



SYSTEMIC RISK BAROMETER

2021 RISK FORECAST

DTCC

ABOUT THE SURVEY: First launched in 2013, the DTCC Systemic Risk Barometer Survey serves as an annual pulse check to monitor existing and emerging risks that may impact the safety, resiliency and stability of the global financial system. It is designed to help identify trends and foster industry-wide dialogue on potential threats to financial stability. The survey is a key component of DTCC's thought leadership with respect to systemic risk. In addition to promoting transparency, DTCC also uses these survey results, which are based on feedback received from 220 respondents, to support its member outreach efforts and to benchmark its risk management initiatives versus the concerns highlighted by respondents.

KEY FINDINGS

INFECTIOUS DISEASE / PANDEMICS (CORONAVIRUS) WAS CITED AS THE TOP OVERALL RISK

- 31% of respondents identified this risk as the number one risk impacting the global financial system in 2021, with 67% including it in their top 5 risks.

CYBER RISK WAS THE SECOND MOST FREQUENTLY CITED OF THE TOP 5 RISKS

- Cyber Risk was cited by 54% of survey respondents as a top 5 risk, which was a decrease from 63% that ranked it as a top 5 risk in last year's survey.

HALF OF RESPONDENTS INCLUDED THE OUTCOME OF THE U.S. PRESIDENTIAL ELECTION WITHIN THEIR TOP 5 RISKS

GEOPOLITICAL RISKS & TRADE TENSIONS CONTINUES TO BE FREQUENTLY CITED BY RESPONDENTS AS A TOP 5 RISK

- Geopolitical Risks & Trade Tensions was cited by 45% of respondents as a top 5 risk, a decrease from 59% that cited it as top 5 risk in last year's survey.

RISK OF EXCESSIVE GLOBAL DEBT WAS THE LARGEST PERCENTAGE ADVANCER FOR THIS YEAR'S SURVEY

- Excessive Global Debt was cited by 33% of respondents as a top 5 risk, which was a significant increase from 24% that included it as a top 5 risk in last year's survey.

NEW RISKS FOR INFECTIOUS DISEASE / PANDEMICS (CORONAVIRUS), THE U.S. PRESIDENTIAL ELECTION OUTCOME, AND CLIMATE CHANGE WERE ADDED FOR THIS EDITION OF THE SURVEY

TOP SYSTEMIC RISKS



INFECTIOUS DISEASE / PANDEMICS (CORONAVIRUS)

IDENTIFIED BY 31% OF RESPONDENTS AS THE NUMBER ONE RISK

TOP 5 RISKS



CYBER RISK

54% OF RESPONDENTS INCLUDED CYBER RISK AS A TOP 5 RISK



EXCESSIVE GLOBAL DEBT

33% OF RESPONDENTS RANKED EXCESSIVE GLOBAL DEBT AS A TOP 5 RISK

PERSPECTIVES ON RISK

DTCC EXECUTIVES PROVIDE THEIR THOUGHTS ON THE TOP RISKS FACING THE FINANCIAL SERVICES INDUSTRY

DAVID LAFALCE

DTCC Managing Director, Global Business Continuity & Resilience, on:

INFECTIOUS DISEASE / PANDEMICS (CORONAVIRUS)



“A united effort across organizations will continue to minimize the impact of risks, such as infectious disease, on critical business services and market stability. In fact, supporting strategies will be front and center for companies in the years to come to ensure effective funding and resources to properly prepare and respond to such events. The preparations that stemmed from the sector-wide pandemic exercise conducted in 2007 were helpful in maintaining stability, but the broad impact of this pandemic will affect not only the way we respond in the future but how we work, how we adapt our culture, and how we invest for the foreseeable future.”

STEPHEN SCHARF

DTCC Managing Director and Chief Security Officer, on:

CYBER RISK



“The speed and global impact of the pandemic created an ‘overnight’ fundamental shift to cyber practices across all industries. The long held structure of an onsite workforce was immediately pivoted to massive telecommuting and remote connectivity. While many firms had pre-existing infrastructure to support this shift, in most cases, environments had to be expanded and/or built from scratch. Given the opportunistic nature of cyber criminals, this created a greatly expanded attack surface which firms had to move quickly to address. As long term staffing (and technology) models continue to be further defined, cyber defenses will need to adapt and adjust to the workforce they are protecting.”

ALI WOLPERT

DTCC Managing Director, Head of Global Government Relations, on:

U.S. PRESIDENTIAL ELECTION OUTCOME / GEOPOLITICAL RISKS



“Shifts of power within the U.S. Administration and on Capitol Hill undoubtedly impact the financial industry. Narrow majorities in the House and Senate will mean that legislative common ground will need to be identified, in order to garner broad Congressional support. For example, the global pandemic significantly impacted U.S. legislative priorities and spurred bipartisan action to provide economic relief. Looking ahead, emphasis is expected to remain on potential further relief efforts in addition to policy issues regarding privacy and cybersecurity. A bipartisan approach will be key to advancing legislation to address potential risks and challenges for 2021 and beyond.”

MICHAEL LEIBROCK

DTCC Managing Director, Chief Systemic Risk Officer and Head of Counterparty Credit Risk, on:

EXCESSIVE GLOBAL DEBT



“Global debt levels, which were elevated prior to the Coronavirus outbreak, have swelled after a series of stimulus measures and monetary policy accommodations. While these actions from central banks and governments were necessary and prudent to offset some of the immediate impact from the Coronavirus, the longer term sustainability of further increases in debt levels could present challenges for global economies in the future.”

ANDREW GRAY

DTCC Managing Director, Group Chief Risk Officer, on: **BUILDING INTELLIGENT RESILIENCE**



“It’s safe to say that 2020 can be classified as a year that defied predictions. As the Coronavirus spread around the world in March, markets experienced unprecedented volatility and volumes across nearly every asset class. Despite the uncertainty and volatile conditions, the financial services industry was resilient. As market conditions are starting to normalize, it is essential to focus on the longer-term implications for market infrastructures, financial services firms and the broader industry. Staying vigilant, increasing transparency and collaborating across the industry are key steps to further enhance resilience for new and emerging risks.”

CORONAVIRUS QUESTIONS

RESPONDENTS WERE ASKED WHETHER THEY (DIS)AGREE WITH A SERIES OF FORWARD-LOOKING STATEMENTS RELATED TO THE IMPACT OF THE COVID-19 PANDEMIC.

OVERALL, RESPONDENTS EXPECT THAT THE COVID-19 PANDEMIC WILL HAVE A SIGNIFICANT AND PERVASIVE IMPACT ACROSS THE GLOBAL FINANCIAL SYSTEM IN THE COMING YEARS.

STATEMENT	AGREE	DISAGREE	UNCERTAIN
Stock markets have gotten ahead of themselves – equity valuations are stretched, reflecting unrealistic expectations with respect to the economy's recovery.	68%	12%	20%
While fiscal stimulus prevented a short-term economic collapse, it may have unintended consequences that could prove disruptive to financial stability in the longer run.	67%	14%	19%
Financial market infrastructures (FMIs) have contributed to financial stability in the wake of the Covid-19 outbreak.	63%	11%	26%
Covid-19 will cause further consolidation and concentration within the financial services industry.	57%	23%	20%
Market volatility in 2021 will be substantially higher than historical averages.	55%	13%	32%
The Covid-19 pandemic will have a significant geopolitical impact and change the international balance of power.	51%	22%	27%
Market movements in the wake of the Coronavirus outbreak have demonstrated major shortcomings in risk models that must be addressed.	50%	27%	23%
The worst is yet to come – systemic risk and financial instability will be worse in 2021 than in 2020.	42%	22%	36%
Credit provisions booked by banks in 2020 will be sufficient to cover actual Covid-related credit losses that will materialize in 2021 and beyond.	28%	39%	33%
Central banks and governments have exhausted their tools in their attempts to mitigate the economic fallout of Covid-19.	27%	47%	26%

Respondents were also asked “HOW LONG DO YOU EXPECT IT WILL TAKE THE ECONOMY IN YOUR REGION OF THE WORLD TO FULLY RECOVER FROM THE FALLOUT OF THE COVID-19 PANDEMIC?”

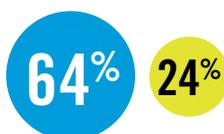
WITHIN 1 YEAR	6%
1 TO 3 YEARS	62%
MORE THAN 3 YEARS	30%
NOT SURE	2%

REGIONAL DIFFERENCES

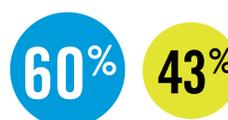
BASED ON THE FEEDBACK RECEIVED FROM 144 RESPONDENTS WITHIN NORTH AMERICA AND 76 RESPONDENTS OUTSIDE OF NORTH AMERICA, WE IDENTIFIED SOME NOTEWORTHY REGIONAL DIFFERENCES.

In relative terms, North American respondents are more concerned about the U.S. Presidential Election Outcome, Cyber Risk and Sudden Dislocation in Financial Markets.

U.S. PRESIDENTIAL ELECTION OUTCOME



CYBER RISK



SUDDEN DISLOCATION IN FINANCIAL MARKETS



Respondents outside of North America are more concerned, also in relative terms, with Geopolitical Risks & Trade Tensions, Excessive Global Debt and Brexit.

GEOPOLITICAL RISKS & TRADE TENSIONS



EXCESSIVE GLOBAL DEBT



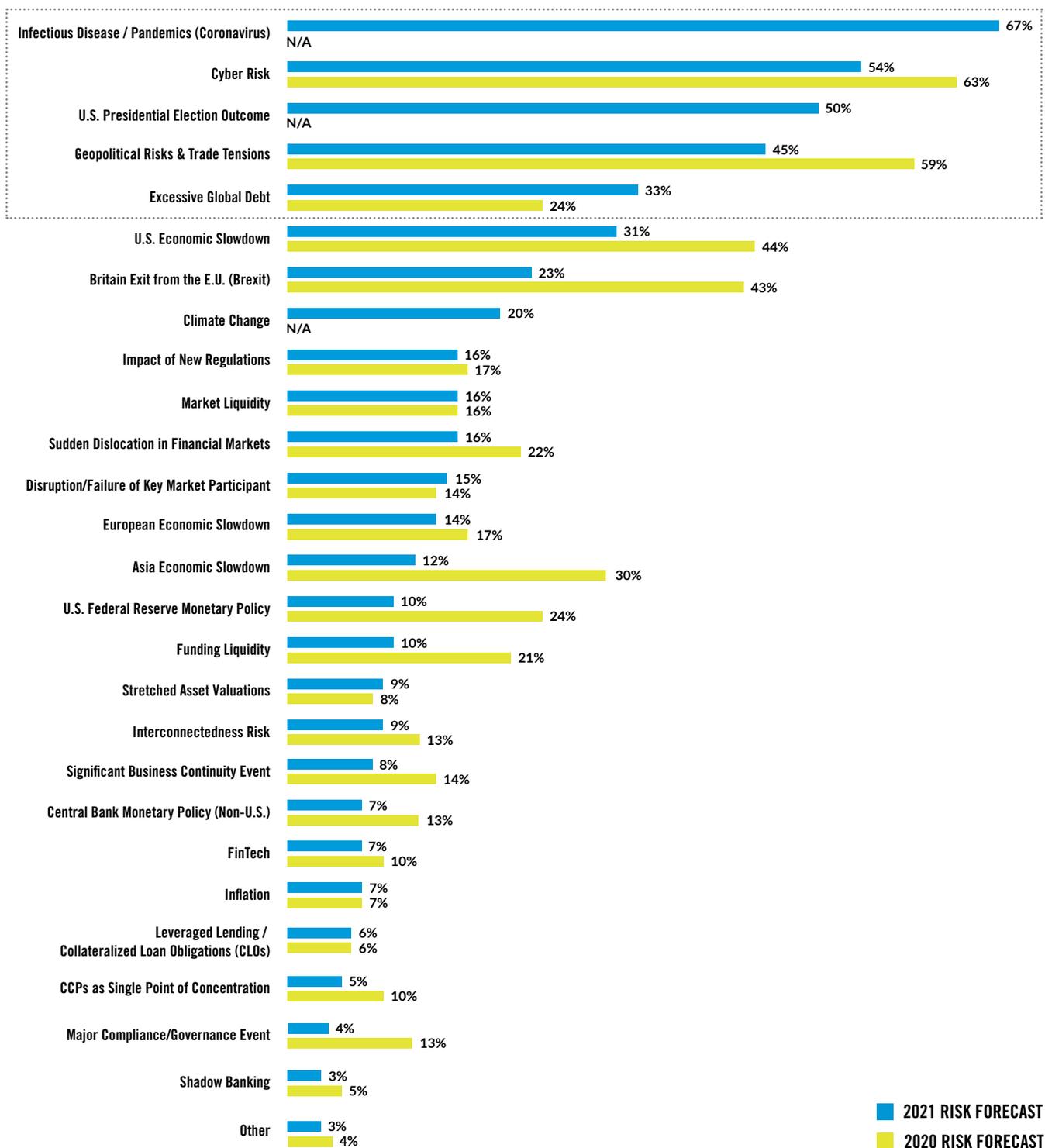
BREXIT



TOP 5 RISKS IDENTIFIED

When asked to identify the top 5 systemic risks to the broader economy, most respondents cited Infectious Disease/Pandemics (Coronavirus), Cyber Risk, U.S. Presidential Election Outcome, Geopolitical Risks & Trade Tensions and Excessive Global Debt. The graph compares results for the 2021 Risk Forecast (in blue) with results for the 2020 Risk Forecast (in yellow).*

RISK TO BROADER ECONOMY



*Infectious Disease / Pandemics (Coronavirus), the U.S. Presidential Election Outcome, and Climate Change were added as new risk categories to the 2021 Risk Forecast.