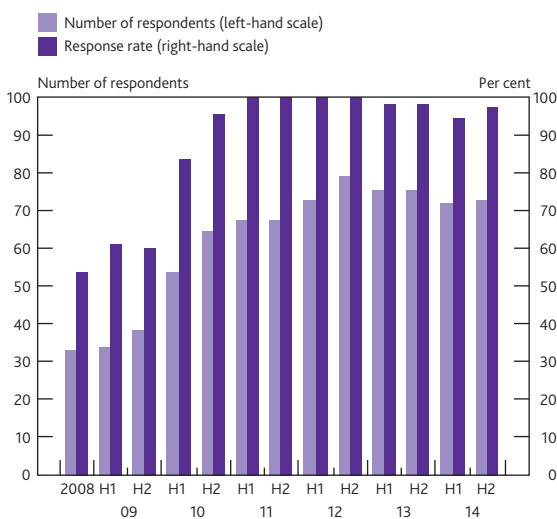
# Systemic Risk Survey

## 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-three participants took part in the 2014 H2 survey between 22 September and 22 October 2014, representing a 97% 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.

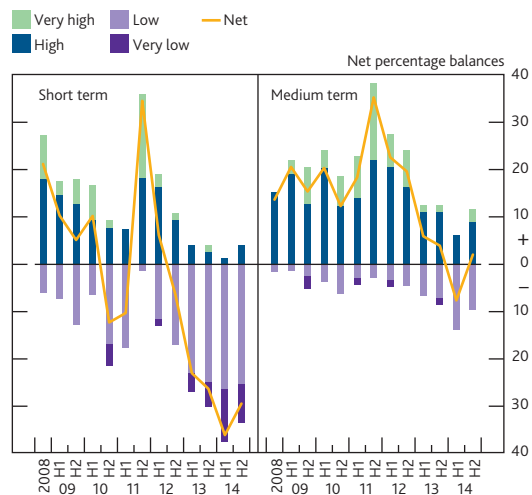
## Probability of a high-impact event

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 H2 survey, the perceived probabilities of a high-impact event in the UK financial system over both the short and medium term have increased, ending the downward trend since 2011 H2. In the short term, there has been a rise in

the percentage of respondents considering the risk to be high or very high (from 3% to 8%) and a corresponding decline in those judging the risk as low or very low (from 64% to 59%) since the 2014 H1 survey. In the medium term, a similar but somewhat larger movement can be noticed. And slightly more respondents consider the risk high or very high (21%, +8 percentage points since H1) than those judging it as low or very low (19%, -9 percentage points since H1). 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.

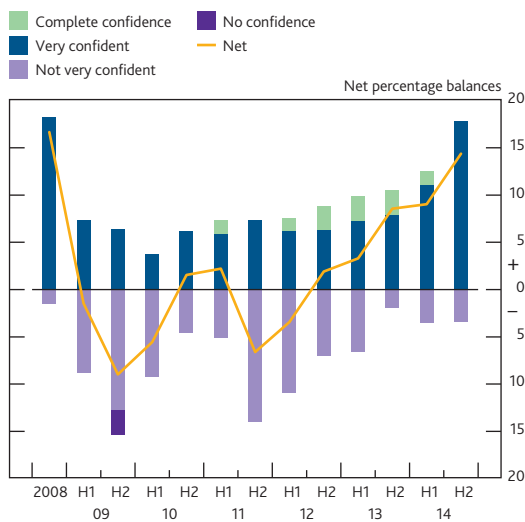
These results concur with respondents' views on how the probability of a high-impact event has changed over the past six months. For the first time since 2012 H1, in both the short and medium term, more respondents thought that the probability of a high-impact event has increased rather than decreased over the past six months.

- (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.

### Confidence in the UK financial system

Confidence in the UK financial system has continued its upward trend since 2011 H2. This has been driven by an increase in respondents who were very confident (36%, +13 percentage points since 2014 H1) rather than fairly confident (58%, -12 percentage points). **Chart 3** reflects these responses by weighting the probabilities into one measure. This result is slightly more positive than how respondents thought their confidence had changed over the past six months: a net balance of 5% of respondents noted that their confidence had increased over the past six months (15% increased, 10% 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.

There may be several possible explanations for the combination of rising confidence in the UK financial system and respondents' perception that the probability of a high-impact event in the United Kingdom has increased. For example, respondents may judge that although a high-impact event is more likely, the United Kingdom is well equipped to deal with the consequences. Alternatively, there may be some ambiguity about the definition of a high-impact event, with respondents' confidence being determined more by the probability of very high-impact events, which may not have increased.

### 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-text format, but have been grouped into the 20 categories shown

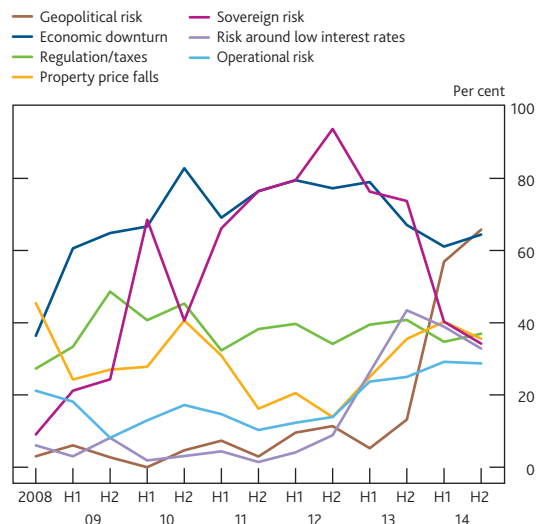
in **Table A2** in the data appendix to give an overview of the results.<sup>(1)</sup>

The seven risks most frequently cited in the 2014 H2 survey were (**Chart 4**):

- Geopolitical risk (cited by 66% of respondents)
- Risk of an economic downturn (64%)
- Risks around regulation/taxes (37%)
- Risk of property price falls (36%)
- Sovereign risk (34%)
- Risks surrounding the low interest rate environment (33%)
- Operational risk (29%)

The top seven risks are identical to those in the 2014 H1 survey. Outside of the top seven, UK political risk and 'Other' have increased while household/corporate credit risk decreased in prominence. Specific responses on UK political risk referred to risks around the possibility of a UK exit from the EU and to uncertainty/risks around the result of the general election in 2015. The growth in the 'Other' category is due to responses citing the Ebola outbreak and the possibility of terrorist attacks in the United Kingdom or in New York, for example.

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



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

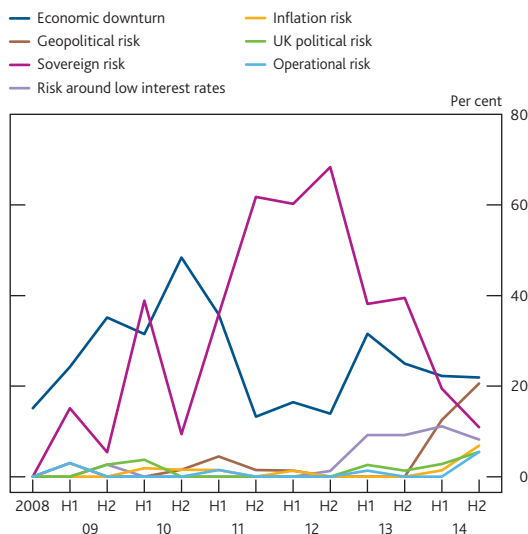
- (a) Respondents were asked to list the five risks they thought would have the greatest impact on the UK financial system if they were to materialise. Answers were in a free format and were coded into categories after the questionnaires had been submitted; only one category was selected for each answer. 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.

(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.

The top two risks — geopolitical risk and risk of an economic downturn — were also those cited as having the greatest potential impact (ie respondents' number one risk) (Chart 5):

- Risk of an economic downturn (22% of respondents viewed it as their number one risk)
- Geopolitical risk (21%)
- Sovereign risk (11%)
- Risks surrounding the low interest rate environment (8%)
- Inflation risk (7%)
- UK political risk (5%)
- Operational risk (5%)

**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.

Continuing its upward trend, geopolitical risk is the most cited risk in this survey and is increasingly cited by respondents as their number one risk. Most (72%) responses that cited a specific region mentioned the Russian/Ukrainian conflict and many (36%) pointed to the Middle East and ISIS.

Although risk of an economic downturn is no longer the most cited risk, there has been a slight increase in the number of respondents mentioning it and it is the most cited number one risk. Within that, risks to the global and UK economic outlooks are both prominent, cited in 46% and 34% respectively. And 16% of respondents referred to Europe/euro area.

Perceived risks around regulation/taxes have ticked up slightly. As in previous surveys, respondents' focus was on regulation,

including excessive, unpredictable, or poorly considered regulation, as well as on loss of confidence in regulation.

The perceived risk of property price falls fell back to its level seen in October 2013, ending an upward trend since the 2012 H2 survey. All but one of the responses that specified a sector mentioned residential rather than commercial property prices.

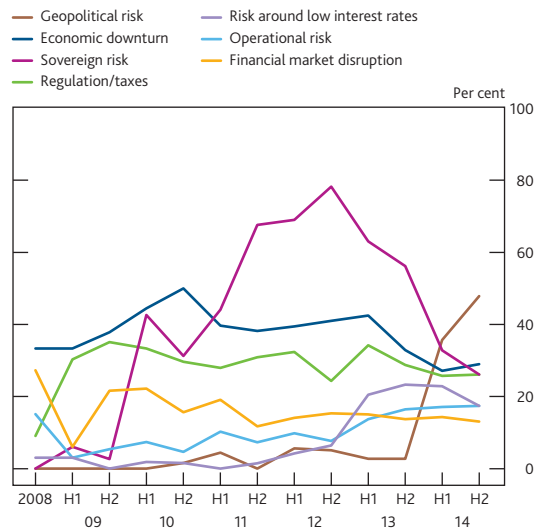
Concerns over sovereign risk continued to decrease for the fourth survey in succession. The overwhelming majority (87%) of those mentioning a specific region in this regard cited the EU/euro area.

### 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, which remain the same ones as in the previous survey.

**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 (48% of respondents)
- Risk of an economic downturn (29%)
- Sovereign risk (26%)
- Risks around regulation/taxes (26%)
- Risks surrounding the low interest rate environment (17%)
- Operational risk (17%)
- Risk of financial market disruption (13%).

## 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	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
<b>Probability of a high-impact event in the UK financial system in the short term<sup>(c)</sup></b>													
Very high	9	3	2	0	18	3	1	0	1	0	1	0	0
High	36	29	15	15	37	33	19	8	5	3	3	8	8
Medium	42	53	45	50	43	40	46	42	38	33	33	33	33
Low	12	15	34	35	3	23	34	46	50	53	53	51	51
Very low	0	0	5	0	0	1	0	4	5	11	8	8	8
<b>Probability of a high-impact event in the UK financial system in the medium term<sup>(c)</sup></b>													
Very high	0	3	6	9	16	7	8	1	1	0	3	3	3
High	30	38	25	28	44	41	33	22	22	13	18	18	18
Medium	67	56	57	56	34	44	51	63	61	60	60	60	60
Low	3	3	12	6	6	7	9	13	14	28	19	19	19
Very low	0	0	0	1	0	1	0	0	1	0	0	0	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	15	26	88	27	11	7	5	6	27	27	27
Unchanged	24	24	57	57	10	48	54	54	39	49	59	59	59
Decreased	21	59	28	16	1	25	34	39	55	46	14	14	14
<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	23	21	69	29	11	12	14	14	34	34	34
Unchanged	33	53	55	66	29	60	72	62	51	61	53	53	53
Decreased	3	32	22	13	1	11	16	26	34	25	12	12	12
<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	1	0	1	3	3	3	1	0	0	0
Very confident	36	15	12	12	15	12	13	14	16	22	36	36	36
Fairly confident	61	68	78	76	57	64	71	70	78	69	58	58	58
Not very confident	3	18	9	10	28	22	14	13	4	7	7	7	7
No confidence	0	0	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			25	10	3	12	11	22	33	25	15	15	15
Unchanged			65	79	35	77	81	67	62	68	75	75	75
Decreased			11	10	62	11	8	11	5	7	10	10	10

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 and 2010 H1 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 H2 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 H2 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	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
<b>Key risks<sup>(c)</sup></b>													
Geopolitical risk	3	6	5	7	3	10	11	5	13	57	66		
Risk of an economic downturn	36	61	83	69	76	79	77	79	67	61	64		
Risks around regulation/taxes	27	33	45	32	38	40	34	39	41	35	37		
Risk of property price falls	45	24	41	31	16	21	14	25	36	40	36		
Sovereign risk	9	21	41	66	76	79	94	76	74	40	34		
Risk surrounding the low interest rate environment <sup>(d)</sup>	6	3	3	4	1	4	9	26	43	39	33		
Operational risk	21	18	17	15	10	12	14	24	25	29	29		
UK political risk	0	0	8	6	1	3	5	4	5	14	25		
Risk of financial market disruption/dislocation	45	24	27	31	19	21	22	20	18	18	18		
Risk of infrastructure disruption	12	9	9	6	10	10	9	11	11	14	18		
Risk of financial institution failure/distress	85	33	17	18	26	25	25	26	30	22	16		
Risks surrounding monetary and fiscal policy	6	0	6	7	0	5	4	5	8	15	16		
Other	12	9	9	3	7	1	1	9	13	8	15		
Inflation risk	6	9	9	19	6	5	5	7	7	6	11		
Risk of tightening in credit conditions	15	24	13	13	12	16	16	14	8	4	8		
Household/corporate credit risk	12	36	19	25	10	14	14	18	11	19	7		
Funding risk	18	33	39	43	57	45	32	17	16	14	4		
Risk of loss of confidence in the authorities	3	9	6	7	10	15	11	11	9	4	3		
Risks around public anger against, or distrust of, financial institutions	0	0	0	1	0	0	10	1	1	4	3		
Risk of lack of confidence in ratings, valuations and disclosure	12	18	2	4	4	4	1	0	0	0	1		
<b>Number one key risks<sup>(e)</sup></b>													
Risk of an economic downturn	15	24	48	36	13	16	14	32	25	22	22		
Geopolitical risk	0	3	2	4	1	1	0	0	0	13	21		
Sovereign risk	0	15	9	36	62	60	68	38	39	19	11		
Risk surrounding the low interest rate environment <sup>(d)</sup>	0	0	0	0	0	0	1	9	9	11	8		
Inflation risk	0	0	2	1	0	1	0	0	0	1	7		
UK political risk	0	0	0	0	0	0	0	3	1	3	5		
Operational risk	0	3	0	1	0	0	0	1	0	0	5		
Risks around regulation/taxes	3	3	5	1	1	3	3	3	8	7	4		
Risk of financial market disruption/dislocation	12	3	3	3	4	3	0	3	1	1	4		
Other	0	0	5	0	0	0	0	0	1	1	4		
Risk of property price falls	6	3	2	3	1	3	1	3	7	8	3		
Risk of financial institution failure/distress	55	12	5	4	1	4	3	4	3	1	3		
Risk of infrastructure disruption	0	0	2	0	1	0	1	3	1	1	1		
Risk of tightening in credit conditions	3	0	2	0	0	0	0	0	0	0	1		
Risks surrounding monetary and fiscal policy	0	0	2	0	0	1	1	1	0	7	0		
Funding risk	6	12	13	9	7	5	4	0	1	1	0		
Household/corporate credit risk	0	15	2	0	0	0	0	0	0	1	0		
Risk of loss of confidence in the authorities	0	3	2	0	6	1	4	1	3	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	64	68	68	73	79	76	76	72	73		

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

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 and 2010 H1 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.