EUROPEAN CENTRAL BANK

EUROSYSTEM

3rd Chief Risk Officer Roundtable

Frankfurt am Main, Wednesday, 7 February 2024

Meeting summary

The ECB's Vice-President, Mr de Guindos, welcomed the Chief Risk Officers (CROs) of nine financial institutions (see Annex) to the third annual CRO Roundtable, which was also attended by senior staff from the ECB's Directorate General Macroprudential Policy and Financial Stability and Directorate Risk Management, and the head of its Compliance and Governance Division. This annual Roundtable aims at bringing together CROs in a diverse composition, complementing the ECB's regular monitoring of systemic threats to the euro area financial system with targeted feedback.

1. Key threats to euro area financial stability

The session opened with a tour de table during which the CROs outlined what they currently perceived as the three main threats to euro area financial stability (abstracting from geopolitical risks and artificial intelligence, that were discussed as separate agenda items). A broad range of risks with different time horizons and potential interconnected impacts for various financial stability risks were highlighted. Compared to the 2023 CRO Roundtable, concerns related to persistently high inflation were not as prominently mentioned. Nevertheless, most CROs considered an unexpected inflation spike as a potential risk that could have materially adverse repercussions, especially if it coincided with an unexpected deterioration of the economic growth outlook. Lower growth would also make the servicing of prevailing high levels of sovereign and private debt more challenging. Some CROs raised concerns about deteriorating asset quality, in particular with respect to (commercial) real estate in some jurisdictions as well as some segments of the private credit market. Several participants remained concerned about the potential for digital disruption and cyber-risks. Some CROs flagged that polarised political environments could be a source of financial stability risks through macroeconomic channels. Concerns were also expressed regarding climate-related risks, with several CROs highlighting uncertainty related to possible sudden changes to the regulatory agenda and transition paths in different jurisdictions.

2. How to integrate geopolitical risks in financial and non-financial risk management

Two CROs provided introductory presentations on the integration of geopolitical risks into risk management frameworks, from the perspective of the banking and asset management sector, respectively. Most CROs acknowledged the broad impact of rising geopolitical risks, resulting, inter alia, in heightened economic uncertainty and an increase in tail risks. Geopolitical tensions were widely seen as potential triggers for unearthing vulnerabilities (both financial and non-financial), and not necessarily standalone risks. CROs stressed the importance of non-financial risk management, especially the need to enhance resilience to be able to deal with cyber-attacks and fraud during episodes of geopolitical tensions. Several CROs shared insights and experiences of integrating geopolitical risk factors into business models and risk management practices, involving scenario preparation, development of exit strategies, inclusion in crisis playbooks and stress testing. Having sufficient buffers (including capital, provisions, and liquidity) to absorb unexpected shocks was also mentioned as crucial for managing geopolitical risks.

3. Does artificial intelligence pose any threats to financial stability?

Two CROs presented initial considerations on the potential impact of artificial intelligence (AI) on the financial sector, highlighting both risks and opportunities. They identified value-adding use cases mainly in the areas of automatisation, data analysis and in the personalisation of customer interactions. Most CROs concurred that the rapid evolution of AI technologies may introduce risks related in particular to lack of controllability, model risk, and the absence of a proper regulatory framework for AI. In this vein, they emphasised the necessity for ongoing dialogue between financial institutions and regulators. Several CROs mentioned concerns about increased use of AI in trading and asset management, possibly leading to, and amplifying, financial shocks (e.g. herding behaviour, dislocations, increased volatility), cyber-attacks, misinformation and disinformation (e.g. market manipulation through the spreading of fake news).

Annex: List of participating institutions

Allianz

Banco Santander

Belfius

European Commodity Clearing

Generali

ING

Tikehau Capital

UniCredit

Union Investment