In second-degree storm signal

Risk management trends in the financial sectors from the perspective of risk executives

CRO Survey 2022 – Banks, Insurers, Investment Fund Managers

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Contents

Executive Summary

Stormy gusts, high and prolonged waves, poor visibility. In sailing terms, elements of a second-degree storm signal can be used to describe the economic environment in which risk executives have to make responsible managerial and professional decisions every day. Uncertainty has reached proportions not seen in a long time. Most professionals do not yet have experience in managing interest rate environments and inflation levels such as those we find ourselves in. And considering current geopolitical tensions, even the efficacy of the traditional economic toolkit is being questioned.

In these circumstances, we once again conducted our usual three-yearly risk management survey with 32 executives of the domestic financial sector. Back in 2019, the chief risk officers (CROs) of banks, insurance companies and fund managers were already worried about how long the expanding economic cycle could be sustained. In retrospect, we can see we have gone from crisis to crisis.

Although traditional credit and market risks have already increased significantly in the last two years according to CROs, fears caused by the Russian-Ukrainian war, combined with inflation and recessionary prospects, have driven risks even higher. More than 70% of CROs now believe these risks will continue to increase over the next two years. Beyond this, the answers predict a calmer time for traditional risks. The seven abundant / seven scarce year lineup will shift towards the abundant years, but ESG and cyber risks, as well as other risks resulting from the application of innovative technologies, will continue to escalate. Regarding the latter, there is something positive to be said. According to responses, the COVID-19 period, with its prioritized remote work and online customer relations, has taught us much. These are experiences we can build on.

It is interesting to compare these expectations with similar conclusions from the recently released global KPMG 2022 CEO Outlook. The majority of the 1,325 CEOs surveyed (86%) expect a recession within one year. Looking ahead three years, most (71%) are optimistic about growth prospects, while they see medium-term dangers in the risks associated with new / disruptive technologies.

The preferences of CROs have shifted towards supporting traditional and conservative financial services. In the case of banks, green loans and state-subsidized schemes are the most supported, while in the case of insurance companies, risk life insurance and health insurance are preferred. Among the risk executives of fund managers, the least preferred products are exotic and leveraged funds; for insurance companies, home insurance; and for banks, project financing and unsecured products.

Based on these answers, CRO entrepreneurial spirit waned with regard to innovative technologies. This is most noticeable among the CROs of insurance companies. But in general, the proportion of those who wish to deploy artificial intelligence also dropped from 60% to 30%. Leaders are also more pessimistic about the prospects for development resources, and this problem will remain with us in the longer term due to the scarcity of competent professionals. Although automation remains the most important goal of innovation, it seems that adaptation to the turbulent risk environment is temporarily overriding the adaptation of new technologies. In contrast, some CROs still believe that those who persist in innovation will gain competitive advantage.

Ágnes Rakó
Partner

Péter Szalai
Associate partner

The breakdown of the responses by financial sector and company size leads to further interesting results.

At large institutions, the development of risk culture is the most important goal of the CROs. For example, according to bank CROs, the strengthening of risk awareness and risk culture is the greatest added value they represent.

Among the focuses of fund managers CROs, the training of employees appeared very prominently, the background of which may be the tightening of the regulatory requirements.

In the case of development resources, insurance CROs are the most pessimistic, with only 16% of respondents expecting growth.

CROs of large institutions are most worried about cyber-attacks: 90% of large companies indicated an increase in risk exposure, while only 50% of the respondents perceived this in the case of their smaller counterparts.

Due to regulatory priorities and changes in the risk environment, ESG has clearly become one of the focus areas of risk management, but sustainability may become an important engine of renewal.

ESG risks are not easy to predict, even for insurers that carefully measure physical damage, but the implementation of the necessary developments can also promote the professional cooperation of different sectors.

We cannot, of course, know what the future will bring. Waves in choppy waters make navigation difficult, but companies in the financial sectors navigate rough waters with focused and strengthened risk management functions. For CROs, involvement in strategic decisions remains the most important measure of success, and it is encouraging that they are on the right track in this regard. With this publication, we also want to help them to stay afloat and make good decisions.

The Most Important Findings

I. How is the role and influence of risk executives changing?

The authority of risk executives (CROs) has continued to increase. Ninety-two percent of them are members of the board of directors or report directly to the CEO, and in the case of banks and fund managers, the figure is 100%.

The role is becoming more focused. CRO influence grows, but to a varying extent at different financial institutions. It is increasingly typical among banks that risk assumption and risk control fall into the same hands.

Nearly 70% of fund managers' risk executives now experience greater influence in strategy development and access to information.

II. What makes a CRO successful? What does success mean?

Strengthening risk awareness and risk culture is the biggest added value, according to bank CROs: 90% of them thought this was important, which is a significant increase compared to the values of 2016 and 2019.

For fund managers operating in smaller organizations, the focus is on the accurate measurement, reduction and hedging of risks, and on the proportional pricing of risks.

Similar to the 2019 and 2016 results, CROs continue to see involvement in strategic decision-making as the most important measure of their success.

Although data quality is improving, the profession is still hindered by deficiencies in IT systems. Resource problems have also come to the fore.

III. What are the development goals of CROs, and what resources do they have?

Optimism regarding the growth of development resources has dropped significantly. Only 16% of insurers' CROs expect growth.

Scarcity of resources requires prioritization. Accordingly, compared to 2019, CROs are more divided regarding the allocation of resources between areas.

Skills and expertise, risk systems, and data quality are all preeminent as goals. While the training of employees was not yet a priority among fund managers in 2019, almost 70% of them now place more emphasis on it, while insurers want to improve internal communication to a far greater measure than respondents from other sectors.

At large institutions, the development of risk culture is extremely important, with 72% of the respondents desiring to strengthen this.

IV. What are the most important regulatory and risk trends?

Further regulatory tightening is perceptible, while the newly emerged ESG requirements represent the biggest challenge.

According to the previous survey, the relative importance of traditional risk types decreased; however, over the past two years, CROs have again experienced an increase in market and credit risks, which may further increase in the years ahead. In the long term, ESG and cyber risks will be in focus.

Conservative product strategies are supported. Ninety-five percent of banks now support green loans, while at insurance companies traditional risk life insurance and health insurance are the most supported products. Support for home insurance has decreased, with 70% of CROs rejecting exotic investment funds.

V. What will the future bring?

Eighty-five percent of the respondents see declining economic activity and soaring prices / interest rates as significant sources of risk. Concerns are heightened by the weakening and volatility of the forint, and by geopolitical tensions.

As risks and uncertainty increase, the desire to innovate decreases. Compared to 60% 3 years ago, only 30% of respondents regard artificial intelligence as a top priority in risk areas. Support for collaboration with tech companies is also decreasing.

ESG, in addition to being an engine of innovation, could also become a field for professional cooperation between sectors.

About the survey

As part of the KPMG CRO Forum this year, we once again surveyed the Chief Risk Officers (CROs) of banks, insurance companies and investment fund managers. The questions asked can be grouped into four topics:

1. **The role of the CRO**
2. **Available resources and skills**
3. **General market trends**
4. **Future and risk management**

During the survey, we received responses from 32 CROs. The respondents include the CROs of nine small businesses, fourteen medium-sized companies and nine institutions.

The respondents completed the questionnaires in 2022. The research was done anonymously. We also interviewed five more executives.

We compared the answers with the results of similar surveys conducted by KPMG Tanácsadó Kft. in 2012, 2016 and 2019, and also made comparisons between sectors and by company size.

We are happy to provide the participants of the sectors a further personal presentation of the results, to include an in-person evaluation and analysis.

The following managers and experts from KPMG participated in conducting the survey and in the evaluation of the results: Viktória Glózer-Say, Ákos Lois, Bálint Mészáros, Ágnes Rakó, József Soltész, Gergely Szabolcs, Péter Szalai, Márton Szalontai, Péter Vajda, and Gergő Wieder.

32 CROs responded

14 Banks
10 Insurers
8 Fund managers

9 Small Businesses
14 Medium-sized Businesses
9 Institutions

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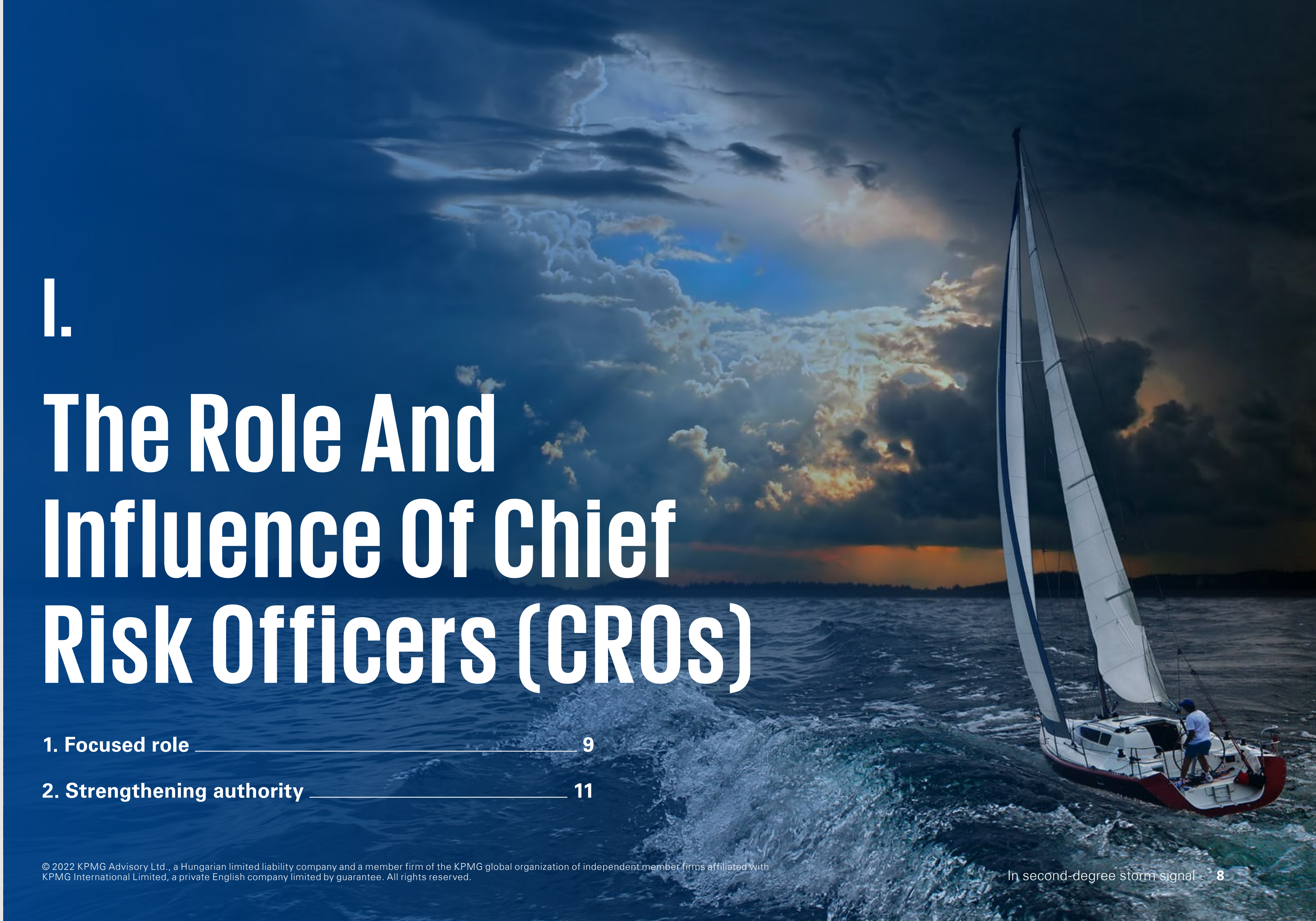


I.

The Role And Influence Of Chief Risk Officers (CROs)

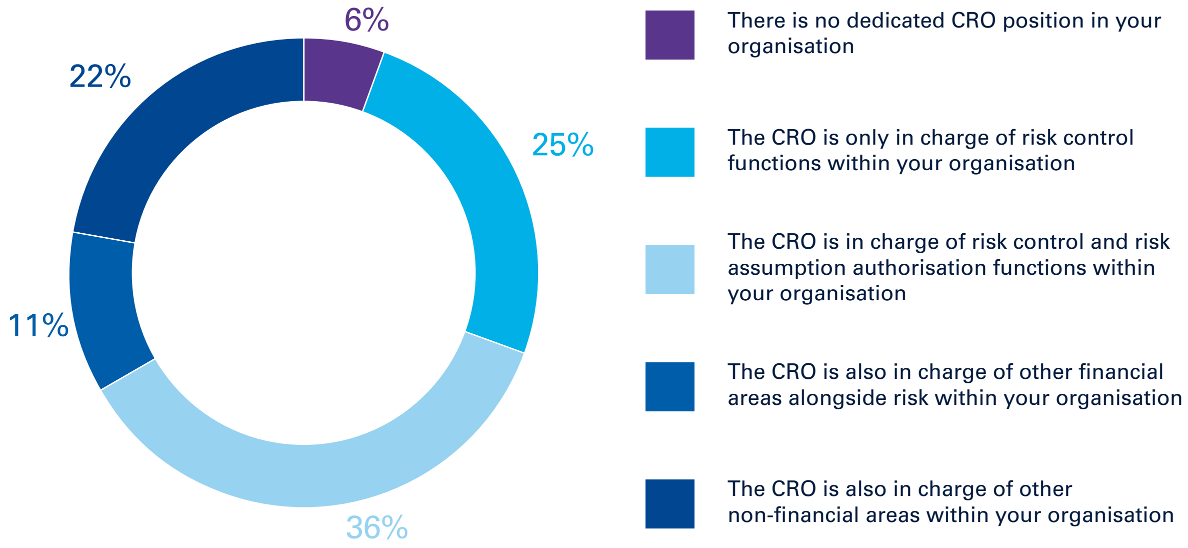
1. Focused role

The responses to the survey reflect that the responsibilities of risk executives have become significantly more focused when compared to the 2019 survey. From 43% three years ago, the proportion of CROs who oversee other, non-financial areas in their organization has decreased to 22%. In the case of banks, it is increasingly common that the function of risk control and risk-taking authorization falls into one pair of hands. The proportion of such participants was 60% this year, while in 2019 it was only 47%.

Several bank CROs are also CFOs (Chief Financial Officers, Deputy Chief Financial Officers, or Financial Executives). In some cases, they also perform additional tasks, typically in the areas of capital management, receivables management and IT security.

Similarly, in insurance companies the proportion of risk executives who also perform non-financial duties has decreased significantly: this year it is only 17%, compared to 54% in 2019. In the case of large insurance companies, 75% of the risk managers supervise only risk control functions, while the remaining 25% also supervise the risk-taking functions. By contrast, half of the CROs at smaller insurance companies answered that they are also responsible for other non-financial areas.

Figure 1
Aggregate - Organisational role of CRO



In the case of fund managers, such trends are less noticeable. Twenty-two percent of them do not have a dedicated CRO function, and only 44% of the respondents perform exclusively risk management duties.

Generally speaking, it is typical that in small institutions the CROs perform additional tasks not related to risk management, and there has been no change in this compared to 2019. In our opinion, the reason for this is that, due to economies of scale, it is not feasible for smaller organizations to narrow the scope of the CRO's duties solely to risk management tasks, as opposed to what we observe mostly in medium and large banks and insurance companies.

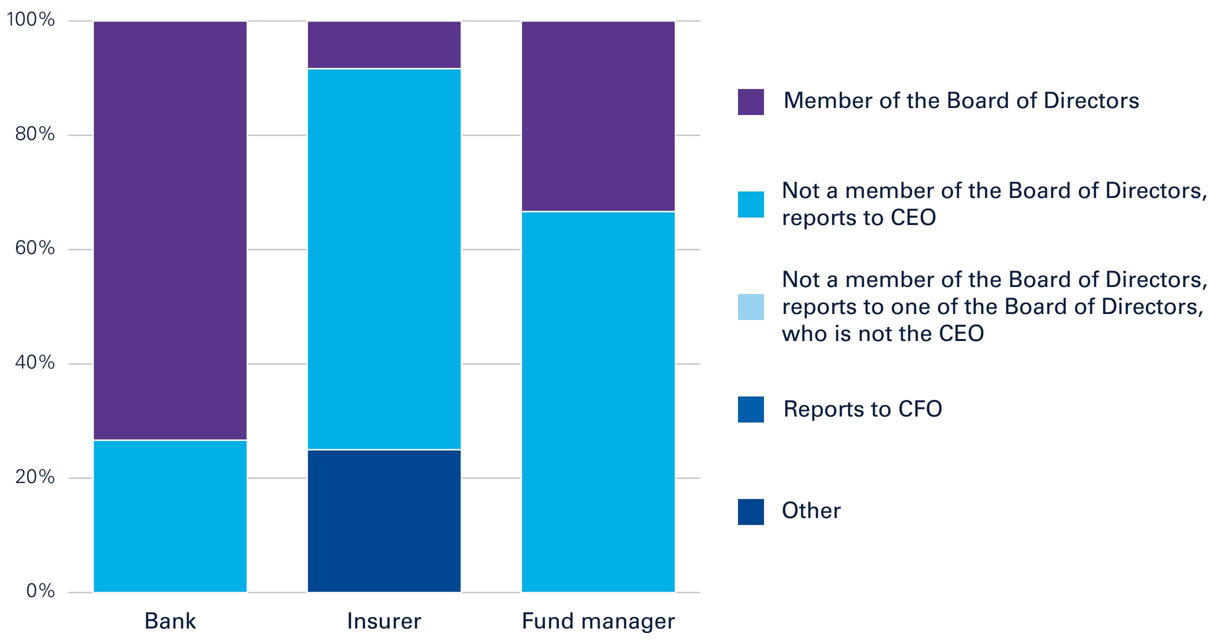
The results of our survey also show that the role of CROs has further strengthened, and they are involved in organizational decision-making at a higher level.

Seventy-three percent of bank risk executives are members of the board of directors, which is a significant increase compared with 2019, when this proportion was 40%.

Among insurance companies respondents, none of the CROs reports to the CFO, whereas in 2019 this rate was 23%. Sixty-seven percent of CROs report to the CEO (Chief Executive Officer), while in the other category they report to the board of directors. These changes show that, even in insurance companies, risk executives are involved in decision-making at an organizationally higher level and that their role is becoming more influential.

In the case of fund managers, no significant change can be observed compared to 2019. One-third of risk executives are members of the board, and two-thirds report to the CEO.

Figure 2
Aggregate - The CROs role within your organization



2. Strengthening authority

The influence of risk executives continued to increase in most organizations over the past two years, but not to the extent that was experienced in 2019, when, especially in the area of strategy development, product development and access to information, their influence significantly increased. In our view, the reason for this is that in previous years the influence of risk executives in specific areas had already reached a high level in many organizations, and room for further growth is decreasing. However, there are areas where the influence of CROs has significantly increased, such as strategy development (a 39% increase), business performance evaluation (36%) and access to information (33%).

Figure 3

Aggregate - Changes in degree of influence of CROs over past two years in following areas (scale of 1-5, significant increase - significant decrease)

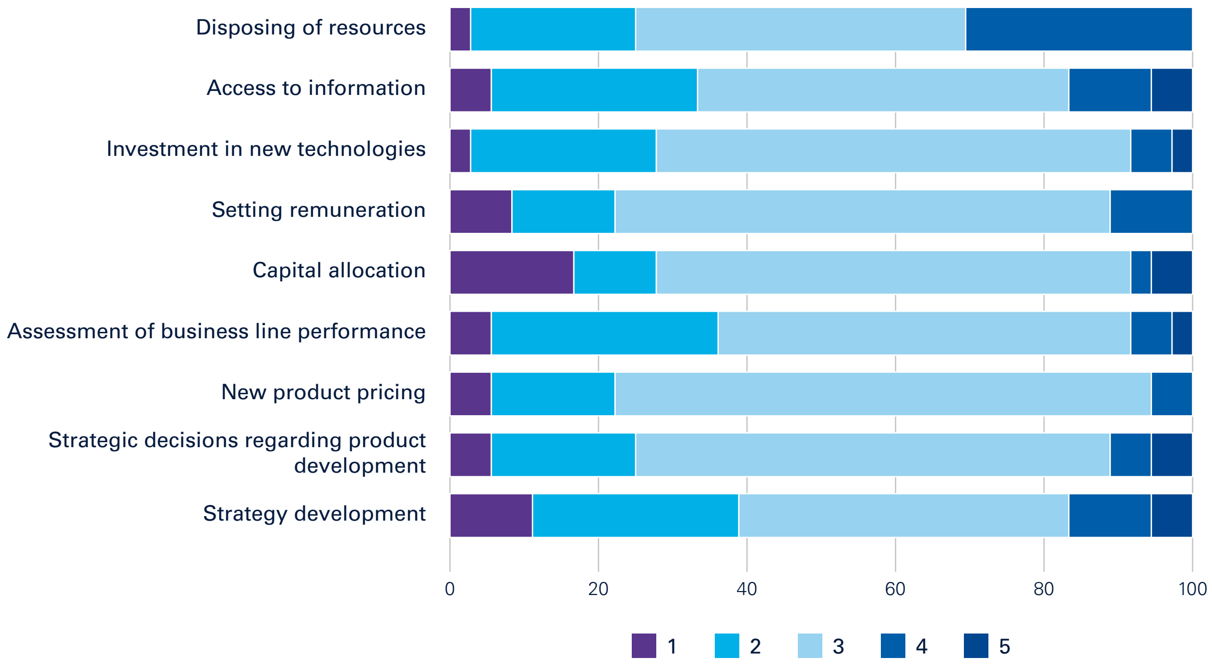
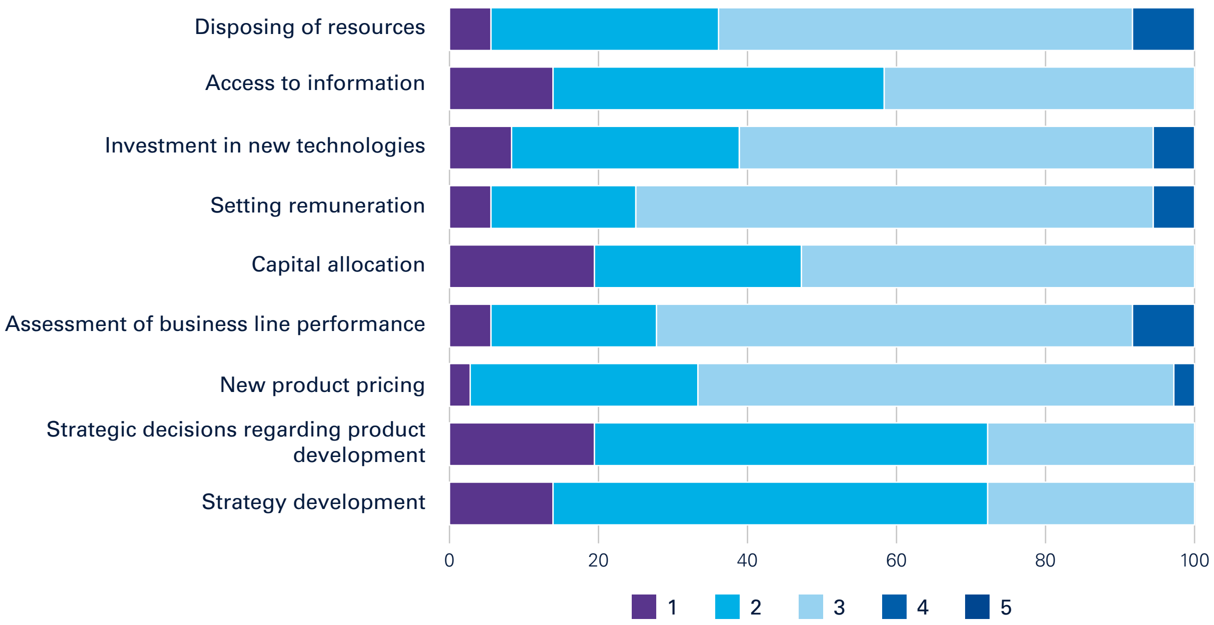


Figure 4

2019 Aggregate - Changes in degree of influence of CROs over past two years in following areas (scale of 1-5, significant increase - significant decrease)



Further growth is also consistent with the visible trend found in the responses to the first question. Since CROs are involved in decision-making processes at an increasingly higher level, their influence was also able to grow further.

We also see interesting results when comparing sectors. The responses of the banks are similar to the aggregated results, but there are differences in the case of insurance companies and fund managers. In insurance companies, almost 60% of CROs experienced a slight decrease in resource availability. This mostly affected small and medium-sized insurers, for which the rate of decrease in influence was 75%. This may be due to the fact that the introduction of IFRS17 was extremely resource-demanding, and many CROs may have felt that they needed more resources.

Figure 5

Insurer - Changes in degree of influence of CROs over past two years in following areas (scale of 1-5, significant increase - significant decrease)

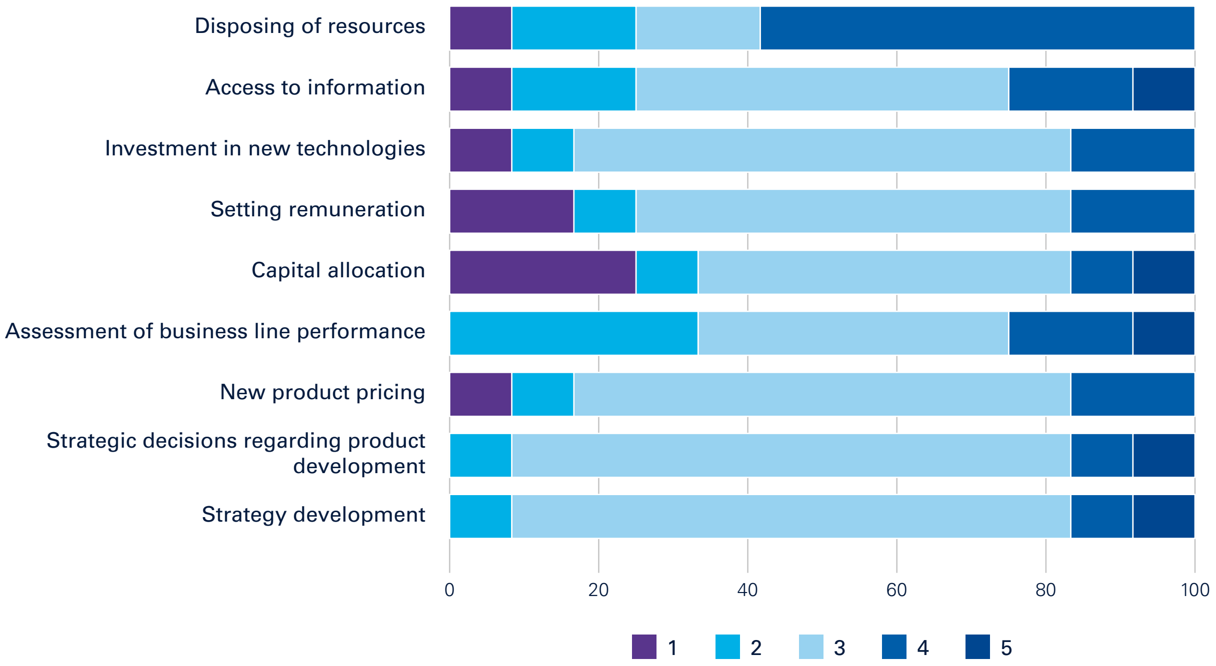
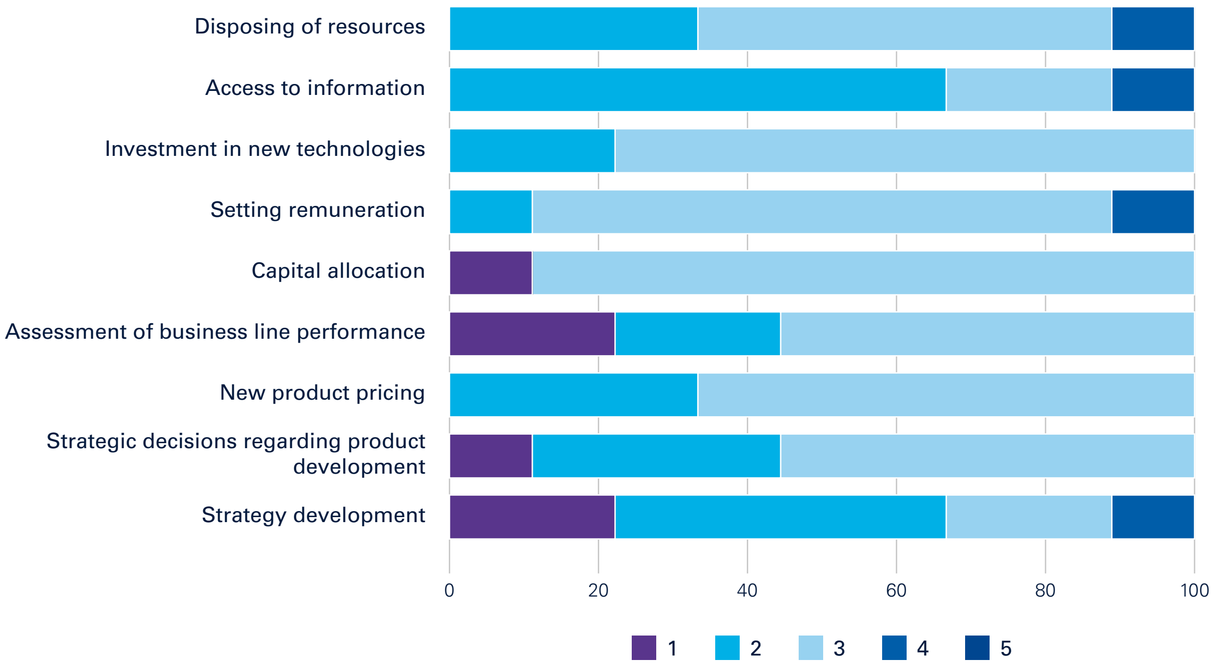


Figure 6

Fund manager - Changes in degree of influence of CROs over past two years in following areas (scale of 1-5, significant increase - significant decrease)



The fund managers reported the largest increase in influence in the area of strategic development, at 66%. Access to information has also improved significantly. Again, 66% of respondents felt that their influence in this area had increased.
This substantial increase is also due to the fact that the fund manager's risk executives were able to grow their level of influence in recent years, while in the case of banks, influence had already reached a high level; consequently, further increases can only be smaller in proportion.

OTP Bank

The Main Challenge Is The Synchronisation Of Market Segments Which Are At Different Levels Of Maturity In Different Countries

György Kis-Haypál
OTP Bank
CRO

"The position of the CRO is not easy in a parent bank where the individual loan segments in the subsidiaries are at different stages of their lifecycle," says György Kiss-Haypál, CRO of OTP Bank. "The bank has experience in managing resurgent inflation risks, but geopolitical- and sanctions-related risks present a new problem, one which has highlighted the management of ESG risks. Said management is not possible without the use of the latest data analytical technologies."

In terms of your mandate, what does it mean to be the CRO of the largest bank in the country and one of the most influential banks in the region?

On one hand, as a parent bank CRO, I must organize our activities in accordance with uniform risk management principles in markets that are obviously closely related to each other, yet have very different characteristics. Seventy percent of our loan portfolio already originates from abroad, but the different loan segments are not equally mature in each country. Retail lending differs in the secured but especially unsecured segments. This means you have to be much more careful in Romania and Montenegro than in the domestic or Croatian markets. However, the SME sector is riskier in Hungary, partly thanks to previous relatively cheap financing, which led to developments that may not always pay off financially.

On the other hand, at OTP the area directly supervised by the CRO is narrower and more focused than in other international banks, but the authority and influence in these areas are greater. This has continued to strengthen in recent years, for example in strategy development, or even in the case of remuneration rules and bonus payments.

This is very good to hear. According to the executives of international banks, one of the main causes of the 2008 financial crisis was the flawed bonus system. Financial institutions must once again perform in difficult conditions. How do you assess the current risk environment, and what are your expectations?

Credit risk has once more re-emerged. Looking ahead, I expect an unequivocal increase in credit risk exposure. Cyber risk and the risk of financial crime could further increase, and this trend may even stay with us in the longer term. In addition, I see a significant risk in the changes to the regulatory environment, and partially related to this are sustainability / ESG factors as well. We are preparing for these, but this has been made very difficult by the significantly increased uncertainty that generally characterizes the economic and social environment. I am thinking here primarily of increased inflation, slowing growth, and geopolitical tensions.

In such circumstances, what are the typical priorities of a risk management executive?

Largely dealing with external impacts and uncertainty. We have tools for some of these, but there are also completely new challenges. We already have experience with high inflation within the region. For example, Ukraine has struggled with increased inflation for a long time—even before the war. Due to rising prices, less is available for loan repayments. This correlates with the probability of default (PD) and indirectly with the loss given default (LGD). Economic growth problems could lead to a possible recurrence of unemployment if larger economies enter a recession, too. These are mechanisms whose effects we can already measure and manage with our advanced tool system.

However, the increased geopolitical- and sanctions-related uncertainty can create a completely new situation.

This is true. The effects of this can be extremely unpredictable, and can even cause a massive recession. This is why we constantly monitor and analyse the state and the prospects of the macroeconomic environment, as well as the related risks.

It is almost equally important for a CRO to constantly develop risk measurement and analysis capabilities using the latest technologies. For example, we place great emphasis on the further expansion of our data sources and databases for risk management purposes and their innovative use.

You have been working in bank risk management for a long time and you currently lead a risk management area. What do you think is the best way to measure the success of a CRO?

The CRO and the risk areas serve long-term sustainable profitability and financial stability. In terms of numbers, this can best be measured by how the risk-adjusted return is proportional to the cost of capital. In relation to impairment and provisions, I do not think that the most important thing as a risk management manager is to get this number as accurate as possible, although this is undoubtedly important; but rather how we manage the risks, how much we can save from the risk costs, and how much will actually have to be written off. At OTP, long-term effectiveness that also takes risks into account appears in some form in all the significant executives' goal setting.

You previously highlighted ESG aspects and sustainability risks. How does the bank and the risk management area relate to these topics?

This is a very complex topic. Our related activities are brought together by a board dedicated to this in one program, which includes risk management as well as business areas and many other functions. From a business point of view, with green loans, for example, the bank strives to become a market leader, and the assessment of ESG factors is already part of the risk management process. Of course, there are still tasks and challenges ahead of us. For instance, the time frame of traditional risk management models does not anticipate what will happen in a couple of decades, and the availability of relevant data is also limited.

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II.

The Measure Of A CRO’s Success

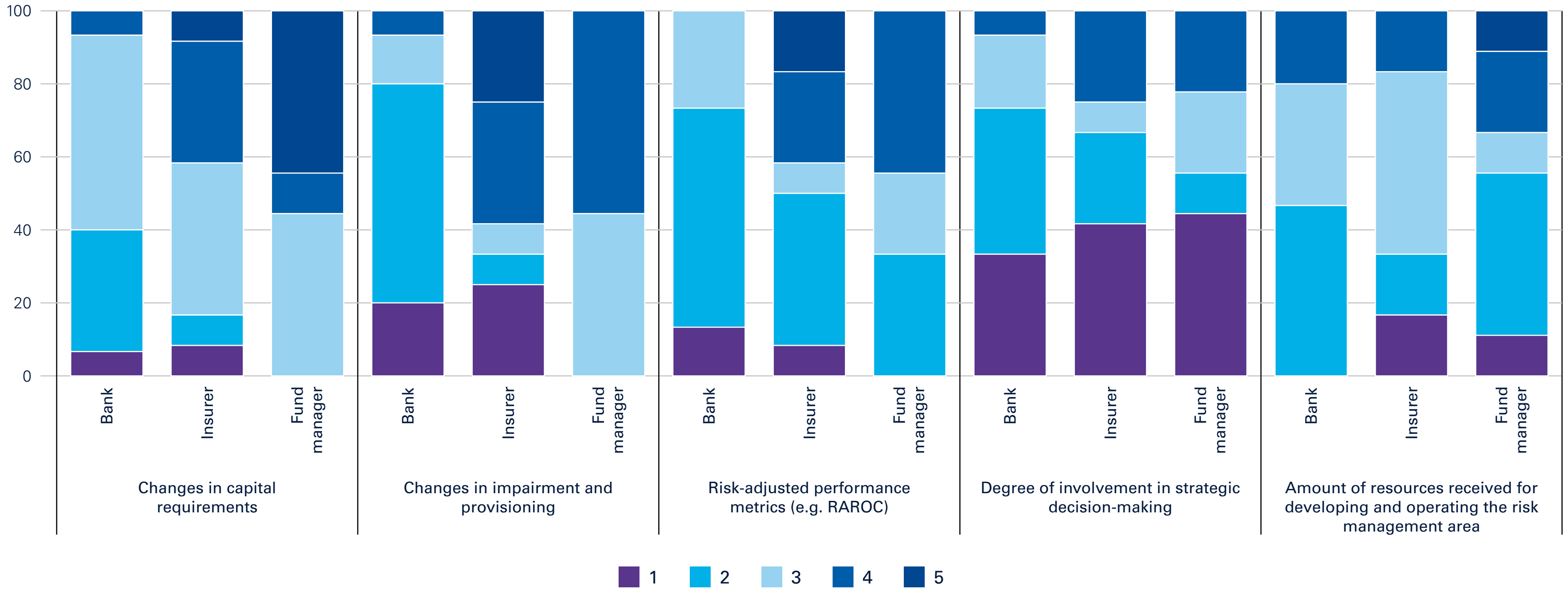
1. The measure of success is strategic embeddedness

Similar to the 2019 and 2016 results, CROs continue to regard the degree of involvement in strategic decision-making as the most decisive factor by which their success can be measured.

Changes in capital requirements are still not a preferred indicator. At the sectoral level, however, there is a substantial difference between the answers.

Figure 7

2022 - How well can the success of a CRO be measured using the following indicators? (1 - very important indicator, 5 - completely unsuitable indicator)



In 2016, all indicators were highlighted by respondents from banks to an almost equal extent. This year, this balance can no longer be observed. Eighty percent of respondents now state that the most important indicator is the change in impairment and provision. This is closely followed by the degree of involvement in strategic decision-making and risk-adjusted performance metrics (e.g. RAROC).

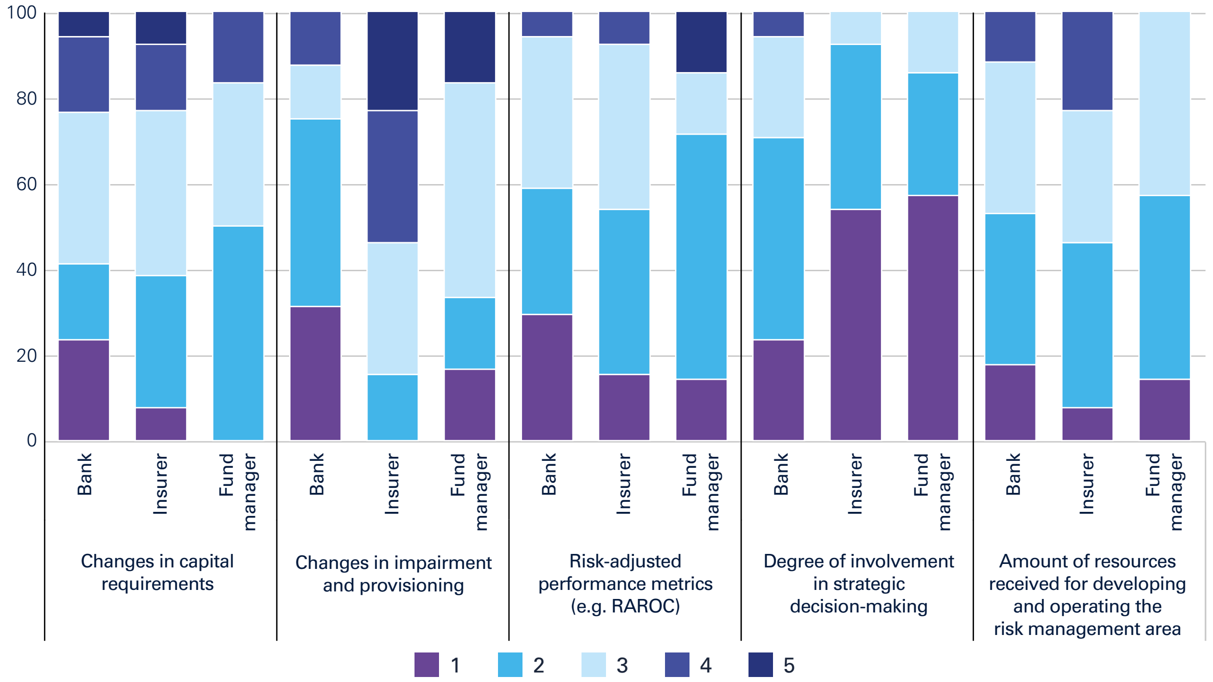
As in 2016 and 2019, this year the amount of involvement in strategic decision-making is the most important measure of success for insurance companies, while the other categories received more varied evaluations.

In the case of fund managers, the most important indicator is the amount of resources received for the development and operation of the risk management function, and the degree of involvement in strategic decision-making. The reason for this is that changes in capital requirements, changes in impairment and provision, or risk-adjusted performance metrics are less relevant for a fund manager risk executive due to the specifics of their business activity.

The degree of regulatory compliance also stands out from the other answers as an additional indicator. According to CROs, this can be measured by the size of supervisory fines and by how many recommendations or observations are made by the supervisor or the internal auditor during a given audit.

Figure 8

2019 - How well can the success of a CRO be measured using the following indicators? (1 - very important indicator, 5 - completely unsuitable indicator)



2. Greatness requires culture

This year, as before, we examined which value-creating activities designed to contribute to the long-term success of their organization CROs highlighted. According to more than 60% of the respondents, aside from the quick assessment of risk assumption and the reduction of the related administration, all categories create value to the same extent. But here, too, there are differences between the institutions in each sector.

Figure 9

Aggregate - What is the best form of value creation by the risk function in terms of the institution's long-term successful operation in the upcoming two years? (scale of 1-5, best form - worst form)

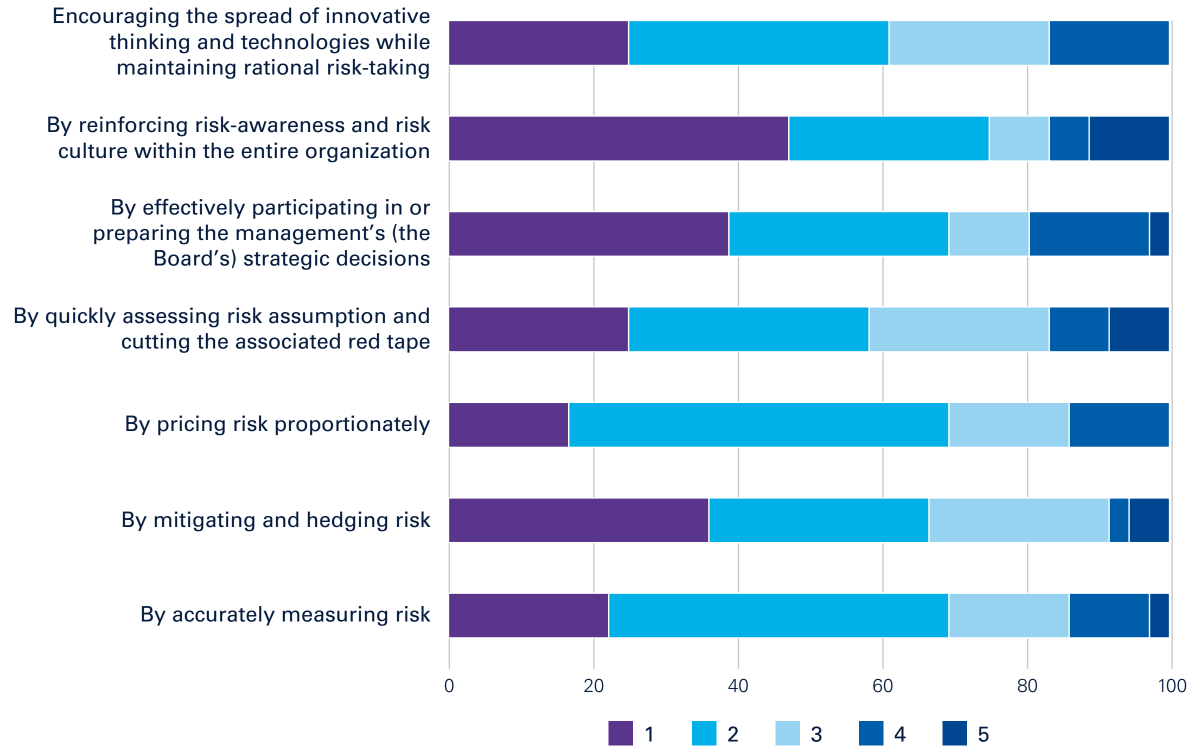
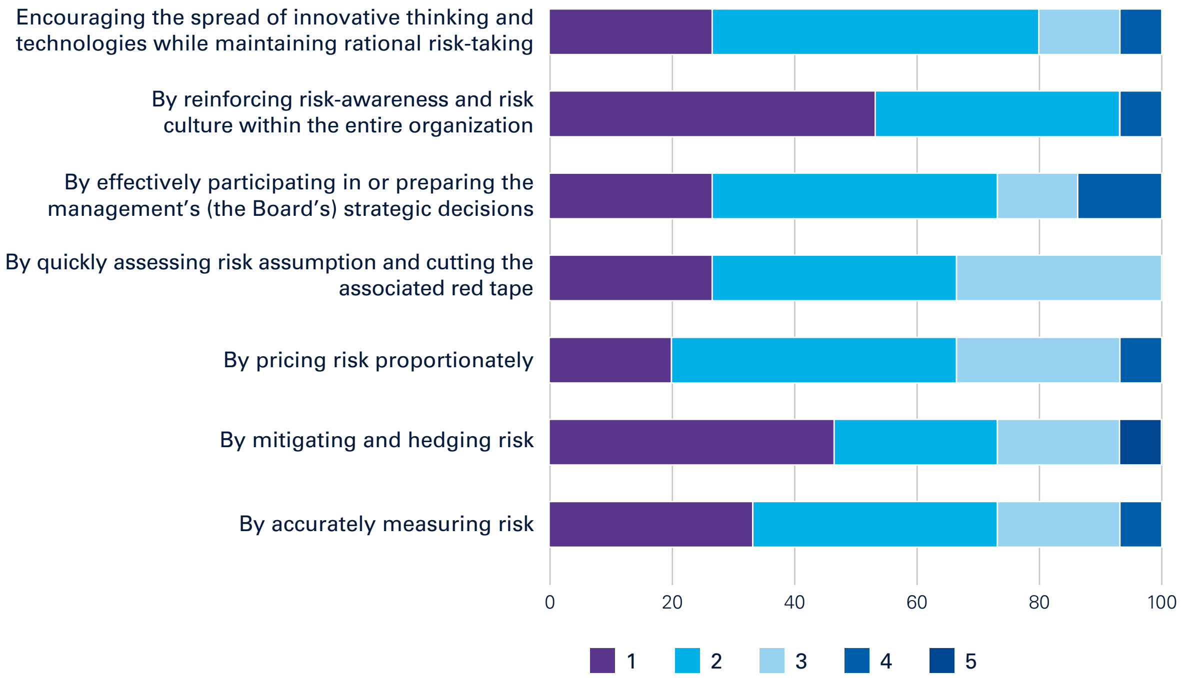


Figure 10

Bank - What is the best form of value creation by the risk function in terms of the institution's long-term successful operation in the upcoming two years? (scale of 1-5, best form - worst form)



The strengthening of risk awareness and risk culture within the entire organization was most apparent in the case of banks, where more than 90% of respondents thought it was an important value-creating activity. This is a significantly higher rate than in the case of fund managers and shows an increase compared to 2016 and 2019.

In our opinion, this is a very positive trend which might be explained by the fact that risk awareness occupies an increasingly integrated place in the organizational culture of banks, necessitated by both the regulatory environment and the nature of their business activities.

CROs of insurance companies want to lay a foundation for long-term value creation by strengthening risk awareness and risk culture within their entire organizations, and by effective participation in strategic decision-making and support of the management. This fits the trend already observed in 2019. However, insurance company CROs now support the above-mentioned two options with even greater confidence.

Figure 11

Insurer - What is the best form of value creation by the risk function in terms of the institution's long-term successful operation in the upcoming two years? (scale of 1-5, best form - worst form)

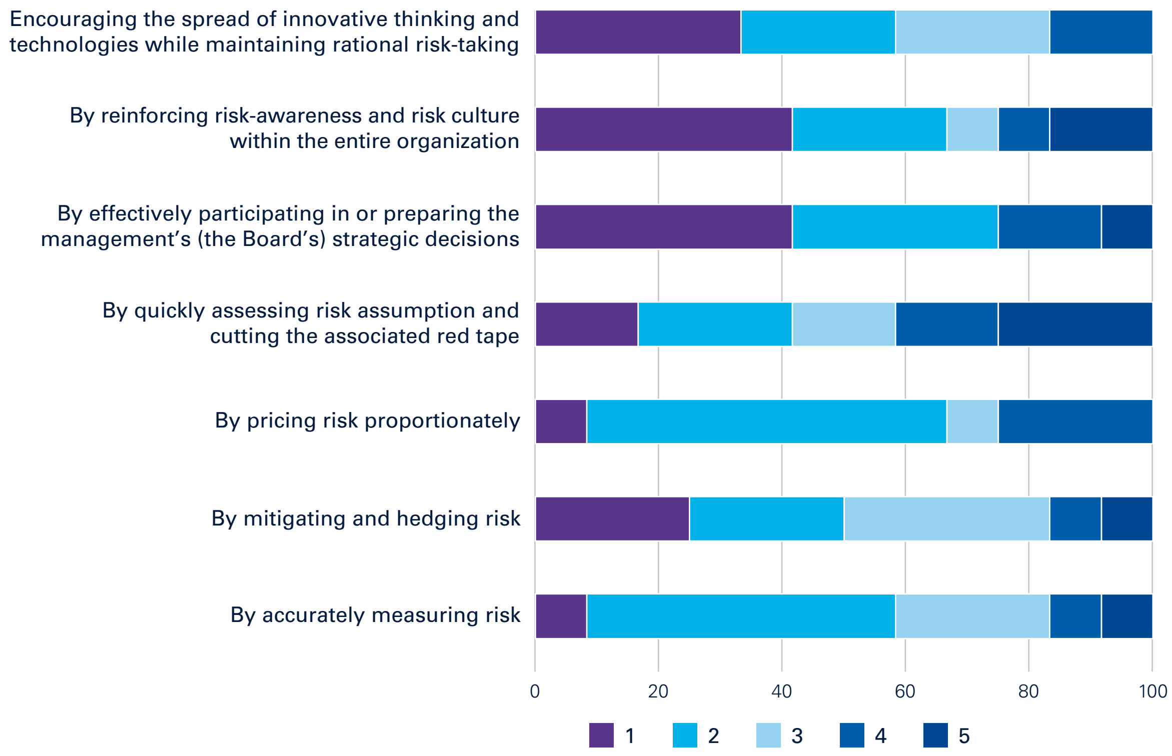
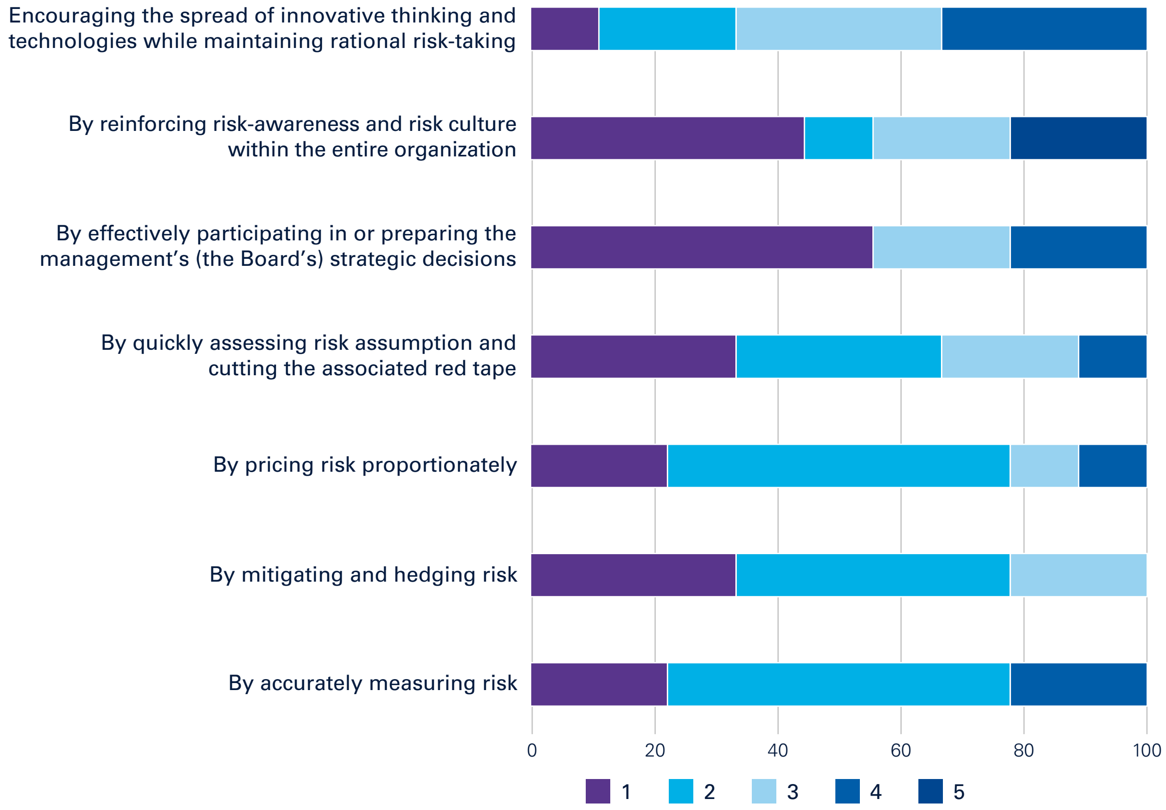


Figure 12

Fund manager - What is the best form of value creation by the risk function in terms of the institution's long-term successful operation in the upcoming two years? (scale of 1-5, best form - worst form)



According to the responses received from fund managers, CROs can best contribute to value creation through accurate risk measurement, risk reduction and hedging, and the proportional pricing of risks.

In addition to the presented categories, the respondents highlighted the following activities with which CROs can create value for their organizations:

- "Building strong understanding of the risk layers in the portfolios"
- "By building a team of experts"
  "Smooth integration of the risk decision trees in the digital channels"
- "Not really with risk reduction, but rather with conscious risk management of the right structure and scale, matching the strategy. Risk-taking is not within the competence of the CRO"
- "Independently support, challenge, advise business"

3. Improvements have been made, but the lack of resources comes to the fore

Among the factors hindering the work of CROs, both the deficiencies of IT systems and data quality problems continue to stand out, followed by a lack of resources. However, compared to 2019, an improvement in data quality can be observed in all sectors, while the shortcomings of IT systems were highlighted by the respondents in roughly the same proportion.

Figure 13
2022 - What impedes CROs the most in carrying out their work successfully? (multiple selection is possible)

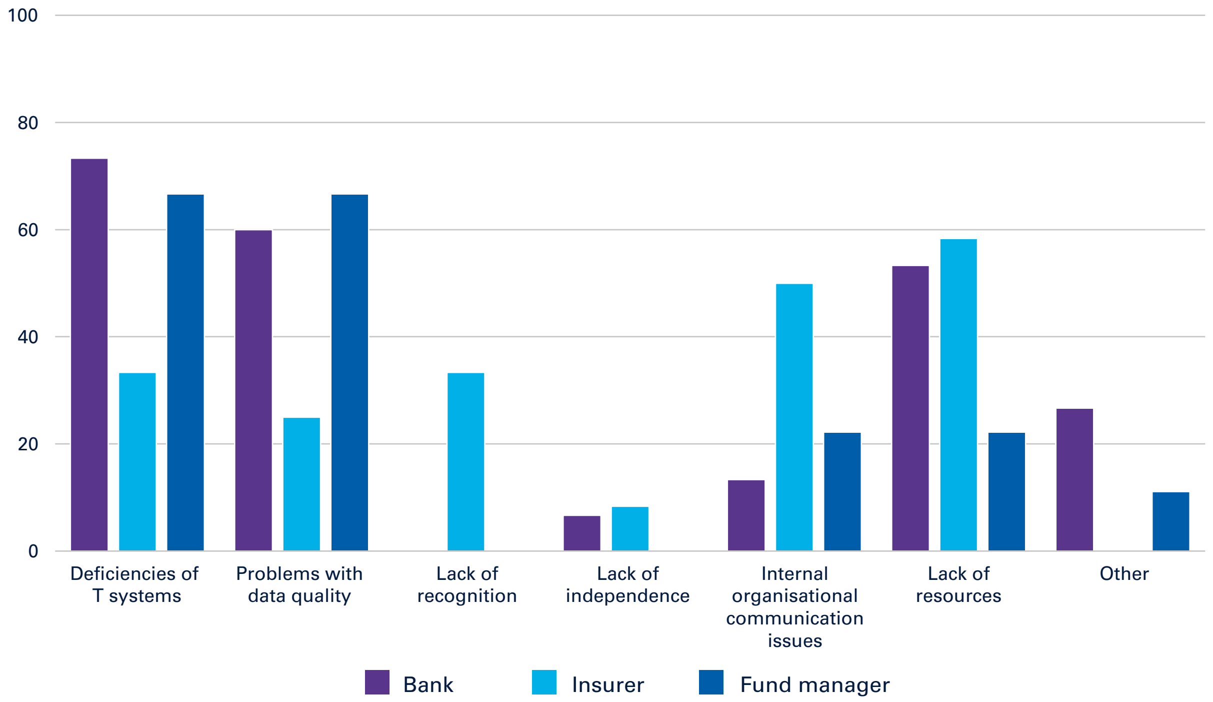
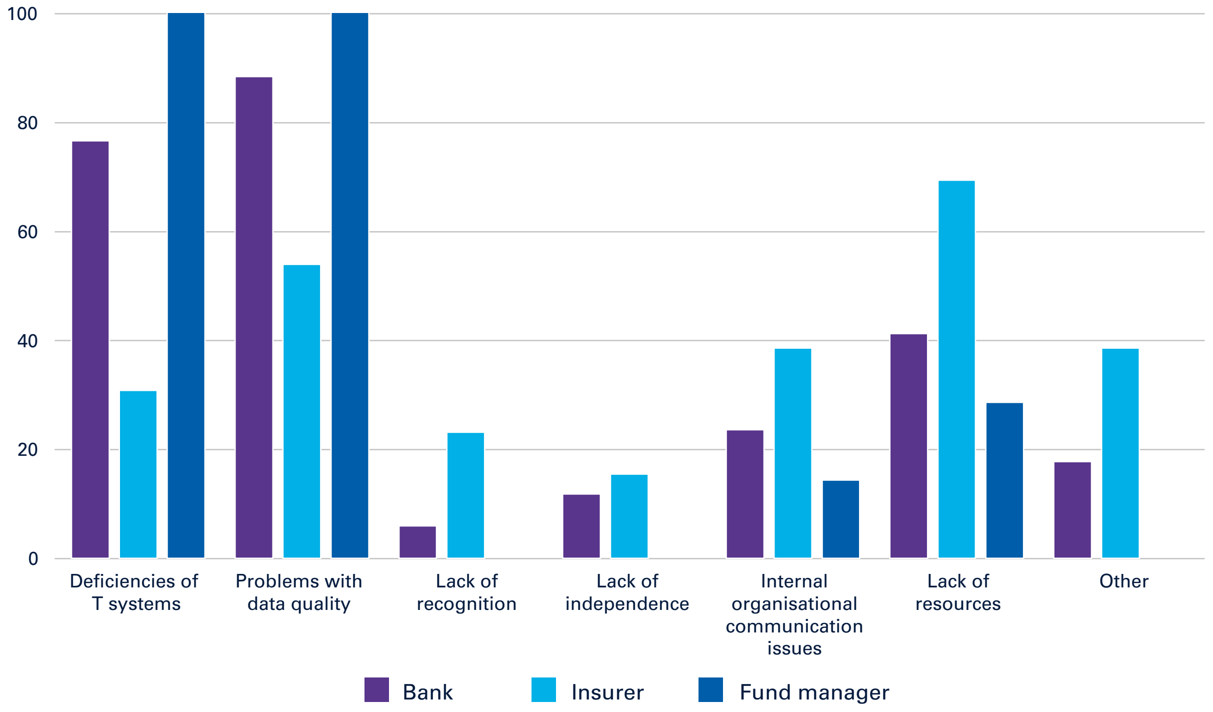


Figure 14

2019 - What impedes CROs the most in carrying out their work successfully? (multiple selection is possible)



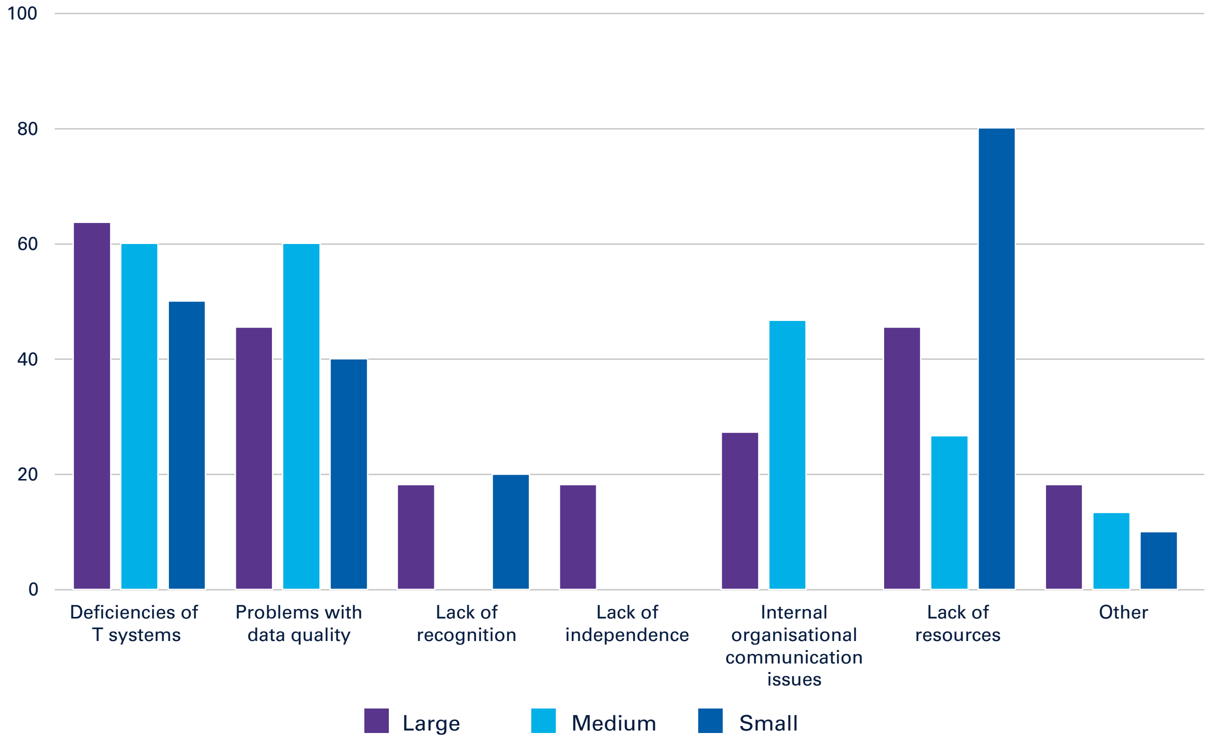
But here, too, we can observe important differences by sector. Although still significant, there is a reasonable improvement in data quality in banks. This year, 60% of bank CROs highlighted data quality problems, while nearly 90% did so in 2019. In the case of IT systems deficiencies, the rate did not change significantly. Seventy-three percent of respondents indicated that is still a problem. In our opinion, this trend shows that although data quality is improving, flaws in IT systems are still a limiting factor. This is especially the case in banks, where the new regulations have further burdened IT systems with risk management.

For insurance companies, two main problems remain: internal organizational communication issues, and a lack of information and resources. This year, the lack of recognition is only a problem for insurance companies. A third of the risk executives indicated this.

In the case of fund managers there were also significant changes compared to 2019. In 2019, 100% of the risk executives in fund managers regarded deficiencies in IT systems and data quality problems as hindering factors.
This proportion has now fallen to 67% in both categories, which shows that effective developments have been made in recent years.

With regard to the size of the organisations we can see an important change. In the case of small institutions, an exceptionally large number—80% of the respondents—reported a lack of resources. In our opinion, the reason for this is that the resource requirements of many tasks and regulatory expectations are not proportional to the size of the institution. The completion of certain tasks in a small organization takes a similar number of working hours as in a larger one.
It is therefore more typical among smaller institutions that the CRO faces a lack of resources. This is most evident in the case of small banks, where all respondents highlighted the lack of resources, while in the case of large and medium-sized banks, this ratio is only 33% and 25%, respectively.

Figure 15
2022 - What impedes CROs the most in carrying out their work successfully? (multiple selection is possible)



In addition to the above categories, the rapidly changing and less predictable regulatory environment also appeared in the answers as a hindering factor.

Hungarian Bankholding

Integration Within Integration: Relevant Risks In A Single Pair Of Hands At Bankholding

Dr Csaba Szomolai
Hungarian Bankholding CRO

“The team of experts is available, thus resources can be used for data analysis and digitization,” Csaba Szomolai, head of risk at Bankholding, told us in our interview. “During the integration of the three banks, risk management has to be placed on a completely new foundation, which means a huge workload. But it also provides a lot of freedom for the implementation of creative ideas and technological developments.”

You are in the process of merging three large banks and forming a new bank—the second largest bank in the country. What concept and characteristics are you using to inform the creation of the CRO function?

During the merger, we will create an integrated risk management and control area under the CRO. In addition to classic strategic risk control functions—reporting, regulation, and modelling—this will also include approval, receivables management and capital management. We handle the control of all relevant risk types, with the exception of risk management related to IT security and financial crime prevention. Their direct management belongs to other organizational units, but they cooperate very closely with the CRO areas. Although not a board member, the CRO reports directly to the CEO.

What are the unique characteristics, challenges and opportunities of being the risk management executive of the emerging Hungarian Bankholding?

It is very challenging to coordinate the daily tasks arising from the integration project and from the responsibilities of the CRO.
This means an extraordinary burden for all employees. In addition, the specific operational risks temporarily increase. By harmonizing the methods of the three member banks and building on best practices, we are creating a new structure and new systems, which—in addition to a large workload—creates huge opportunities. For example, we can immediately adopt the latest technologies, which is often an easier approach than the typically very long transition from old systems. All of this is done with a team of domestic specialists, without a mother bank, which allows for much greater freedom and creativity. It is of utmost importance to us that we have modern methods and tools that best suit our specificities and that we utilize automation possibilities at a high level.

Given your many years of supervisory experience, what is the primary determinant of a CRO being able to perform his or her duties efficiently and effectively?

In addition to ensuring their work is carried out with independence, I believe it is imperative a CRO truly possesses a broad and high-level authorization and toolkit. That is why we aimed to create an integrated, comprehensive CRO function which, in addition to the narrowly defined areas of risk control, also supervises risk management and other related areas.

It was interesting to hear that, despite your supervisory background, you do not consider the change in capital requirements to be an indicator that can really be used to measure the success of a CRO. How do you think about this subject?

The change in the capital requirement is indeed not the best measure of the success of the CRO, since—although it is undoubtedly intended to quantify the risk exposure—the level the bank is aiming for in terms of capital adequacy is also a largely strategic question; furthermore, the change in regulatory requirements also directly affects the capital requirement. Rather, the level of impairment and provisioning and—especially in an international environment—certain risk-adjusted performance indicators are suitable for this. After all, CROs can best create value in terms of numbers by accurately measuring and reducing risks. In this area, soft factors are also very important, such as the degree of involvement in strategic decision-making, since the promotion of a risk-aware organizational culture is also an essential contribution the CRO can make to value creation.

How do you plan to spend the development resources available to you in the next 1-2 years?

We are lucky to have a very good team of professionals. We intend to spend these resources primarily on the development of our systems and data quality, technological investments and automation. We want to expand automation primarily in the retail and SME sectors, where Bankholding already has very strong business positions.

I am generally not so optimistic about the degree of development resources at the sector level and fear that this lack will leave them behind. In the case of financial services, too, it is important to understand that those who do not keep up with change will likewise find themselves lagging. It must be understood that we compete with other sectors too, for both employees and customers. Risk areas need their boards to support them by giving them room for maneuver, as well as the resources to provide, for example, the automated and rapid risk capabilities that younger generations expect.

ESG aspects and their integration into banking processes are now unavoidable. Where do you stand on this and what are your thoughts about the future of this topic?

We are currently focusing on transitional, legal and reputational risks related to ESG factors. We are at our best in the segments where ESG aspects appear most prominently, e.g. in the agricultural sector or in sustainable energy investments. In addition, a general green framework is being developed, which provides us with a complete portfolio-level overview.

Generally speaking, and in view of the challenges related to supply chains and energy supply, I think that in the next couple of years the importance of the topic will recede somewhat, but in 3-4 years it will come to the fore with renewed force, and the world will try to make up for the lag.

III.

CROs' Development Goals And Available Resources

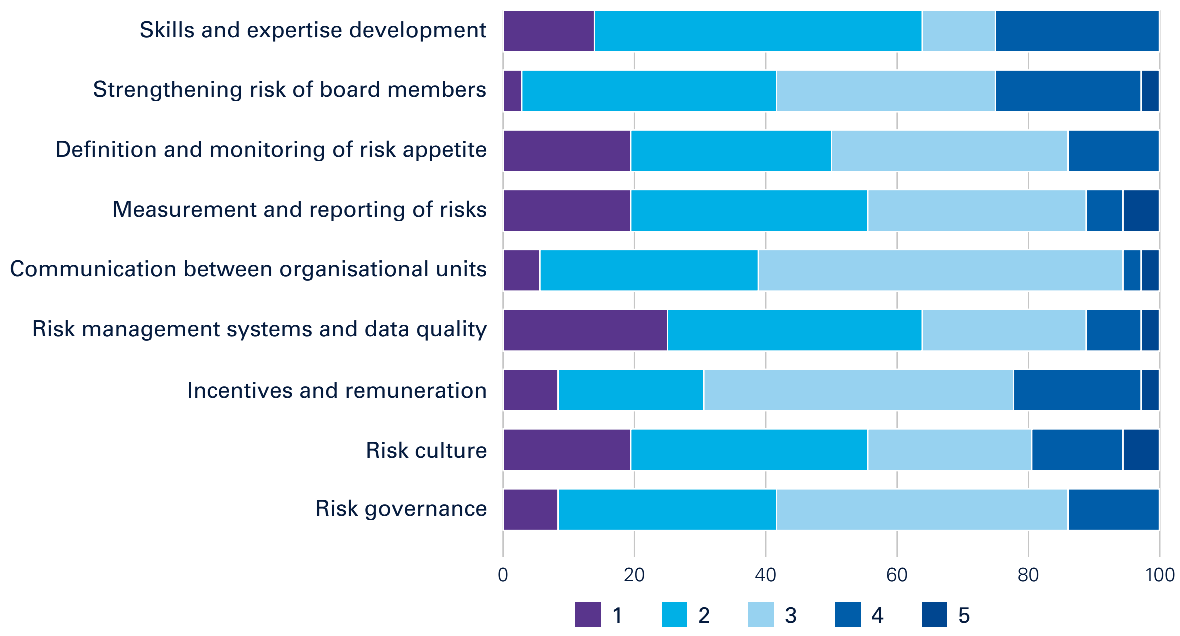
1. Prioritization of development goals

With regard to development goals, risk management decision-makers were more divided than they were three years ago. They plan to continue increasing resources for most of the goals, although to a lesser extent than in 2019, and for almost all development goals, we also received answers—mostly from the insurance sector—that CROs would reduce resources. This may be due to the high level of development the risk management functions have already achieved, or the increasing scarcity of resources, especially labour capacities.

Most will continue to devote more resources to developing skills and expertise, risk systems, and data quality. However, it can be observed that insurers plan to spend half as much on skills and expertise development as banks, and of the medium-sized banks, all plan to increase resources in this area. CROs of insurance companies intend to improve communication between organizational units the most, significantly more than their colleagues in banks and fund managers. In the case of fund managers, the focus is on the measurement and reporting of risks, as the requirements in these areas have now become so complex that market participants are forced to focus on this. Reports in accordance with ESG criteria and client information based on MiFID2 regulations are now backed by robust risk calculations and scenario analyses. It is noticeable that the development of the risk culture is extremely important for large institutions, while for medium-sized institutions it is only the fifth or sixth priority. This is understandable, since the larger the organization, the more the organizational culture and the first line of defense (the active participation of business areas) determine the effectiveness of risk management.

Figure 16

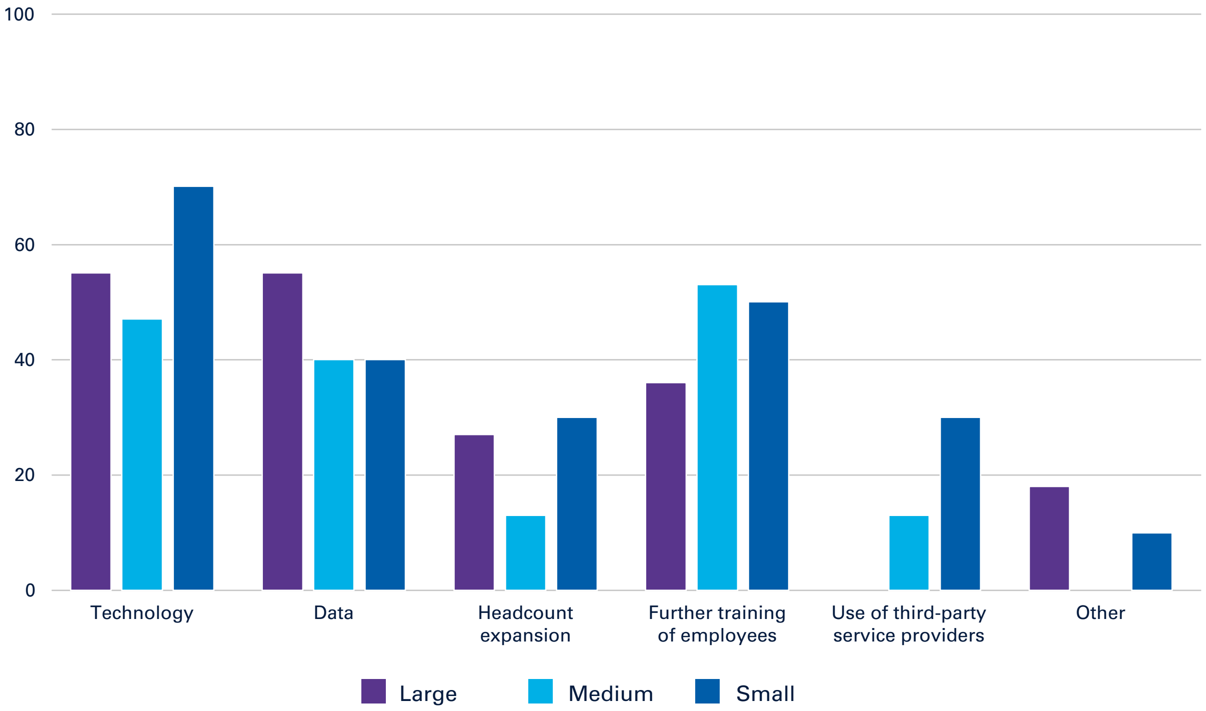
Aggregate - How do you plan to allocate your resources among the following development goals in the coming year? (on a scale of 1 to 5, significantly increase - significantly reduce)



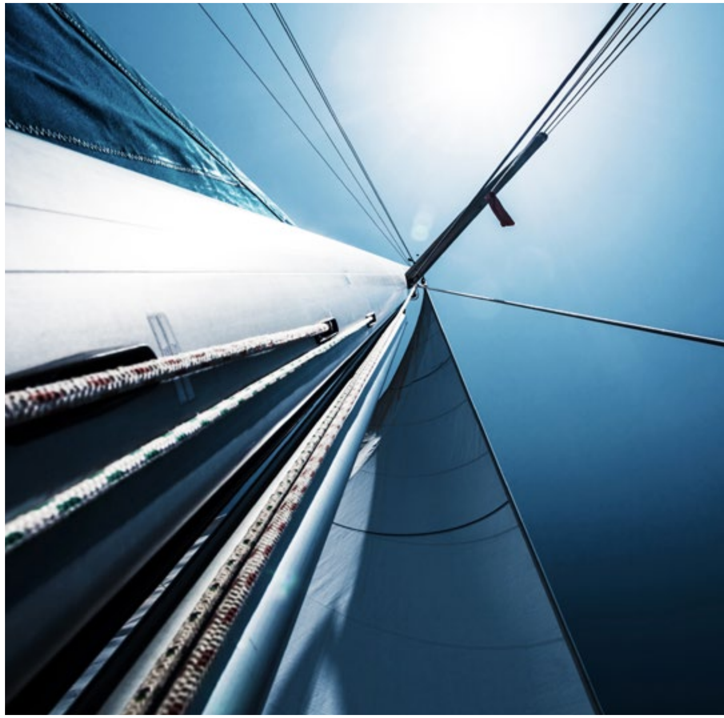
2. Different focus points based on sector and company size

Figure 17

What would you like to use your development resources for in the next year in order to accomplish the development goals as much as possible? (multiple selection is possible)



In the second question, the respondents indicated how they would like to achieve their development goals.

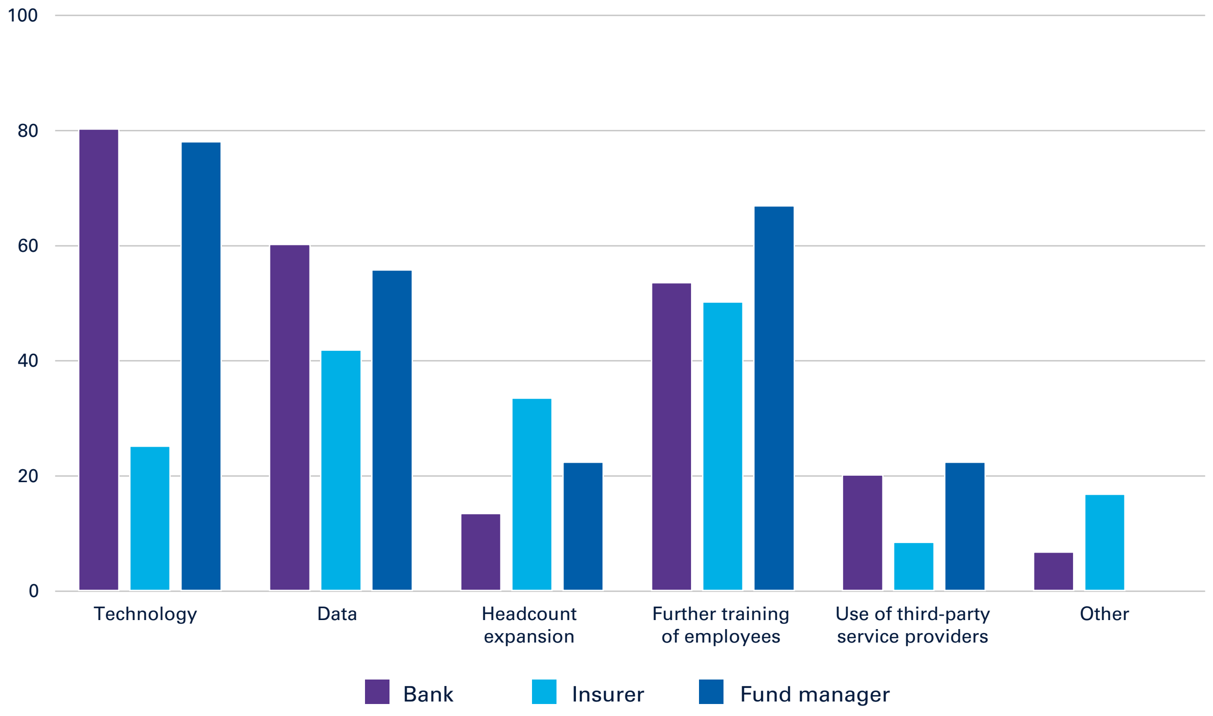


While the CROs of banks and fund managers mostly focus on technological developments, and while all of the big banks hope to develop technology, technology itself is not such a high priority for insurance companies, with only the smaller firms placing special emphasis on it. The fact that these smaller insurance companies are typically Hungarian may explain this. As such, they do not have a foreign parent company to assist them in more complicated cases, and are therefore forced to deal with technological issues themselves. Large and medium-sized insurance companies focus more on training their employees. Similar ratios can also be observed between the sectors in relation to data development, although the differences here are smaller.

For fund managers, the importance of training of employees appears prominently: the proportion of those who wish to improve in this area increased from 0% in 2019 to 67% in 2022. The reason behind this may be the tightening of regulatory requirements, since without trained employees, compliance with complex legal and supervisory requirements cannot be achieved.

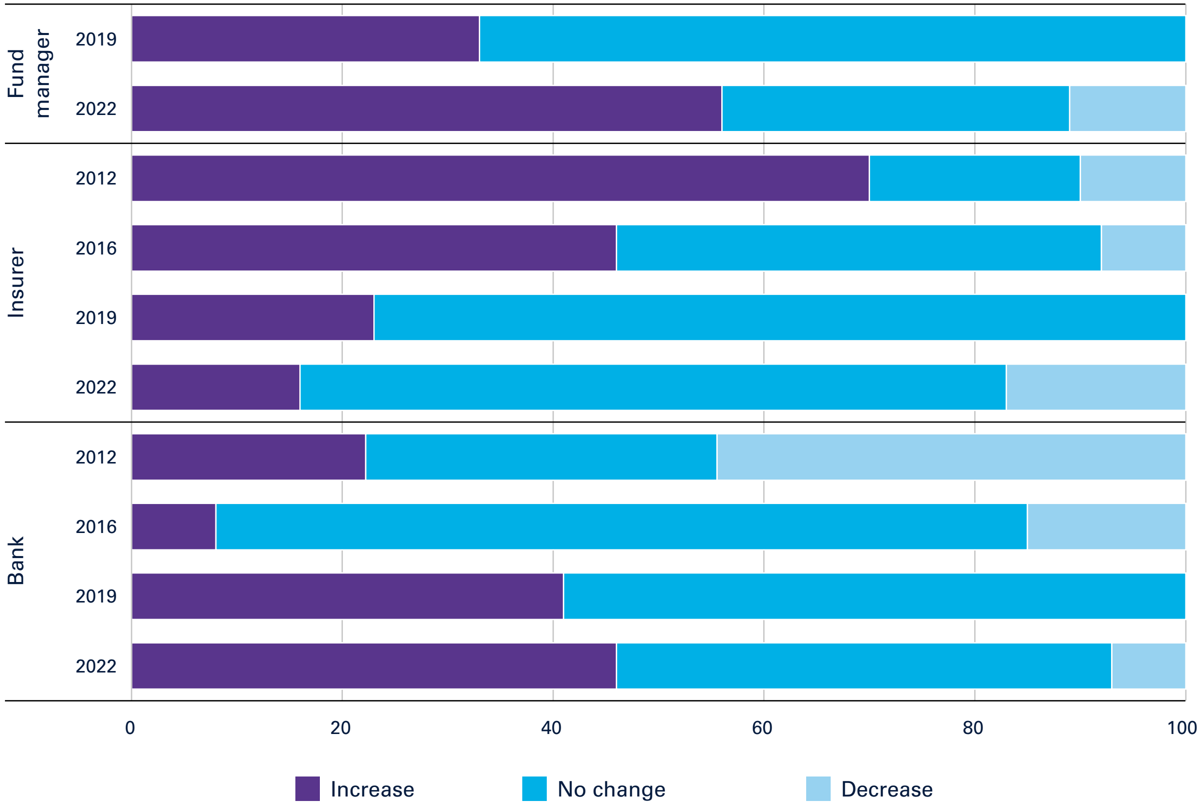
Figure 18

What would you like to use your development resources for in the next year in order to accomplish the development goals as much as possible? (multiple selection is possible)



3. Different perspectives on development resources

Figure 19
How will development resources change in the future (in the next 2-3 years)?



Optimism regarding the growth of development resources has fallen significantly. In the case of banks and fund managers, there are already expectations that indicate a decrease. In the case of insurance companies, only 16% of respondents expect an increase.

In our opinion, the difference in banking, fund management and insurance expectations in this regard has three root causes. Firstly, the big regulatory package, IFRS 17, is being rolled out. This has incurred considerable expense for insurance companies. Banks, on the other hand, are subject to continuous regulatory changes. Second, extra profit tax affects insurance companies proportionately more than banks. Thirdly, given the business characteristics of banks and fund managers and the investment portfolio of domestic insurance companies, the risks caused by the change in the economic environment—primarily the interest rate environment—cannot be managed by insurance companies with additional development.

Aegon Hungary

If The Wind Blows, It's A Risk, But The CRO Needs To See Further

Gábor Pásztor
Aegon Hungary
CRO

"When the wind blows a lot, we feel distressed, and insurers incur losses. But in such an event, the job of the CRO is not to add to the storm, but to create an effective framework for risk management," says Gábor Pásztor, CRO of Aegon Hungary.

You previously worked as an actuary, then as a senior actuary, and since 2015 as a CRO. In your career you have experienced what these two roles—which are extremely important for insurance risk management–mean in practice. How would you summarize the essence of the role of a CRO and what would you highlight in this regard?

The primary task of the risk management executive is to create harmony between the strategy and the risk structure. The emphasis is not on reducing risks or pricing them, but on ensuring that the undertaken risks are structured in accordance with the strategic goals and that they are properly controlled. The CRO's focus is on creating frameworks that enable effective risk management. Among the many important components of this, I would highlight the control of sales processes as perhaps the most decisive area in terms of the desired result.

What is your experience regarding the changing role of the CRO, including the effects of the change in Aegon's ownership?

Both Aegon and VIG are traditionally highly risk-aware organizations. Since 2015, Aegon's CRO reports to the CEO, and is also regularly invited to board meetings. It is an old practice, for example, that corporate strategy is only approved after considering risks and unexpected scenarios. A few years ago, we introduced a product development committee, through which all of our important business development milestones can be realized only with the involvement of the CRO. In the VIG group, the toolkit of good practices continues to grow. This is a requirement of the economic environment, since, for example, the current highly variable interest rate climate generates a lot of tasks in connection with monitoring and ensuring capital adequacy.

What do you see as the greatest challenges and opportunities induced by climate risks and, in a broader sense, sustainability / ESG topics?

Regarding ESG, the greatest potential for organizations like ours is our vast customer base. If we steer customers in the right direction with the tools we have available, that can be really effective. I see the biggest challenge and at the same time the greatest task in achieving real impacts, and deciding on measures that can have tangible results. Certain risk events which have occurred can also have a positive side effect. For example, during the pandemic, it was so good to see that the sky over Beijing cleared.
More specifically with regard to professional aspects, this time period is a tremendous challenge even for us insurers; modelling 40-50 year periods is not really suitable for market participants. I imagine it working more effectively with the cooperation of countries or even regions. More specifically—and of course, it won't depend on this, it just comes to mind because we sat down to talk in a very windy place—it would be justified to put more emphasis on windstorm risks in the capital requirement in Solvency 2.

What will you as a CRO focus on in the coming weeks and months?

The ongoing transformation makes it even more important for us to synchronise the data stored in the systems and improve data quality, which is important anyway, since more data is being constantly created. In addition, the increase of HR risks, the monitoring of related indicators, and the establishment of operations according to IFRS17 are now the challenges I face.

IV.

The Most Important Regulatory And Risk Trends

1. Continuous tightening, with ESG at the forefront

There is general agreement among respondents that regulatory requirements continue to tighten. ESG / sustainability were included as a new option in the survey, for which CROs identified the most stringent expectations. This is to be expected, given the novelty of the topic. In the area of customer management / consumer protection / investor protection, CROs perceive a continuous and significant tightening of regulatory requirements—much like the previous survey. Three years ago, CROs showed the strongest stringency in this latter area, due to the implementation of the MiFID2 framework at the time.

Topics related to ESG / sustainability risks have also gained attention in the banking sector in recent years, having become a central element of the newly introduced regulatory requirements. According to our expectations, sustainability risks will remain in focus in the long term.

In addition to ESG / sustainability, bank CROs report the further tightening of regulatory requirements in the areas of accounting (impairment) and disclosure, customer management, and capital / liquidity. These factors have been in constant focus over the 10-year history of our CRO analyses, although there were changes in the rankings.

Figure 20

Aggregate - In your opinion how have regulatory requirements changed in the following areas in the last two years? (scale of 1-5, significant tightening - no tightening)

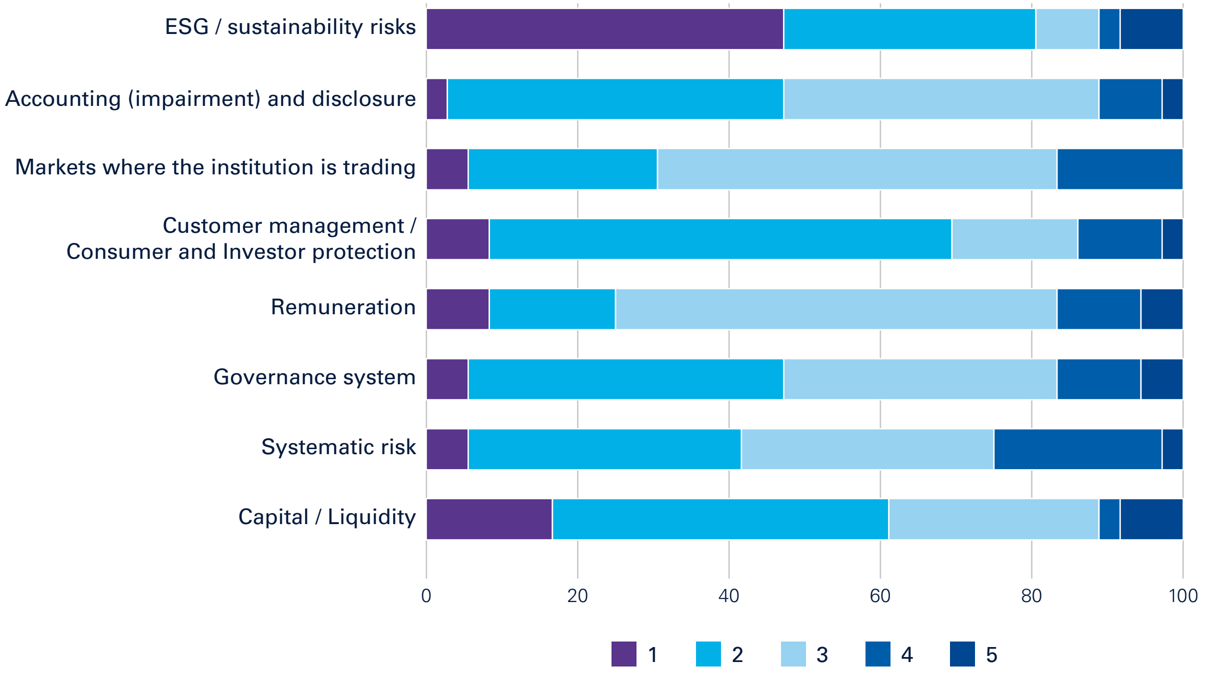


Figure 21

2019 Aggregate - In your opinion how have regulatory requirements changed in the following areas in the last two years? (scale of 1-5, significant tightening - no tightening)

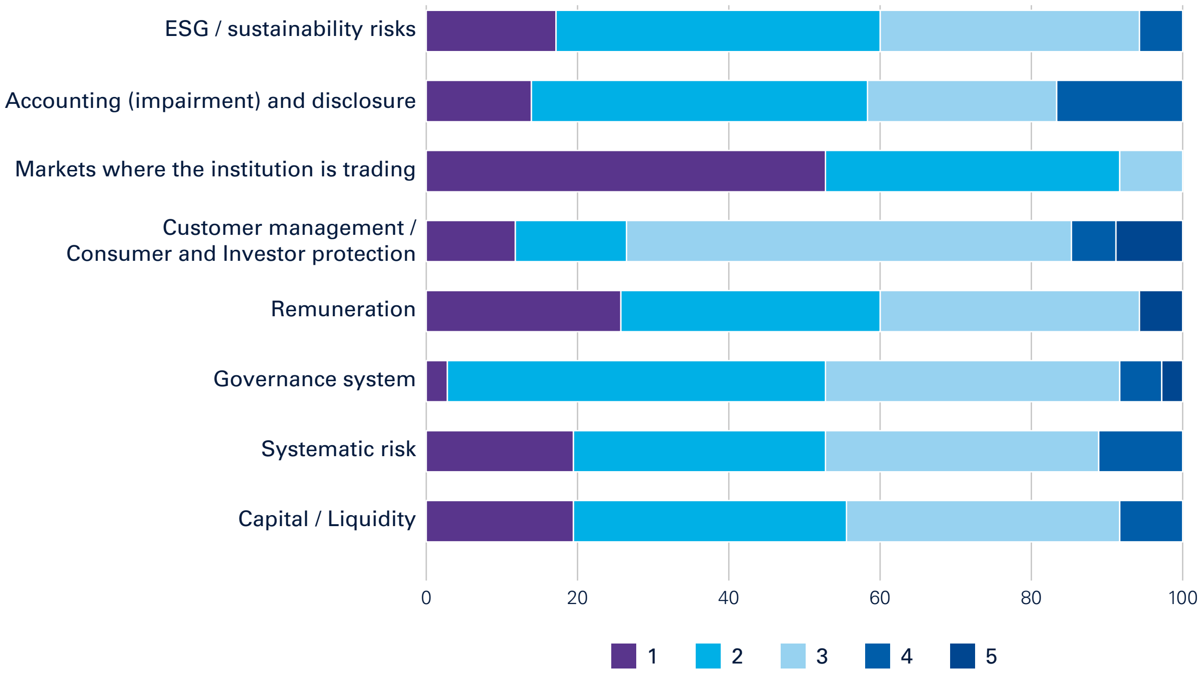
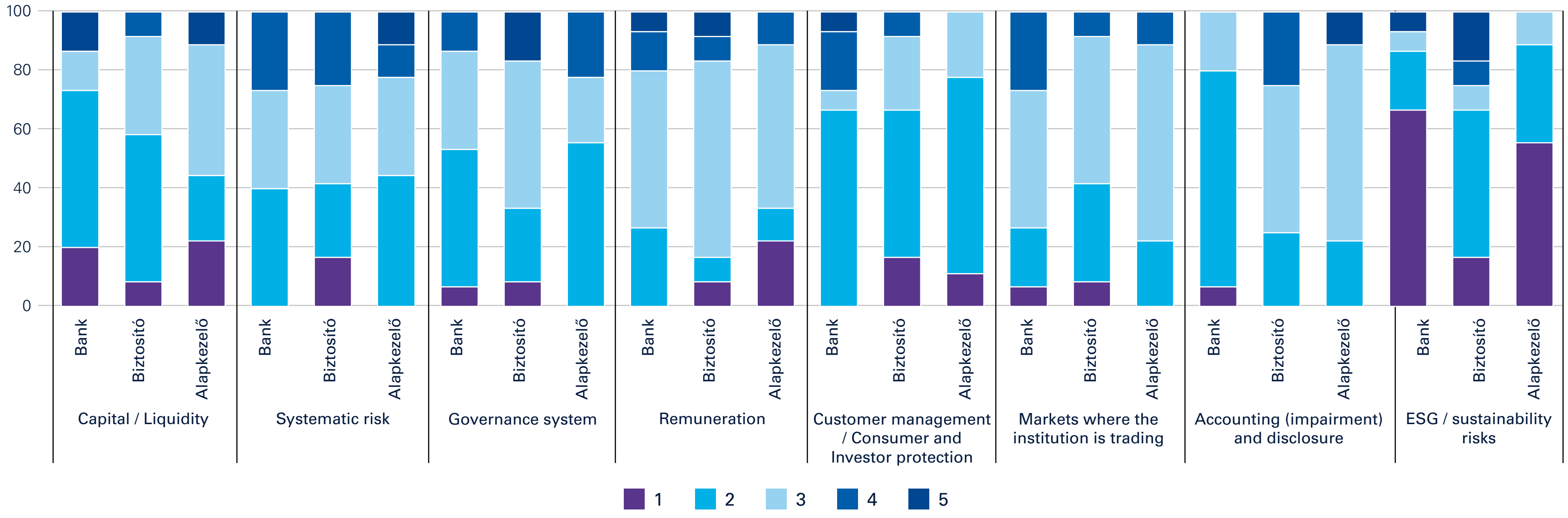


Figure 22

In your opinion how have regulatory requirements changed in the following areas in the last two years? (scale of 1-5, significant tightening - no tightening)



For insurance companies and fund managers, the tightening of the ESG / sustainability area is also the most significant, followed by customer management and capital / liquidity. In the case of insurance companies, the decline in the tightening of governance systems is noticeable—a trend observed by fund managers, too. At the same time, fund managers' expectations of remuneration requirements have also relaxed. For insurance companies, the responses provided in the previous survey indicated a high degree of tightening in the field of accounting and disclosure, which we explained with the Pillar 3 and IFRS 17 rules. These topics, which were considered new at the time, have since become more and more integrated into everyday practices, and at the time of the current survey they no longer had any great impact.

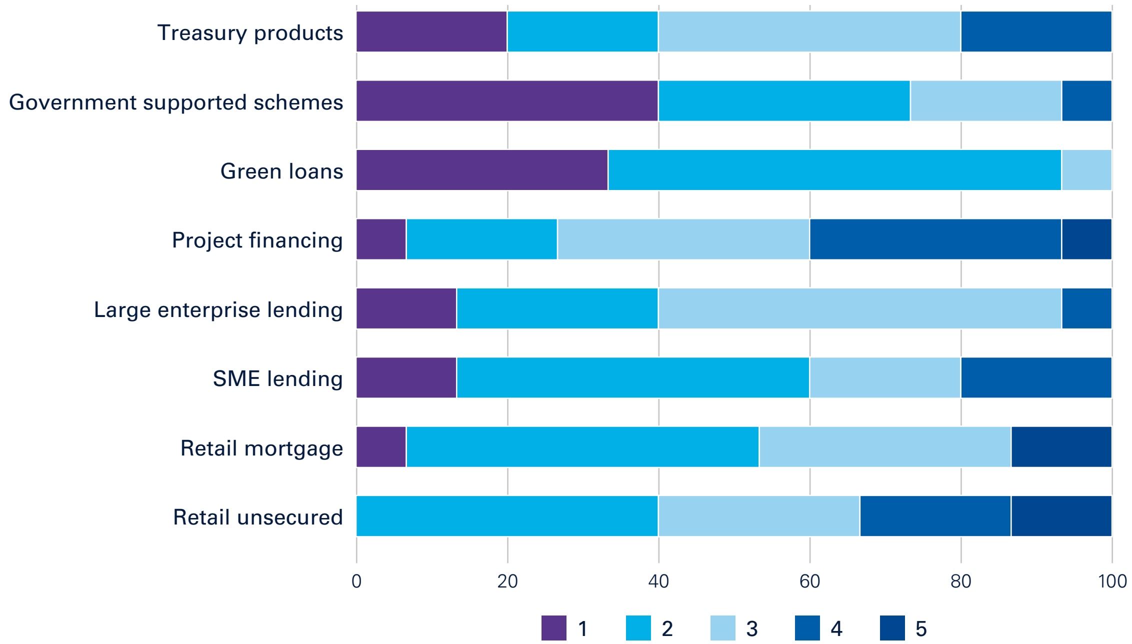
With regard to the change in regulatory requirements, no marked difference can be recognized between the sectors. This is mostly due to the fact that the regulatory requirements are already at a similar level in the financial sectors (in the past, different topics appeared at different times in some financial sectors), and in recent years the topic of ESG / sustainability has been uniformly emphasized in regulations.

2. More conservative product strategies, and focused core activities

For banks, two new product groups were included in the questions: green loans, and government supported schemes. These immediately proved to be the two most supported products among risk executives. SME lending and retail mortgage lending are also supported, along with treasury products—probably because they are favorable in terms of capital and liquidity, in addition to dispersing credit risks.

Green loans and government supported schemes are popular among CROs regardless of the size of the bank. But in the case of other products, support for expansion is still strongly dependent on size, which can be explained by institutional specialization and risk tolerance. For example, small banks typically undertake unsecured loans (except for some specialized institutions), and the same can be seen in the case of project loans, where the rejection of the product increases as the size decreases. SME lending is a very divisive area among medium-sized banks. There are some banks where this is the focus, but we also see examples of it being completely absent from some banks' range of products.

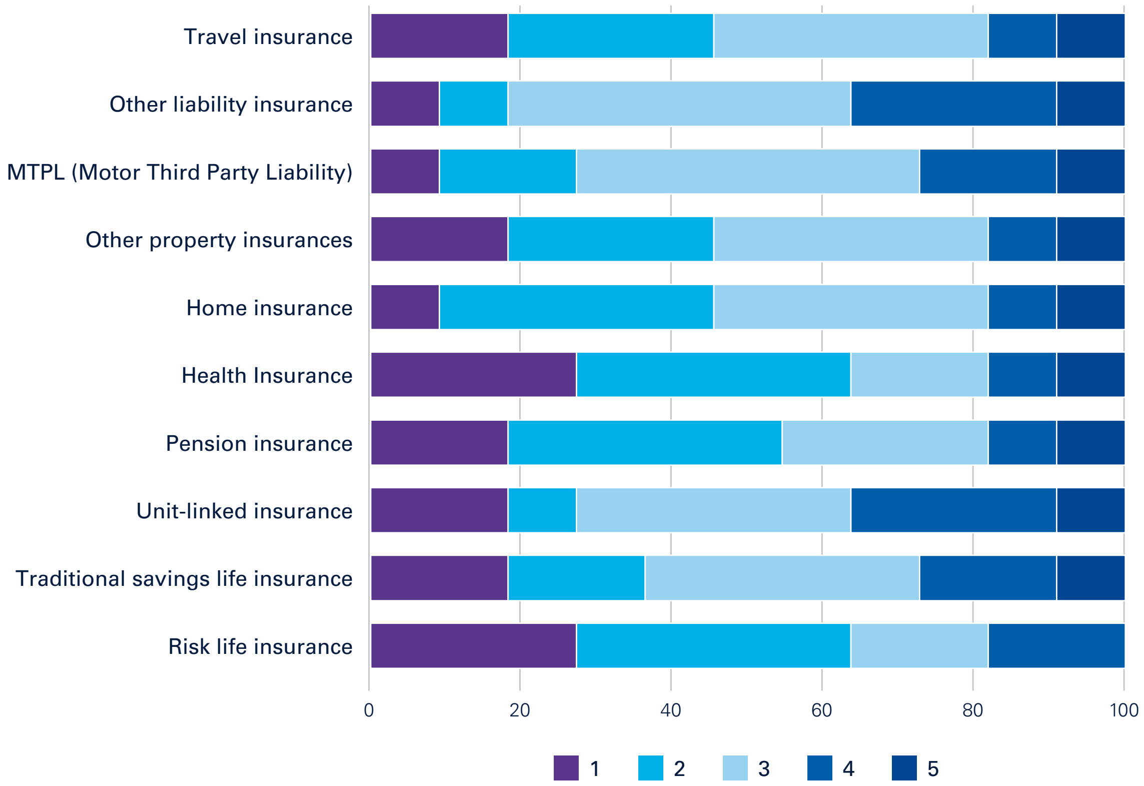
Figure 23
Bank - Considering the risk effects of recent years, from the risk side how much do you support the expansion of the following products? (scale of 1-5, supporting expansion – opposing expansion)



Interesting trends can be observed in the case of insurance products. Compared to the previous survey, support for home and motoring third party liability insurance has dropped significantly.
The reason for this is soaring inflation and the consequent sudden and significant increase in claims payments, as well as the related uncertainties of the economic climate. Compliance risks associated with consumer-friendly home insurance products that are increasingly gaining ground in the marketplace may also be among the drivers of these changes. The most supported product among CROs is risk life insurance, closely followed by health insurance and pension insurance, all three of which are insurance products related to self-care. From a risk management perspective, the fact that higher interest rates provide more favorable conditions for, for example, life insurance products than the low interest rate environment typical of previous years may play a role in this.

Figure 24

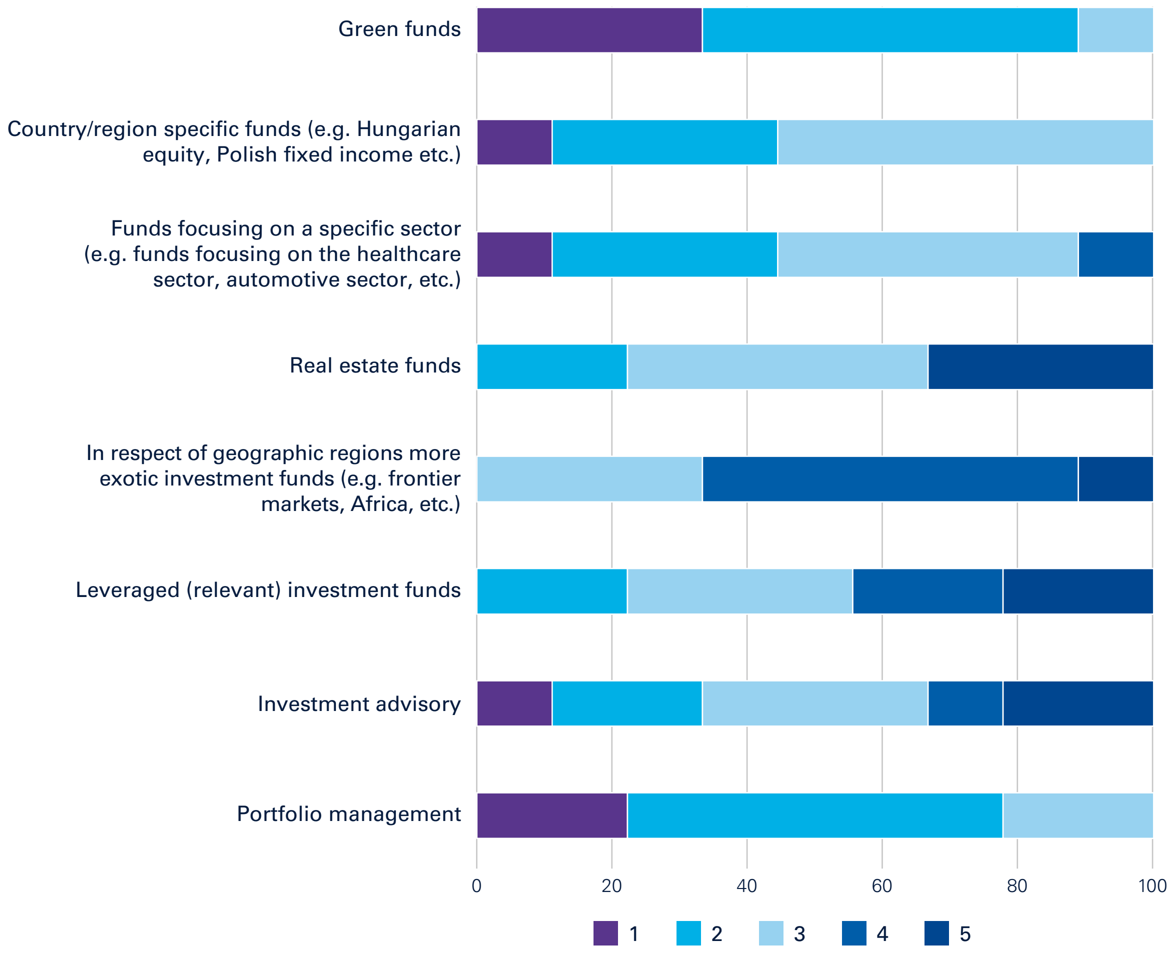
Insurer - Considering the risk effects of recent years, from the risk side how much do you support the expansion of the following products? (scale of 1-5, supporting expansion – opposing expansion)



Executives of investment fund managers have moved towards more conservative activities, so support for exotic and leveraged funds have fallen. In addition, support for real estate funds listed as a new option in the survey is also low, which means that, in general, it can be said that CROs prefer a product structure which has less volatility and which supports core activities. The more conservative product range is also supported by the exceptionally high level of support for the newly emerging green funds, as these funds generally have lower volatility because the underlying companies can have a more balanced performance. Portfolio management, as a core activity, once again received outstanding support, while investment advisory is still a highly divisive activity, presumably also due to the related compliance risks.

Figure 25

Fund manager - Considering the risk effects of recent years, from the risk side how much do you support the expansion of the following products? (scale of 1-5, supporting expansion – opposing expansion)

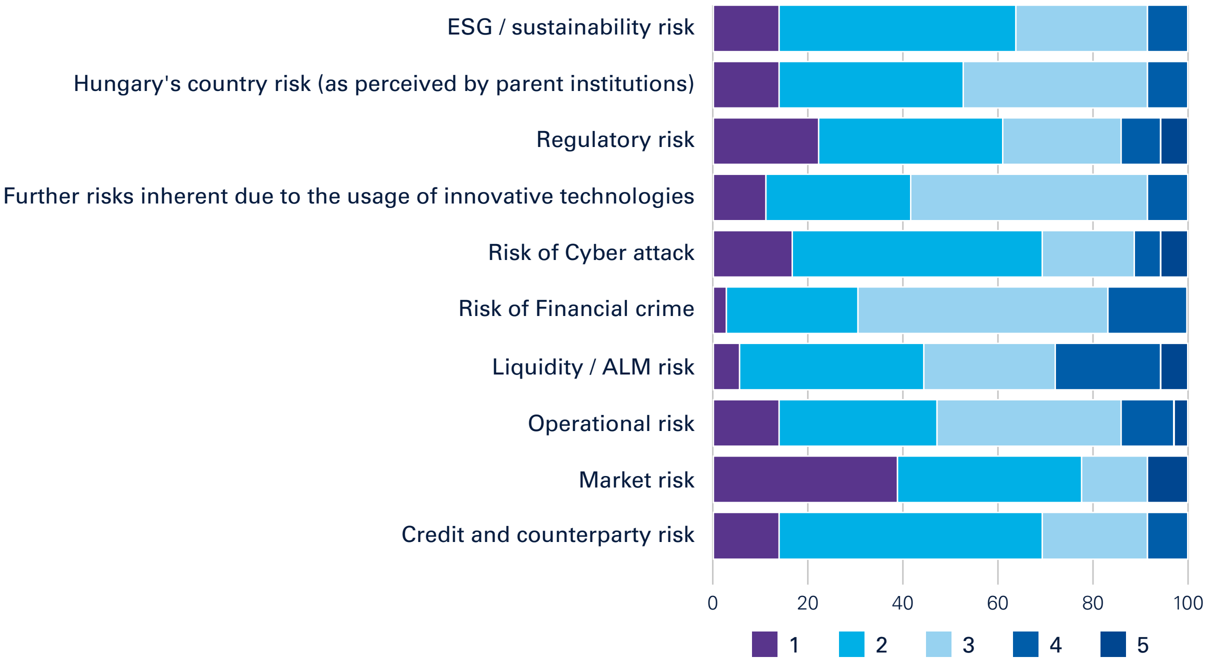


3. Changing economy—transforming risk environment, increasing environmental risks

According to the CROs, three risks have experienced significant increases in the last two years. In addition to the ESG / sustainability risk (which is included in the survey as a new risk type), market and credit risks also jumped when compared to the survey findings of three years ago; these last two were not considered risks at that point in time. In addition to the significant cyber and regulatory risks (which were also considered significant in the previous survey), Hungary's country risk also increased, which the CROs had previously assessed as decreasing in the previous survey.

Figure 26

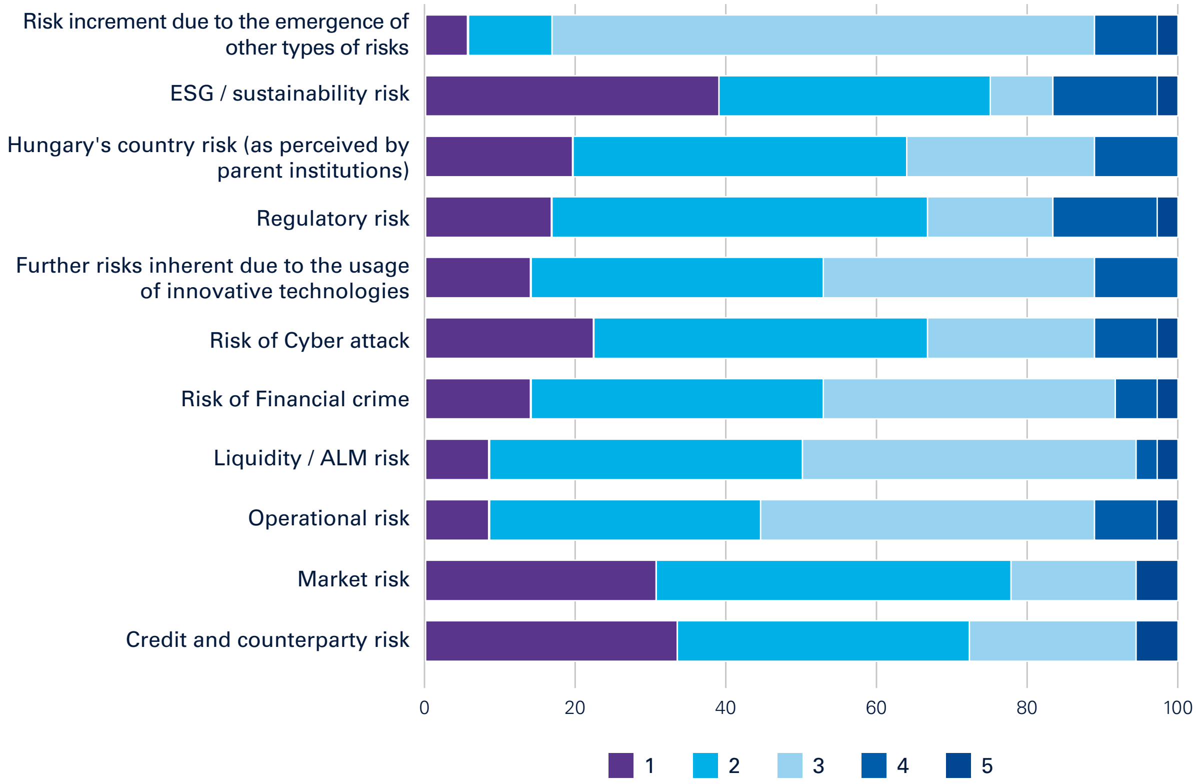
In your view, how has the risk environment changed over the past two years for the following risk types? (scale of 1-5, significant rise in risk exposure - significant decrease in risk exposure)



We also witnessed in the previous survey that the relative importance of traditional risk types decreased. This was explained by the positive economic activity and the rise of more advanced risk measurement technologies. Currently, however, this downturn, combined with the increasingly reliable forecasting ability of risk measurement systems have brought these traditional types of risk back to the fore, including cyber risks. In the case of cyber risks, the exposure depends to a large extent on the size of the institution. Ninety percent of large institutions indicated an increase in risk exposure, while only 50% of the respondents indicated increased risk in the case of small institutions. With regard to both the past and the future, regulatory risks were consistently considered higher than average (that is, the risk factor that the respondents assessed as significant both in the previous and the current survey for both the past and the future.)

Figure 27

Aggregate - In your view, how will the risk environment change over the next two years for the following risk types? (scale of 1-5, significant rise in risk exposure - significant decrease in risk exposure)



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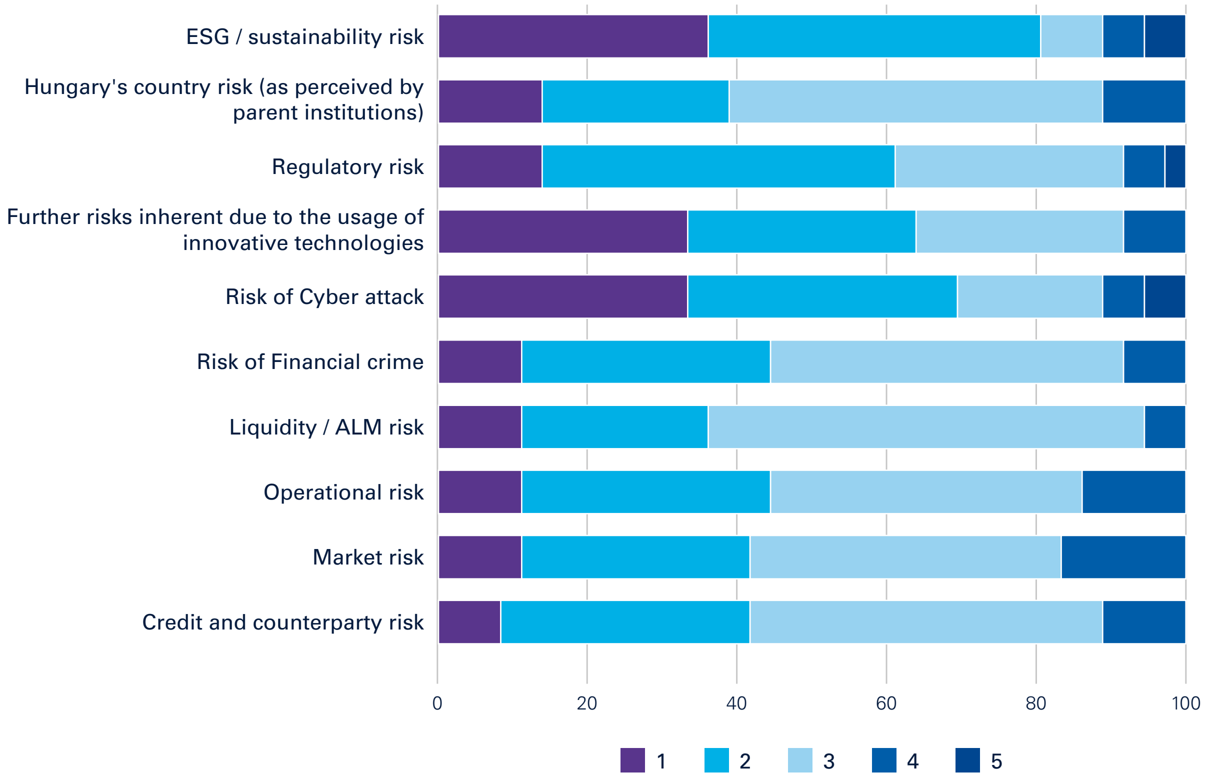
With regard to future risk trends, CROs consider ESG / sustainability-related risks to be the greatest in both two- and ten-year time frames. CROs believe the increase in risks related to cyber-attacks to be substantial in the future due to the rapid change of IT systems and their vulnerability; therefore, the inherent risk remains significant. Looking ahead, these will most likely affect mainly larger institutions, since larger institutions tend to be the most common targets of potential cyber-attacks.

The respondents also rated credit and market risks as being high in the future, but in the long term they predicted a slight reduction in these risks, and the same can be said for the evaluation of the Hungarian country risk.

Figure 28

Aggregate - In your view, how will the risk environment change over the next ten years for the following risk types? (scale of 1-5, significant rise in risk exposure - significant decrease in risk exposure)



Fundamenta

The Importance Of Risk Functions Should Further Grow

Rainer Kaschel
Fundamenta
CRO / CFO

When an institution's overall strategy is evolving and several new services are introduced, then the role of CROs becomes even more important. This has been the situation at Fundamenta too, where the CRO, as the member of the board, supervises the control of all interconnecting risk types.

You have been in Hungary since 2009— the year of the financial crisis–in a position responsible for risk control function. Many things have happened since then. What do you think is the main value-add of a well-operating risk function?

The contribution of risk functions leads to a complete picture both in decision-making and in leading an organisation. For decisions which result in long-term success, balance is needed between criteria relating to effort and result. The result, from a financial point of view, can be measured by profit. However, in order to have a complete picture, we need to bear in mind the risks which have been undertaken. This is the only way to stay on track of long-term success.

Fundamenta is a specialised financial institution. How is the CRO function situated in the organisation, and what are the main considerations behind it?

As CRO and CFO, I am a member of the board of directors. Besides the traditional focuses of these roles, I am also in charge of cyber risk and security as a whole. This is how we can, on one hand, make sure that these functions receive the highest necessary degree of decision and control authority, and on the other hand help us handle the interconnectedness of different risk types in our organisation.

You indicated that the CRO's influence in your organisation has been increasing in several areas. What are the reasons for these changes?

Fundamenta has evolved a lot in recent years, a result of both external and internal factors. As a consequence of changing legislation, we needed to rethink our strategy and the products we offer our clients. Because of the aforementioned reasons, the leadership of our firm wanted this to happen only by appropriately assessing business opportunities and their related risks. As a result, the influence of the CRO in strategic decisions regarding product offerings and new product pricing increased significantly.

In your view, what impedes CROs the most in successfully carrying out their work?

In today's world, when the amount of data is accelerating and when risk management needs to be built on facts, any data quality problem creates big challenges. The increasing need for ESG-relevant data compounds these challenges. The current labour shortage and the related rise in labour costs are huge problems. I should also mention the changing regulatory environment, which is, of course, necessary in a changing economy. However, when it happens too quickly and too often, the adaptation becomes difficult.

How do you measure the effectiveness of the contribution of the risk functions?

I trust rather in qualitative factors, such as involvement in strategic decision-making. The results of the supervisors' ICAAP review or of comprehensive audits are also a very good source of useful feedback.

KPMG

Executive Summary

The Most Important Findings

About the survey

I. The Role And Influence Of Chief Risk Officers (CROs)

OTP Bank, György Kis-Haypál interview

II. The Measure Of A CRO's Success

Hungarian Bankholding, Dr. Csaba Szomolai interview

III. CROs' Development Goals And Available Resources

Aegon Hungary, Gábor Pásztor interview

IV. The Most Important Regulatory And Risk Trends

Fundamenta, Rainer Kaschel interview

V. The Future Of Risk Management: Uncertainty, Innovation, Sustainability

Raiffesien Fund Manager, Péter Simon interview

KPMG

V.

The Future Of Risk Management: Uncertainty, Innovation, Sustainability

1. Concern about inflation and recession risks is prominent

In all three sectors, there is a high degree of uncertainty regarding the macroeconomic and political prospects of the next three years. Among CROs, inflation and the high interest rate environment represent a growing risk.
Risk executives at banks and fund managers are anxious about a potential recession, and among insurance risk management executives inflation is a concern because of increasing claims payments. Besides the above factors, the risks of the regulatory environment also feature prominently in our current survey, presumably due to special taxes.

Figure 29
Aggregate - Which aspects and uncertainties of the macroeconomic and political environment do you see as a significant source of risk in the next 3 years? (scale of 1-5, most significant – least significant)

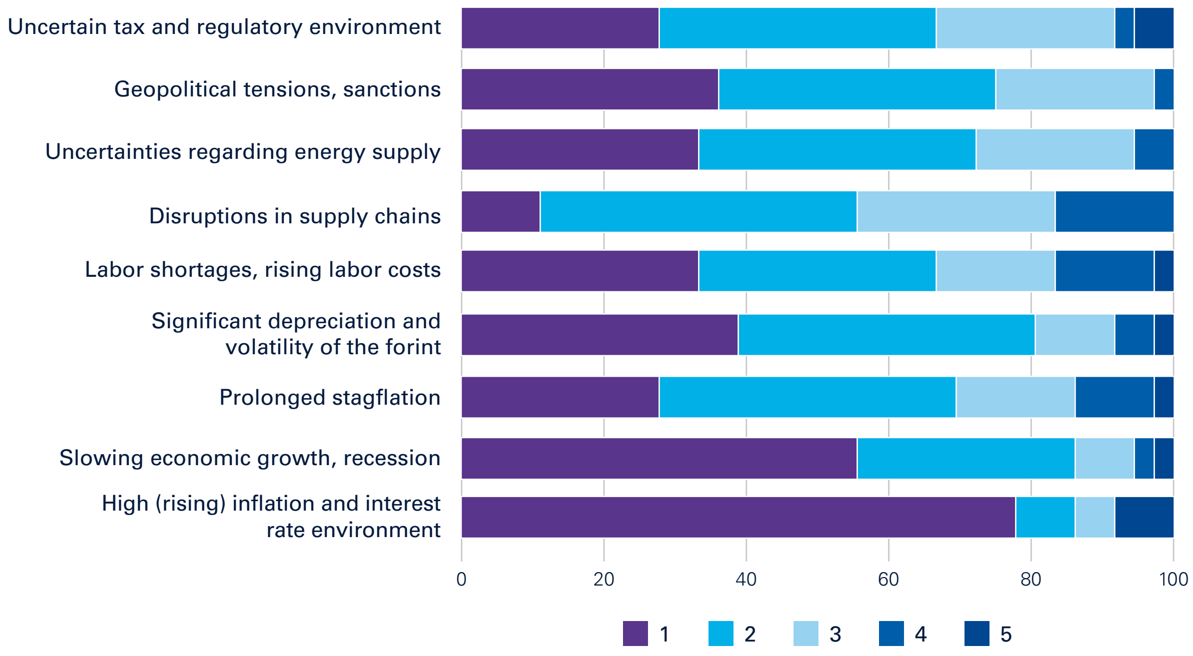
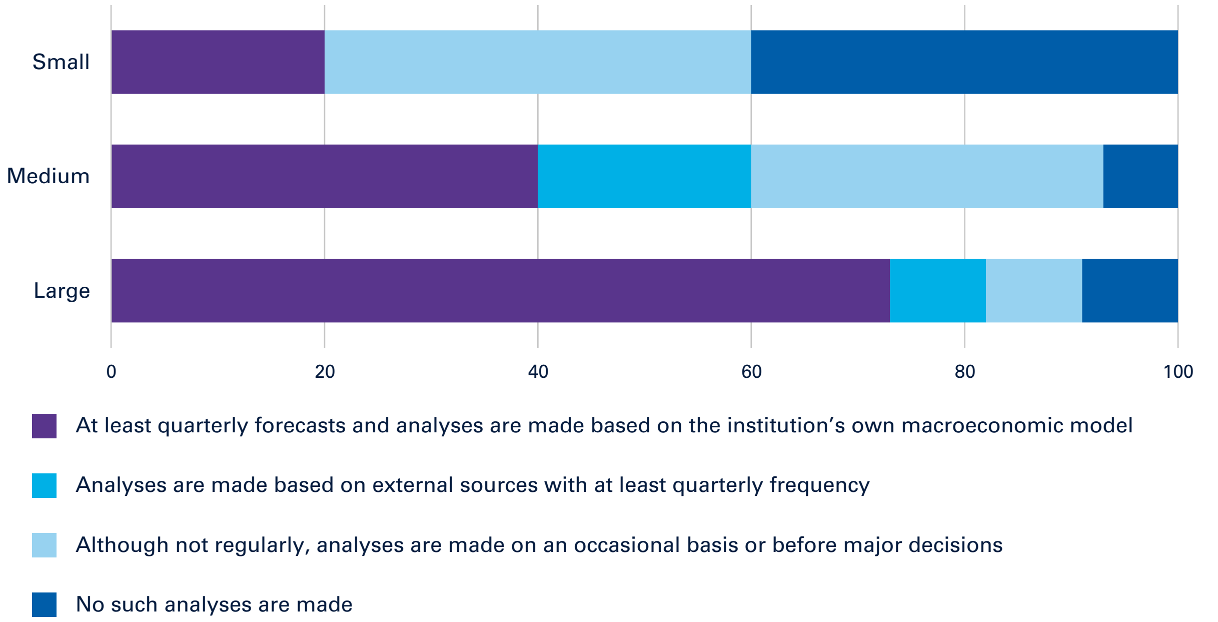


Figure 30

How macroeconomic risks and uncertainties incorporated into management decisions-making at your institution?

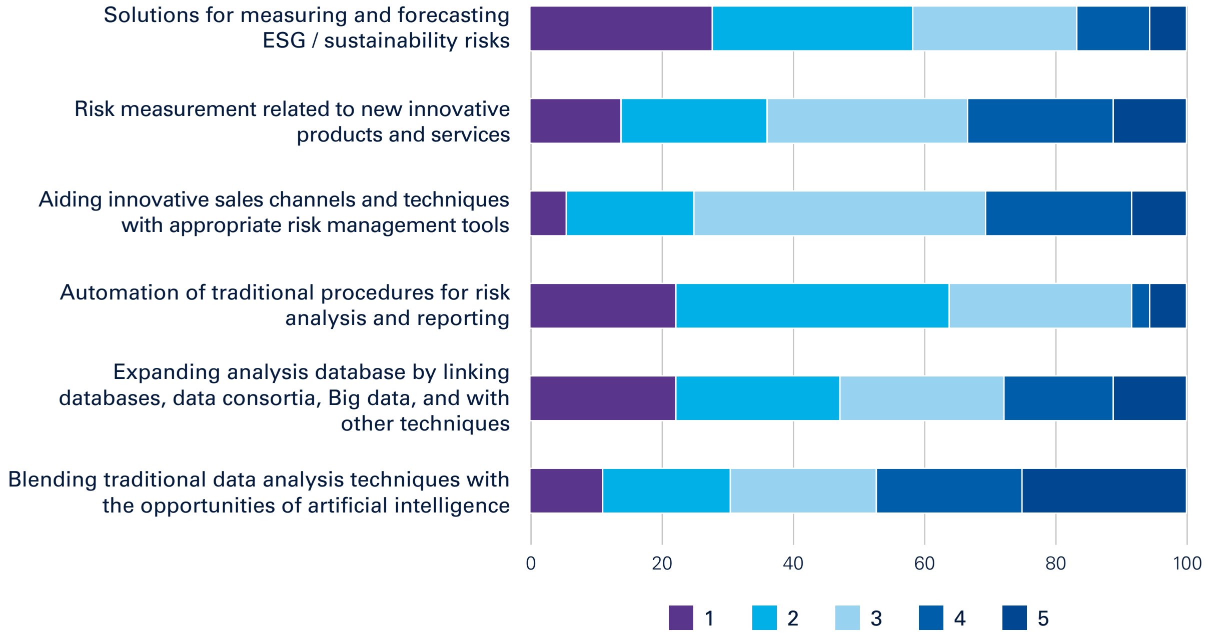


The largest participants in the sector work with their own macroeconomic forecasting models, and prepare regular reports. This is less typical for smaller institutions at the moment.

2. ESG also drives innovation, though the mood for entrepreneurship declines

Figure 31

2022 Aggregate - While developing the risk function and tools, what receives the top priority exploiting innovative opportunities / needs at your institution? (scale of 1-5, 1- highest priority, 2- lowest priority)



In risk management, the most important goal of innovation is still automation. It is closely followed by ESG as the driving force behind development, even though it appeared as a new option in our 2022 survey. In addition, a picture emerges—primarily among banking CROs—that risk management developments related to new sales channels are being pushed into the background. This can be explained by the renewal of the infrastructure related to sales channels in the last three years. The intention to use artificial intelligence has also fallen significantly. Compared to 60% 3 years ago, it is now a top priority for only 30% of respondents. This may be because of developments for this purpose in many institutions over the last three years, and although the explanatory power of the models in a statistical sense often increases, from a risk management point of view the usability may be limited by the fact that transparency and economic interpretability in the case of such data analysis techniques (considering the specifics of artificial intelligence-based technologies) may decrease.

Figure 32

2019 Aggregate - While developing the risk function and tools, what receives the top priority exploiting innovative opportunities / needs at your institution? (scale of 1-5, 1- highest priority, 2- lowest priority)

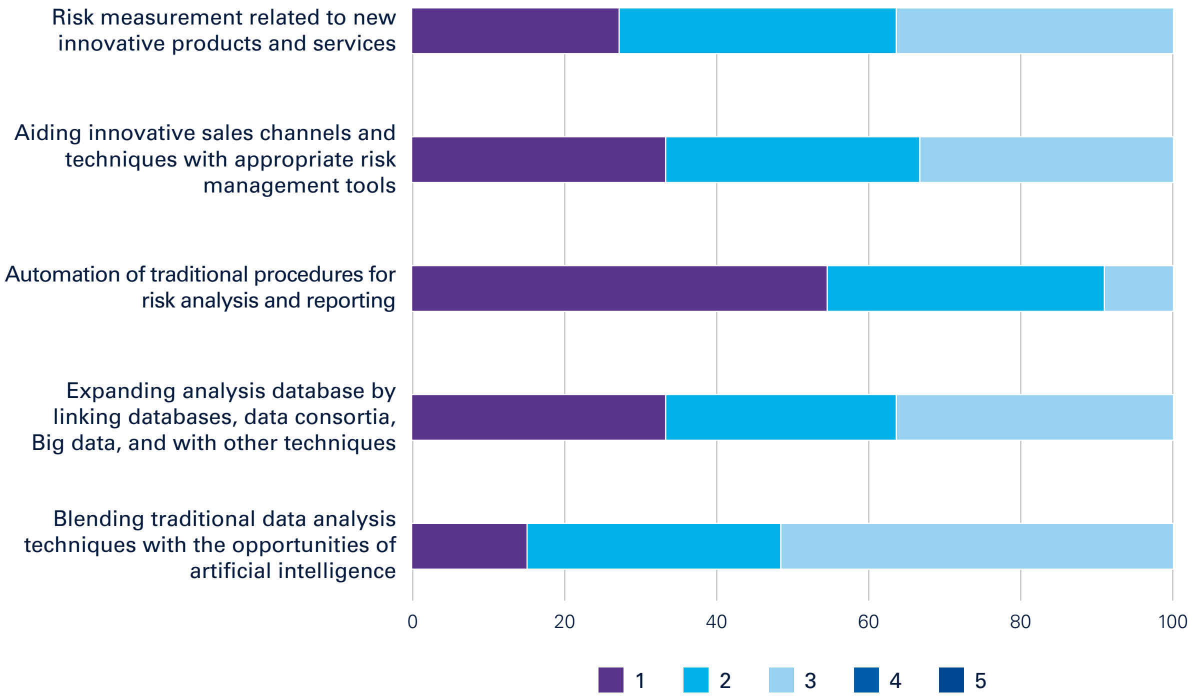
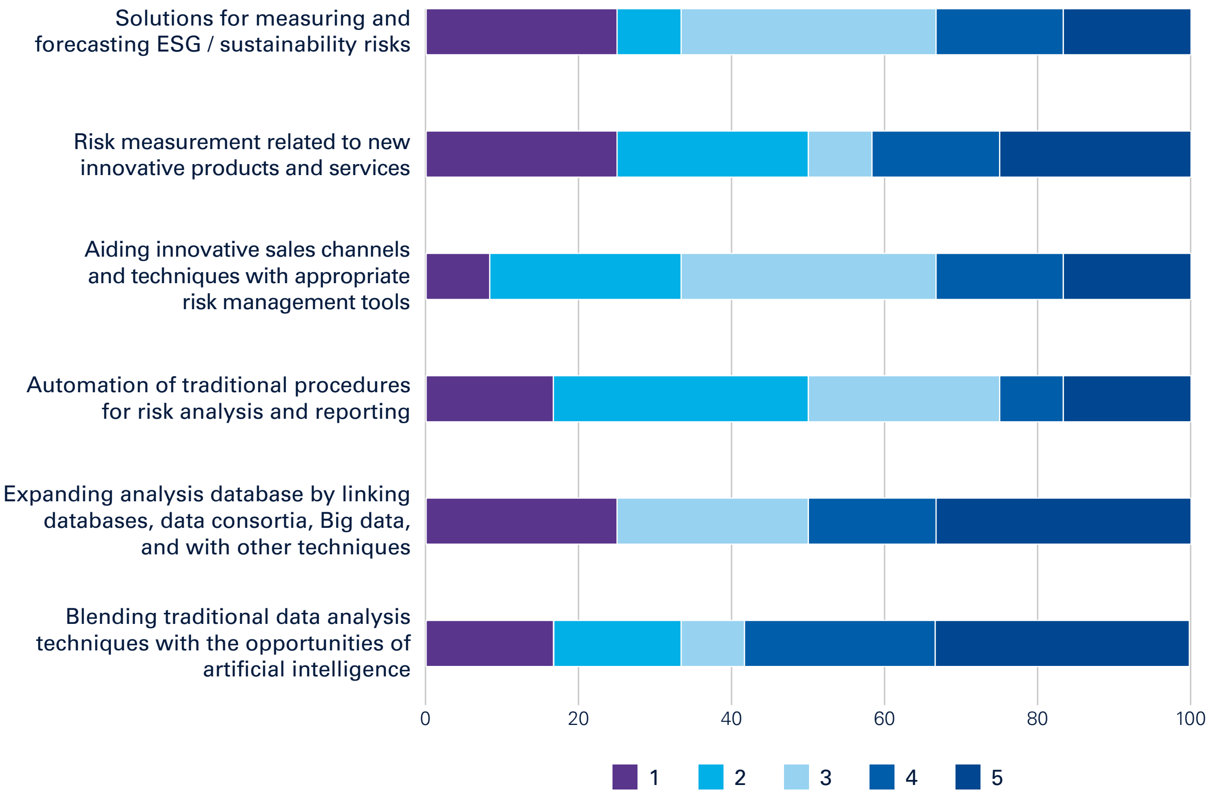


Figure 33

Insurer - While developing the risk function and tools, what receives the top priority exploiting innovative opportunities / needs at your institution? (scale of 1-5, 1- highest priority, 2- lowest priority)



Automation received the greatest support from fund managers, as it did in 2019. This year, nearly 89% of respondents gave automation a priority category of 1 or 2. This is in line with algorithmic trading, a trend which is gaining ground, and with more and more funds using software robots to make operational investment decisions, regarding which the risk management tool kit must be adapted.

It can be generally said that risk executives are less concerned with innovation now than they were three years ago. This can most markedly be observed in insurance companies, where none of the innovation goals was given priority category 1 or 2 more than 50% of the time; three years ago, more than half of the respondents rated all goals as chief priority. In addition, two categories—the linking of analytical databases and the application of artificial intelligence—received especially low priority.

Adapting to the current turbulent risk environment pushes renewal based on new technologies into the background, while it is expected that those who hold on to innovation will gain a competitive advantage.

Figure 34

Fund manager - While developing the risk function and tools, what receives the top priority exploiting innovative opportunities / needs at your institution? (scale of 1-5, 1- highest priority, 2- lowest priority)

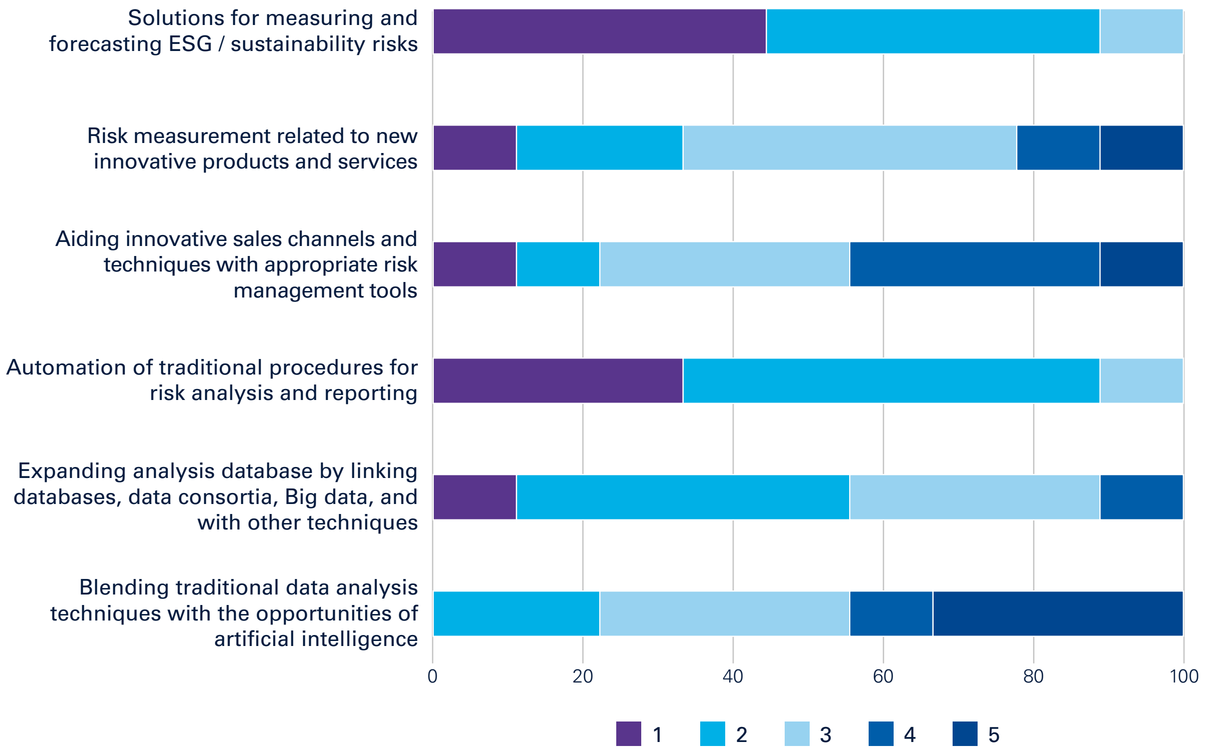
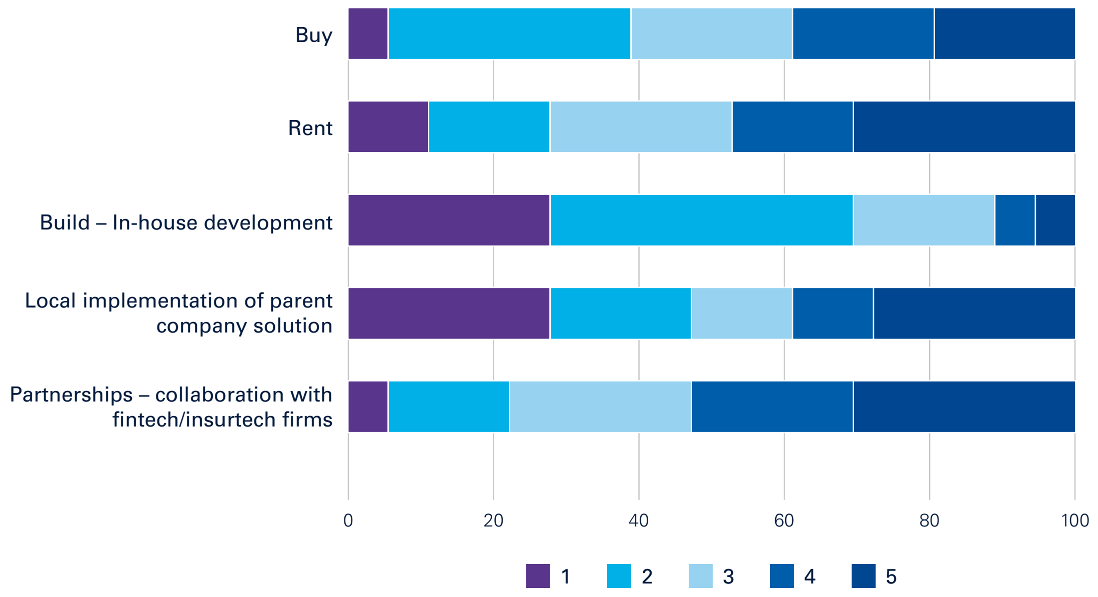


Figure 35

Aggregate - Which of the following innovation development strategies would you support utmost, taking into account the associated risks? (scale of 1-4, most of that- least of that)



Based on the answers provided, risk management executives still—and more and more strongly—prefer self-developed solutions, although there are some differences depending on the size of the organization. Outsourcing or the additional risks posed by an external service provider are primarily easier to avoid for larger institutions who rely more on internal resources, so in this segment they are the least open to external solutions. Among the CROs, a kind of mistrust can be observed in the responses regarding the establishment of partnerships with fintech / insurtech companies. This is most pronounced in the case of insurance companies: among them, more than 80% of the respondents indicated a rather negative response of 4 or 5. Although banks provided more supportive responses than negative ones, it still does not appear that the traditional participants in the financial sector have developed sufficient trust in the Hungarian market for innovative tech companies in terms of risk management.

3. Sustainability risks require cooperation across sectors

In assessing sustainability risks, the focus of banks and fund managers differs from that of insurance companies. While the former are primarily sensitive to transition risks that are more difficult to measure and quantify, the latter are more sensitive to physical risks. One of the reasons for this is that the Hungarian insurance sector primarily invests in government securities, and the proportion of equity-based investments in portfolios can be considered low, even in international comparison. This phenomenon is further strengthened by the fact that all insurers measure physical risks, which is a significant difference even if we know that their risk models, which are usually based on historical data, do not necessarily fully reflect real long-term risks due to the acceleration of climate change.

Figure 36

What sustainability / ESG considerations are assessed during risk management processes at your institution? (multiple selection is possible)

According to the requirements formulated by European and Hungarian supervisory authorities, Hungarian market participants are also expected to integrate sustainability / ESG aspects into their risk management processes.

According to the CROs of banks and fund managers, almost every area is a significant challenge for risk managers. The responses from insurance companies are more divided.
One explanation is that natural disaster risks and risks caused by weather have always been an outstanding factor for the sector. In addition, there are significant sectoral differences in quantifying sustainability factors. While 100% of fund managers and 80% of banks think this is a serious challenge for risk managers, almost 30% of insurers believe it causes little difficulty.

At the same time, the lack of any prognostic ability on the part of current models, along with the methodological challenges affecting climate scenarios, are a cross-sector problem.
The availability and quality of external data is a serious problem for participants affected by transition risks. This causes fewer problems for the insurance sector, given that they are more threatened by physical risks, for which they have a broad database.

Figure 37
Aggregate - What significant challenges do you see in integrating sustainability / ESG considerations into risk management? (scale of 1-5, most significant challenge – least significant challenge)

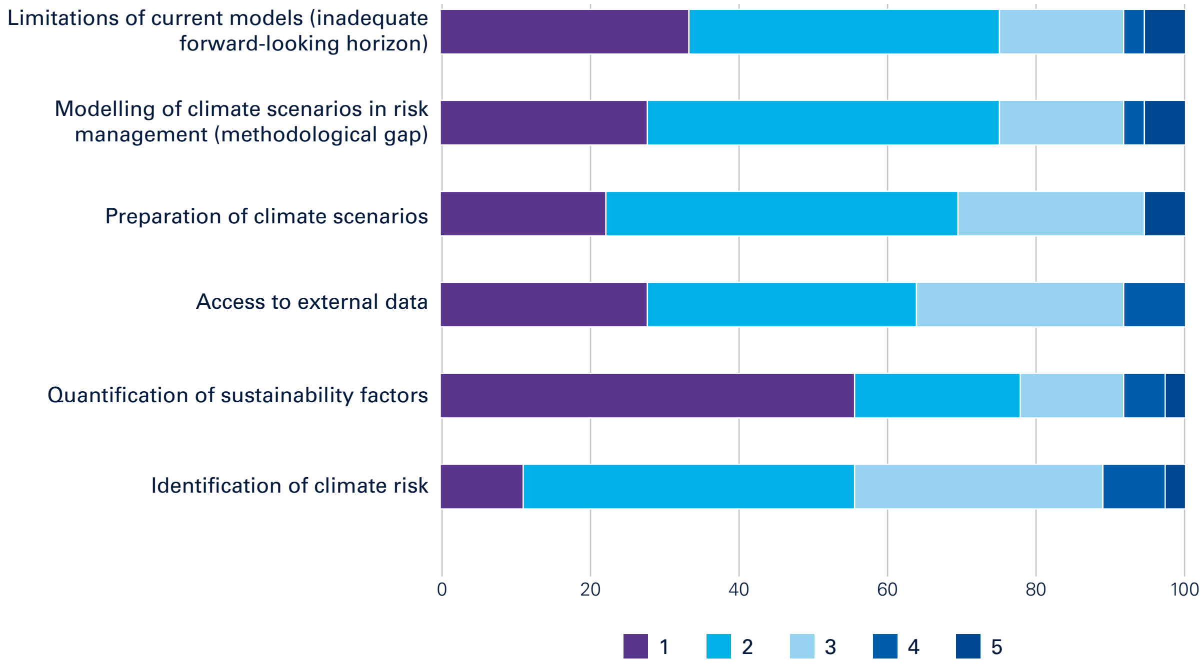
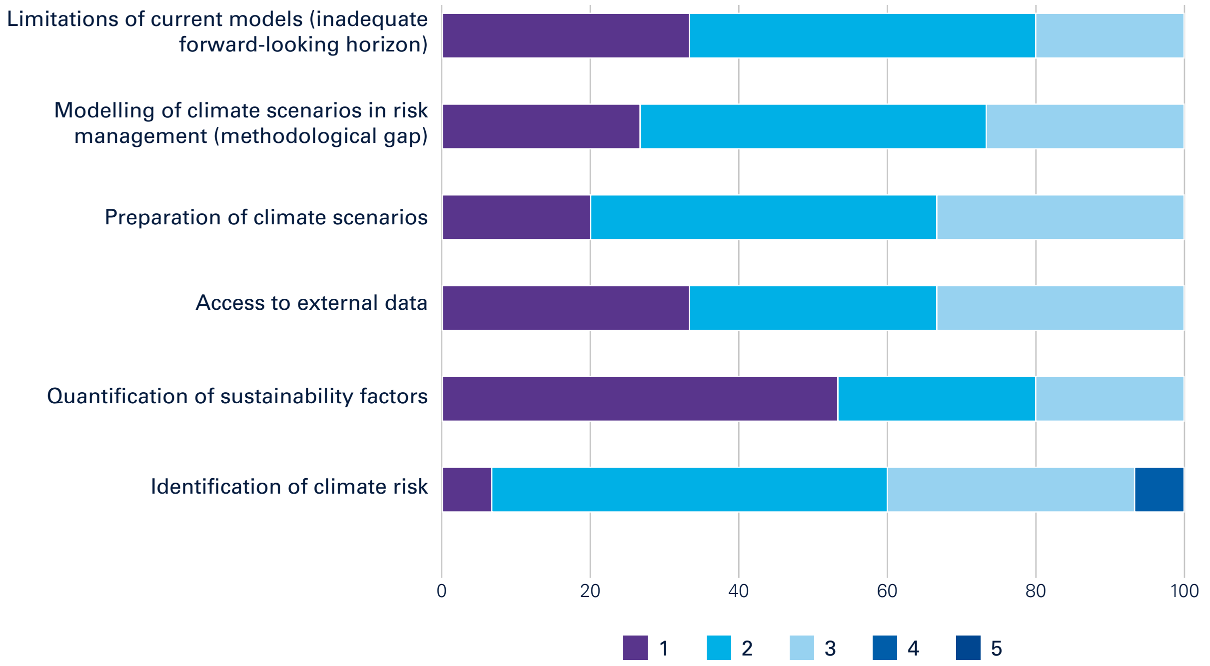


Figure 38

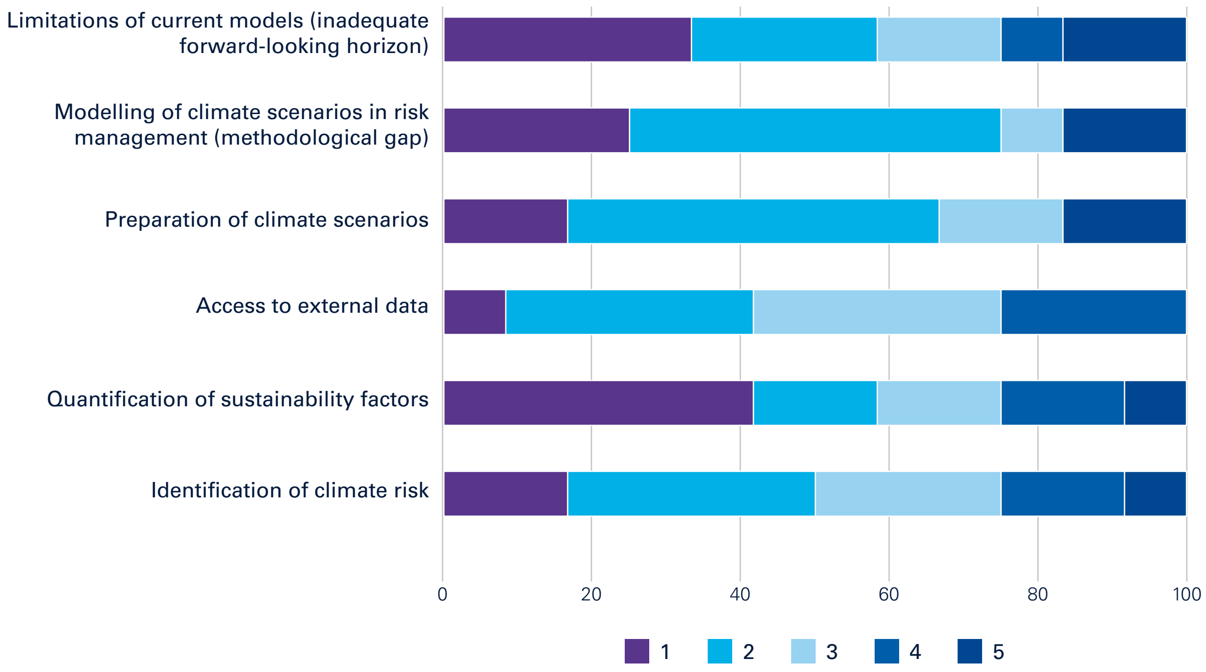
Bank - What significant challenges do you see in integrating sustainability / ESG considerations into risk management? (scale of 1-5, most significant challenge – least significant challenge)



The analysis shows that the incorporation of sustainability aspects into risk management—together with the creation of interrelated methodologies, scenarios and data—bring to the surface challenges that can make the professional cooperation of market participants, and even the cooperation of different sectors, very advantageous.

Figure 39

Insurer - What significant challenges do you see in integrating sustainability / ESG considerations into risk management? (scale of 1-5, most significant challenge – least significant challenge)



Raiffesien Fund Manager

Risk Management In The Service Of Building Trust

Péter Simon
Raiffesien Fund Manager
CEO

"Risk management is one of the most important cornerstones of building trust for fund managers, which is why at Raiffeisen no new product is launched without the consent of the area representative. Additionally, the risk manager is also a member of the investment committees." So says Péter Simon, CEO of Raiffeisen Fund Management. "In the current uncertain environment, we benefit greatly from the fact that companies strengthened their ability to quickly adapt during Covid."

As a manager, what do you think is the primary role and success criteria for risk management?

Our fund management activity is based on the client's trust in us, and we want to honor this trust with the highest professional standards. Risk management has a huge role to play in this. It is far more than simply watching the risks related to the markets and operations, although this is important, of course. But due to the supportive function of risk management, it is also a very important trust-builder for both executive and the client. This can only be based on a company-wide risk culture.
Our parent company provides us with a lot of support in terms of the maintenance and development of this.

Based on our survey, the risk managers of the fund managers perceived that their involvement and influence on strategy has strengthened since 2019. In practice, how does this manifest for you?

On one hand, the risk executive supports the implementation of our company's business goals as a member of the management committee, overseeing the day-to-day operations. No product release can take place without the consent of risk management.
On the other hand, the risk manager is also a member of the investment committees that determine the implementation of the actual investment strategy of the managed funds. This is a forum for serious professional discussion, where it is decided what kind of investments to include in the managed funds under given market conditions, i.e. how to implement the investment strategy.

According to our survey, risk management executives of fund managers consider deficiencies in IT systems and data quality to be less likely to hinder the performance of tasks, compared to before. Can you explain this?

In the favorable economic environment of the past period, fund managers probably had more resources for such developments. We also continuously strive to ensure that our control system is coordinated and consistent in terms of regulations and systems, and that all areas, including risk management, play their part in their operation. The regulators also encourage us to do this, setting newer and newer expectations, e.g. in reporting and customer information. You can't rest.

What topics are the control areas currently focussing on?

ESG is an important topic. We have several such funds. This year we received the Green Fund Manager of the Year award, and Raiffeisen Bank received the Green Bank of the Year award from the Hungarian National Bank. The constantly changing regulations are decisive in this and other topics. In addition, the PRIIPS performance scenario calculations or the prices used for intraday transaction cost calculations are vital. Last but not least, the ESG risk score calculation is also crucial; although we cooperate with our Austrian colleagues, it is our task to provide reliable data.

What do you think about the current market situation and what do you expect in the short-term?

There is a lot of uncertainty. The current economic situation has a strong local characteristic, while some markets have also developed very serious bubbles in the recent period. In order to maintain trust in such a situation, we emphasize proactive communication, in addition to strengthening risk management tools—for example, stress tests and maintaining high liquidity.
It is impossible to know when the market will calm down and become predictable again, but I see that the adaptation has already begun, and the fact that the market participants had to develop the ability to adapt quickly during the COVID epidemic certainly plays a role in this.

KPMG

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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