KPMG

Emerging Risks

Risk management in turbulent times

Whitepaper

June 2025

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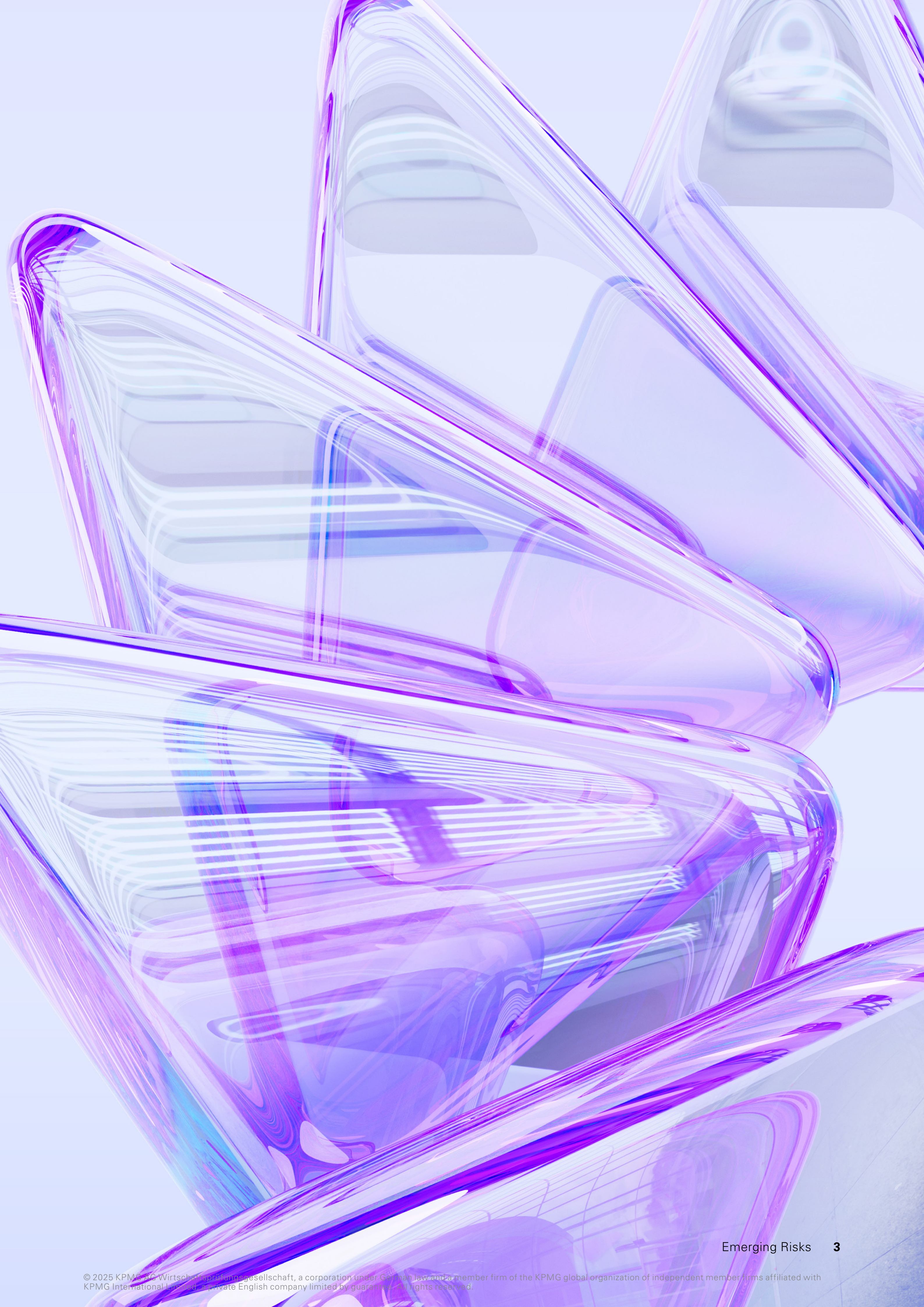
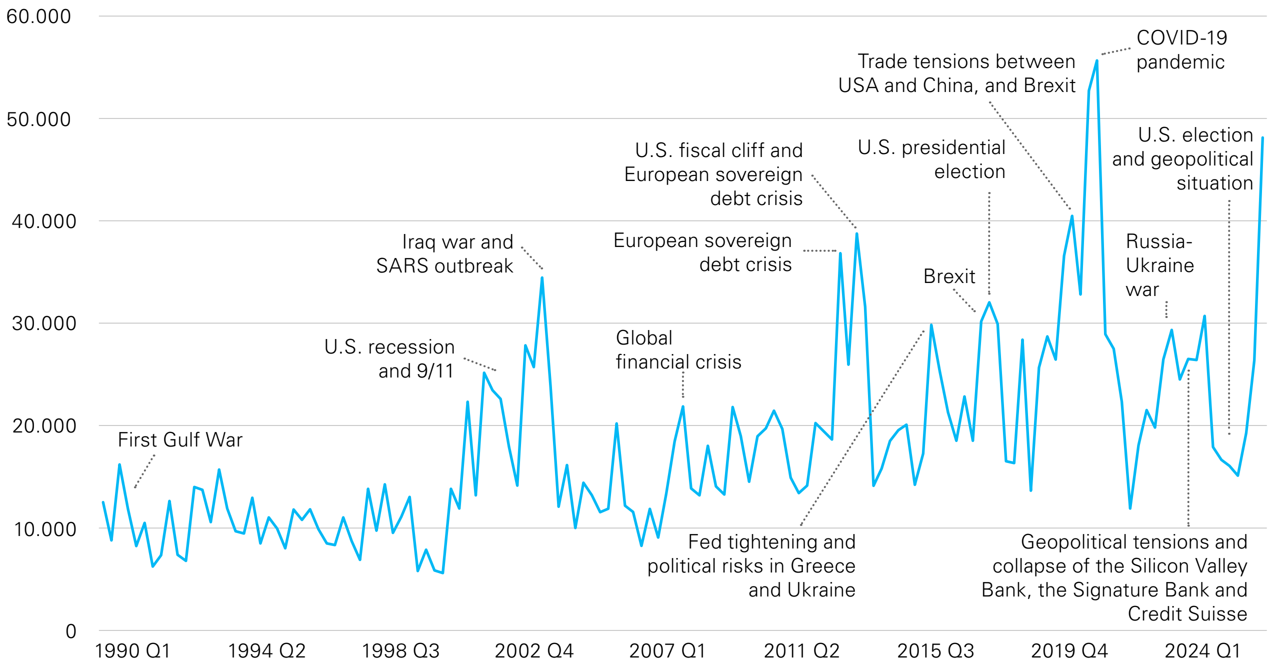


Introduction

We live in a time of major global upheaval. Global crises such as the COVID-19 pandemic, geopolitical tensions like the war in Ukraine, increasing rivalry between the superpowers, American tariffs and the current changes in world trade, not to mention the effects of climate change and disruptive technologies, all present new challenges for countries, companies and society as a whole. Meanwhile, the risk landscape is fundamentally changing as a result of structural trends such as the digital transformation, the transition to net zero, the ageing of the population and increasing dependence on **global supply chains. The World Uncertainty Index has reached record-high levels in recent years** (see chart).

Financial institutions face particular challenges given their sensitivity to economic fluctuations and pivotal role in the national economy. **Emerging risks**, in other words new risks that are still imperfectly understood by reporting entities or that have only just emerged, are becoming **increasingly relevant to overall bank risk management**. They are not visible in conventional risk models but have the potential to cause major harm, and it is often difficult to predict how they will evolve. As Michael Theurer, a member of the German Bundesbank board, said in December 2024, "There are dark clouds ahead for the banks. We live in turbulent times."[1] To ensure an appropriate response, it is vital that emerging risks be identified and assessed at an early stage; to do so is therefore paramount to safeguarding the resilience of financial institutions.

Figure 1:
World Uncertainty Index 1990 to 2025



Source: Ahir, H, N Bloom, and D Furceri (2022), "World Uncertainty Index", NBER Working Paper[2]

In this rapidly evolving space, we at KPMG decided to sit down with Dr Peter Henning to work out the implications for risk management. In our white paper, we discuss the **changes that need to be made to financial institutions' risk management frameworks by reference to four propositions**, and we **highlight specific stages in the risk cycle where action is required** to ensure that emerging risks can be responded to quickly.

[1] handelszeitung.ch/banking/bundesbank-vorstand-theurer-fur-banken-ziehen-dunkle-wolken-auf-780254, accessed on May 30, 2025
[2] https://worlduncertaintyindex.com/data/, accessed on May 30, 2025

Our analysis identified three key takeaways for CROs:

Be on the lookout.

Risk management's role will become ever more important to competitiveness. Risk identification is fundamental to effective risk mitigation strategies. It is essential to "keep one's eyes peeled" for potential changes to the environment in an intentional and systematic way. Internal and external sources are equally important here and their relevance can be assessed centrally.

Speed is critical – an emerging risk manager's analysis must be comprehensive, fast and forward-looking.

For an organisation to be agile, it needs knowledge of how disruptive events will impact its business and operating model so that it can identify and initiate risk mitigation measures early. Standard processes should yield to an agile, situation-based approach ("situation room") coordinated by the "emerging risk manager" who is capable of performing a comprehensive analysis and communicating with the relevant parties.

Emerging risk management is largely a question of culture.

Employees must be given the skills and incentives to take effective, proactive steps to manage risk in a changing environment. At the same time, the structure of the organisation must be flexible enough to adapt quickly to changed circumstances. This might be achieved, for example, by shortening decision-making and communication channels. Governance and risk culture must develop in line with these principles.

Our analysis identified three key takeaways for the supervisory body:

Enhance communication between the supervisory body and managers.

Emerging risks require situation-based reporting, potentially at shorter intervals and in formats other than formal meetings. The supervisory body can proactively identify priority issues, thereby changing risk communication from a formal report to a dynamic exchange of information about risks.

The supervisory body influences risk culture.

The supervisory body is responsible for demanding and demonstrating a strong culture.

Scrutinise the opportunities presented by the new ECB guide on governance and risk culture.

In its "Draft guide on governance and risk culture," the ECB set clear expectations for the supervisory body with regard to competence, effectiveness and work methods. A critical evaluation of the extent to which this helps to improve the effectiveness of the work of boards and committees is advisable.

Proposition 1

Effective risk management is fast, forward-looking and identifies connections.

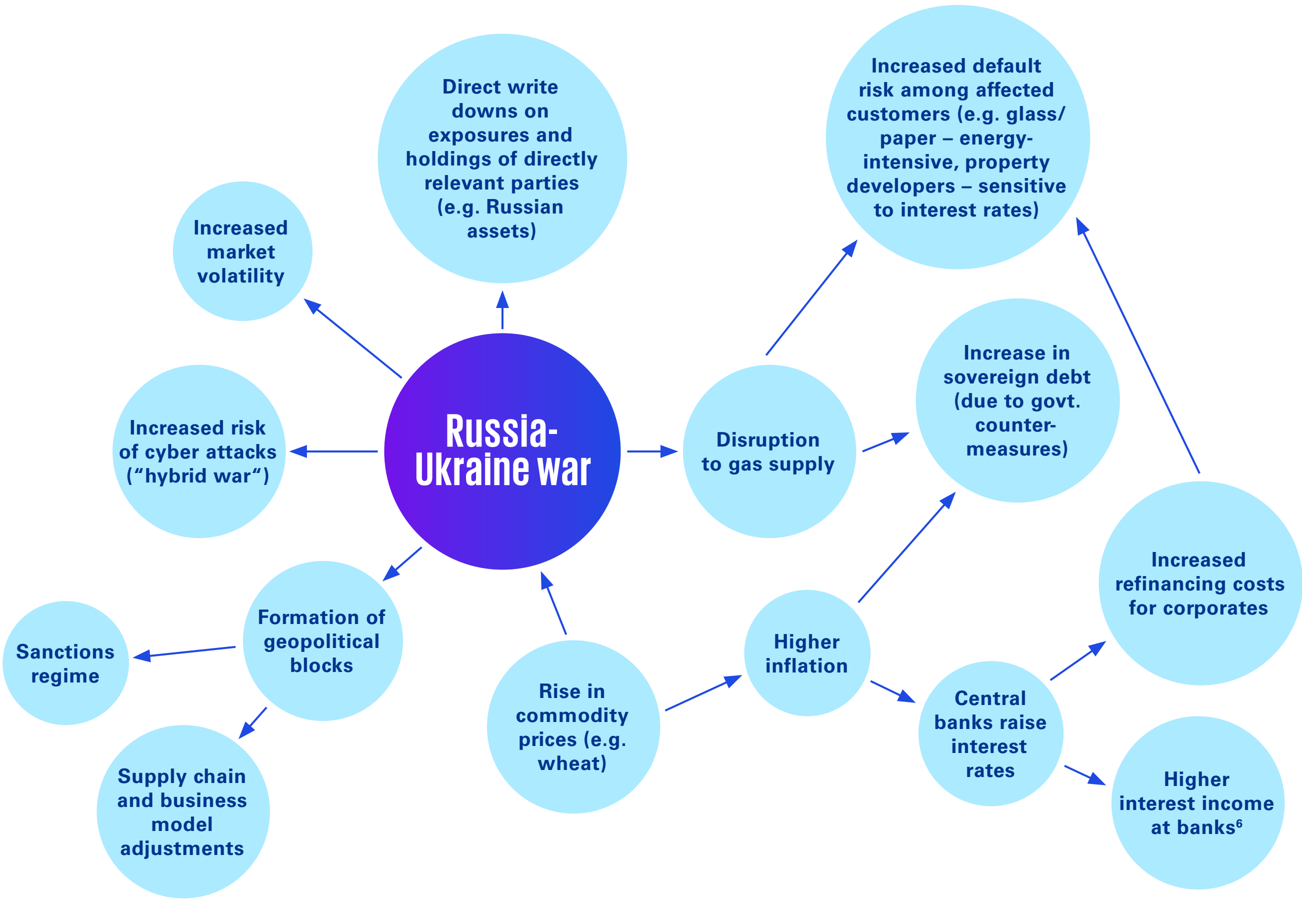
As ECB President Christine Lagarde said in November 2024, "The geopolitical environment has also become less favourable, with growing threats to free trade from all corners of the world."[3] We mentioned at the start that the risk landscape is changing ever more quickly because of the rapid change in the geopolitical environment. Particularly challenging is the fact that the impacts of these **risks (and the risk scenarios themselves) are often closely interconnected and trigger or even amplify each other**. BaFin President Mark Branson highlighted this as early as January 2024: "Our world is moving faster, becoming more digital, more interconnected. At the same time, it is becoming increasingly vulnerable to disruptions."[4] **Modern risk management** should therefore be structured to be **more agile and capable of a more rapid response**.

The Russia-Ukraine war is a pertinent example of risk interconnectedness. The far-reaching and profound consequences of this conflict emphasise the need for agile risk management. In April 2025, JPMorgan CEO Jamie Dimon also highlighted the relevance of new, complex and interconnected risks in today's world: "We face the most perilous and complicated geopolitical and economic environment since World War II. Today's world is more complex and more interconnected than ever before."[5]

Figure 2 shows the associated risks, including knock-on risks. Strikingly, it reveals how, in spite of all the uncertainty and potential loss, financial institutions may have benefited from this crisis. This is also the **essence of emerging risk management: It is not just about averting loss**, but also about putting the bank in a position to be able to take **advantage** of opportunities, **identify potential negative impacts early and take conscious steps to manage them**.

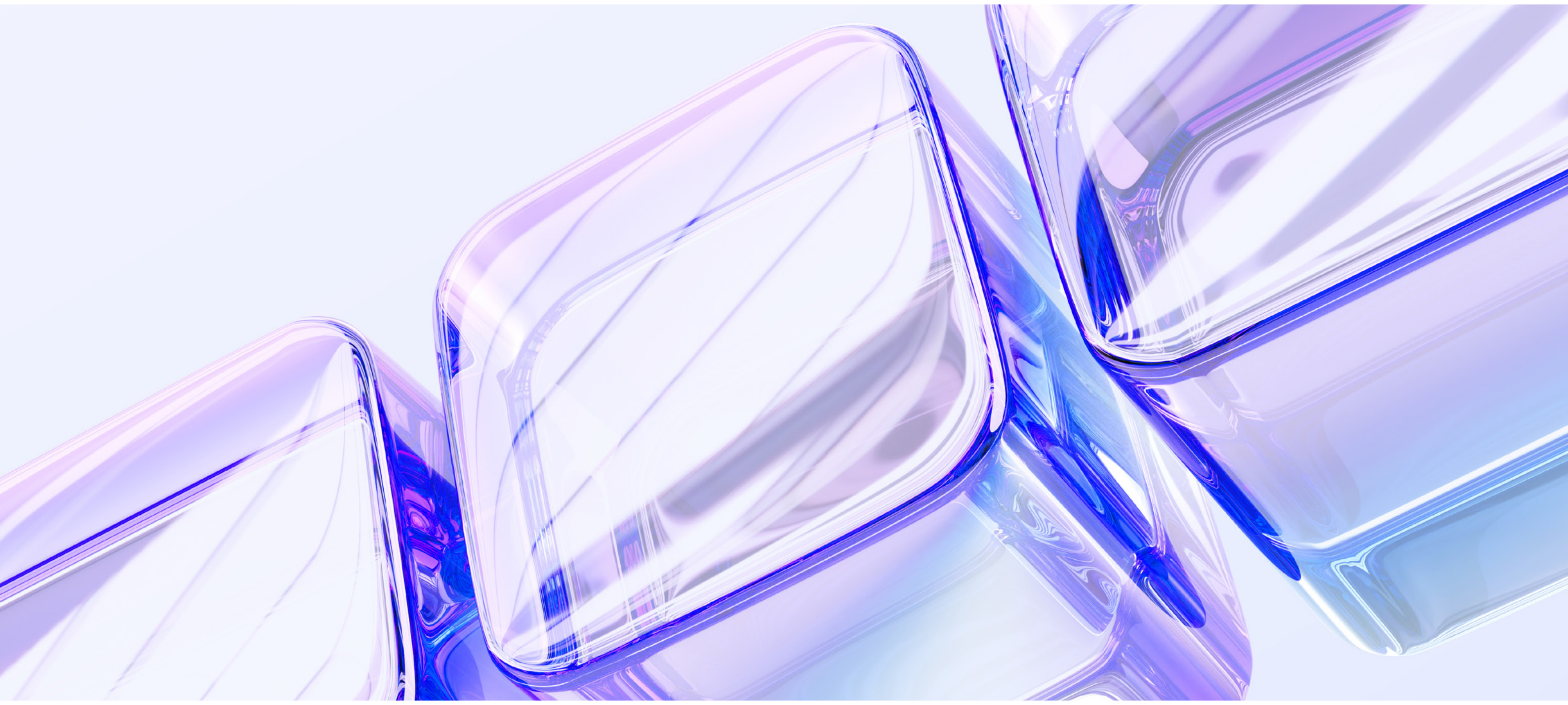
[3] Speech by Christine Lagarde, ECB President, at the 34th European Banking Congress, https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp241122~fb84170883.en.html, accessed on May 30, 2025
[4] Statement by Mark Branson, BaFin President, at a press conference on 23 January 2024, https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/RedenInterviews/re_240123_PK_Risiken_im_Fokus_p.html, accessed on May 30, 2025
[5] From the Chairman and CEO Letter to Shareholders by Jamie Dimon, https://www.jpmorganchase.com/ir/annual-report/2024/ar-ceo-letters, accessed on May 30, 2025

Figure 2:
Russia-Ukraine war: Risk interconnectedness



Source: KPMG in Germany, 2025

[6] The rise in interest rates was also positive for banks



Proposition 2

Banks today need an emerging risk manager.

Essentially, two key questions may help to ensure proactive risk management (i.e., to ensure that processes and mechanisms are implemented to effectively mitigate factors that diminish value):

1. **What is changing in the world?**
2. **What consequences do these changes have for the business and operating model?**

The first question relates to **risk identification**, while the second shifts the focus to the **analysis and assessment** of risk scenarios.

Modern risk management starts with **risk identification**, placing a **greater focus on causes** and **correlations**. In essence, identification involves recognising potentially relevant events and their consequences (scenarios) and being able to make an initial assessment of their impact on the organisation. Only then is a scenario subjected to structured analysis, which then forms the basis for effective counter-measures (or the identification of opportunities).

Financial institutions often have in place extensive risk inventory processes, which are usually carried out annually. In the context of emerging risks, **risk identification** focusses more on **causes and correlations**. Typically, the occurrence of such events is often a surprise, or existing incidents suddenly become significant, meaning that identification processes have to be adjusted so that potentially negative developments can be identified proactively and early using all possible sources. It is also essential to be able to make initial assessments of impact on the business and operating model so that relevant scenarios, which are subjected to thorough analysis, can be specifically identified. The relevance ranking should also include initial follow-on effects (e.g., response of central banks, effects on other types of risk, ability of customer segments to adjust, etc.). Emerging risk identification **essentially involves the identification of potentially adverse scenarios**, the **implications of which need to be assessed early**. This requires close and early consultation with relevant experts who assist with the identification and impact ranking process.

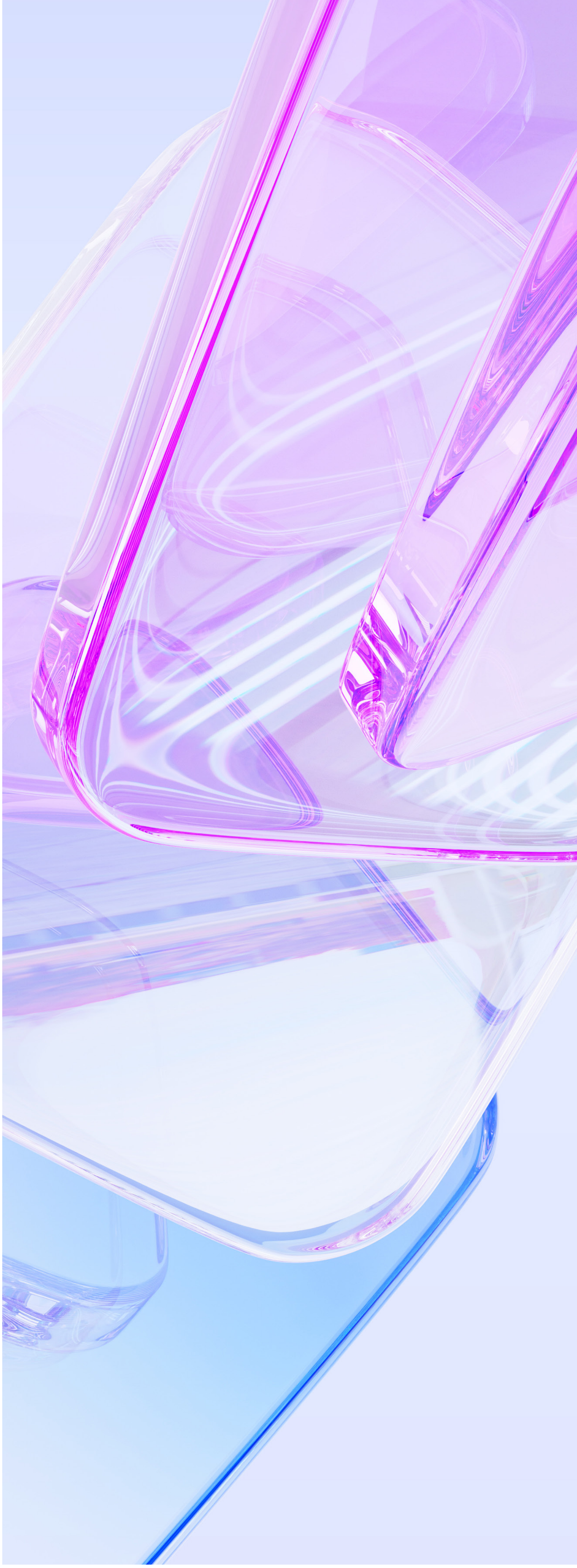
Accordingly, the following areas need to be developed in the context of risk identification:

- Structured evaluation of the organisation's deep internal knowledge. This must take account of the dependency structure of the identified scenarios and of externally available sources, and an initial assessment of their relevance.
- More frequent bank-wide systematic risk identification in line with the saying "be on the lookout – a good sentry never sleeps!"
- Focus on relevant scenarios. This entails the ability to identify scenarios that are potentially relevant in terms of their risk potential and currency, as well as the ability to make quick decisions based on initial evaluations of whether the scenarios need to be subjected to more thorough analysis to assess, for example, the need for potential counter-measures.

Example

American tariffs

The USA's tariffs announced at the beginning of April have already directly led to massive financial market turmoil. The medium-term consequences, particularly the implications for the flow of trade and, above all, the loss of confidence, must be continually analysed and their impacts examined.



Emerging risks – a paradigm shift for risk analysis.

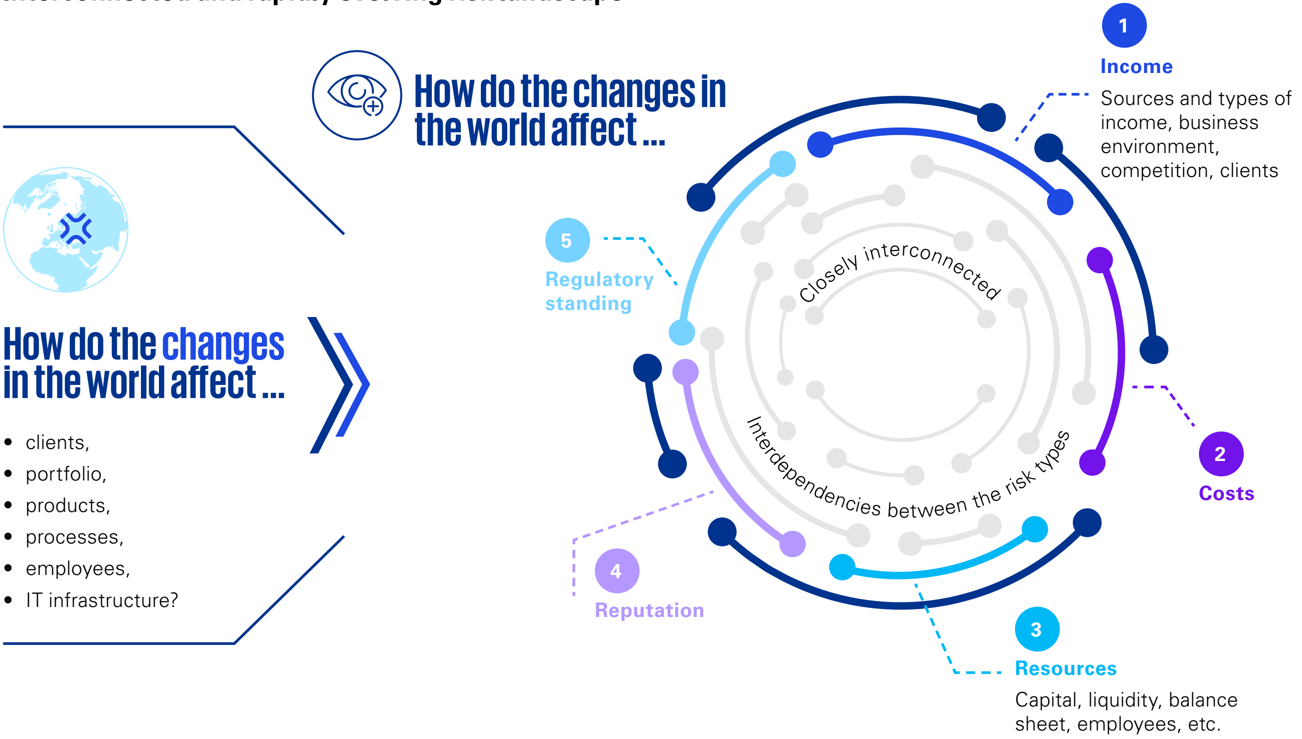
Once risks are identified, they can be **analysed and assessed**. The risk management frameworks of banks traditionally focussed on measuring impacts on capital adequacy and liquidity based on statistical and actuarial methods. These models cannot always adequately, if at all, capture complex correlations, relevant special factors or even fundamental "regime changes". **For this reason, the analysis of emerging risks requires a paradigm shift.** For management to be effective, it must consider not only the results of statistical models based on historical data, but also **forward-looking assessments** derived from an **understanding of scenario-specific impacts (including knock-on impacts) on the business and operating model**.

The required **skillset** is also **changing** due to the nature of the analysis and assessment. The analysis is primarily based on a strong understanding of causes and effects. This necessarily draws on a combination of various aspects of the financial institution's value chain and the markets and competitive environment in which the bank operates.

The analysis considers the consequences for

- **the business model** (in other words, the impacts on customers, products, the competition, employees and their judgement/decisions and data, as well as the methods/models used in the context of the business model); and
- **the operating model** (in other words, the impacts on processes and interfaces, the IT architecture, data availability and also the employees acting in the context of the operating model and their judgement/decisions and methods/models used).

Figure 3:
Interconnected and rapidly evolving risk landscape



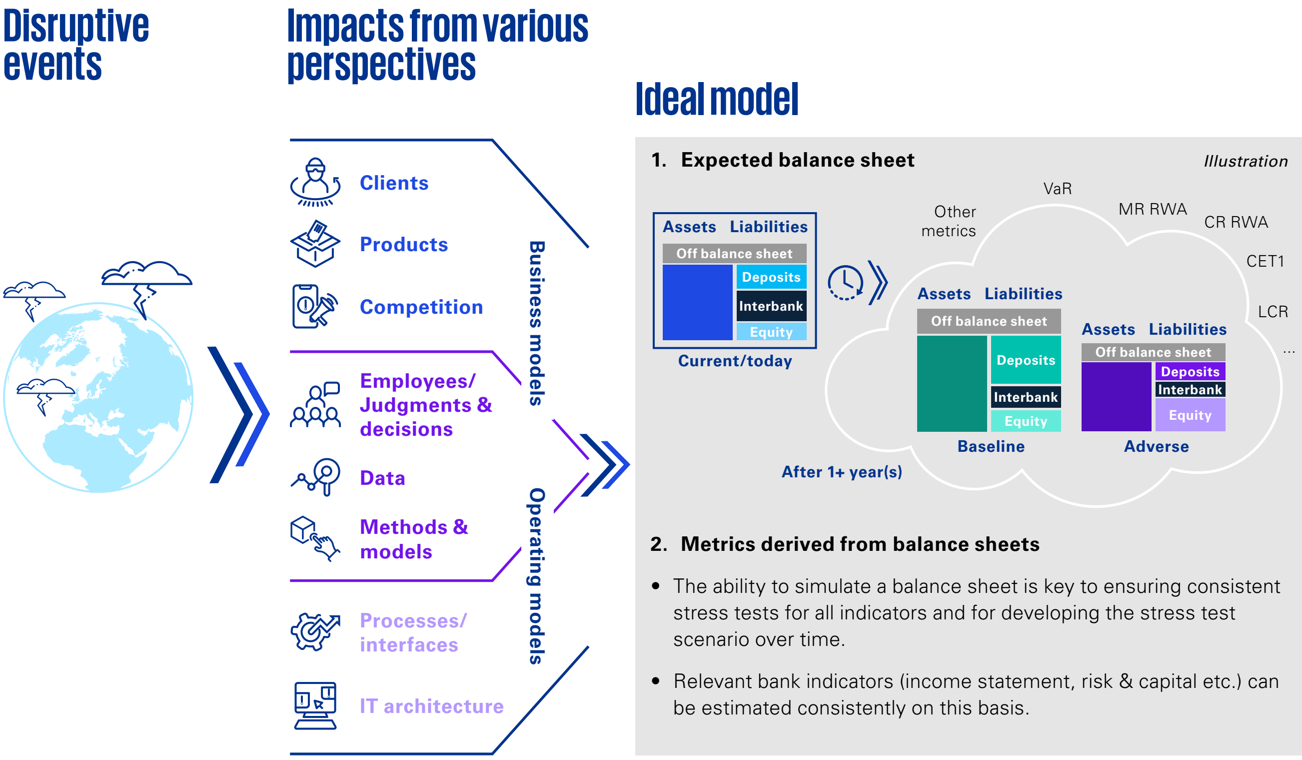
Source: KPMG in Germany, 2025

No single person can possess all this knowledge: expertise from all areas of the bank should therefore be systematically combined through a **qualitative scenario-specific portfolio review**. Experts assess scenarios on the basis of substantiated estimates to identify (potentially hidden) mechanisms that produce effects. It is important to recognise in detail the specific features of the risk scenarios and to develop a deep understanding of the structural impacts on the respective (sub-)portfolio, customer segment, product type etc., which also forms the basis for identifying potential areas requiring action and mitigation techniques.

Not only do those involved in the business and infrastructure departments need **extensive expertise**, but such analyses also require more **extensive databases**, which should also be quickly and reliably available. This is a challenge, as experience has already shown with the integration of ESG principles in risk management, which required a lot of new data: in the context of ESG risk management, it was (and still is) necessary to obtain new information from customers and business parties (e.g., CO2 emissions, energy intensity of the specific business model, energy mix, ability to transition to clean energy etc.). For certain scenarios, the challenge is that the relevant information is not available for analysis at all in the form of structured data.

A further challenge is the **speed** at which the available data can be evaluated. In some cases, processes are not fully automated, meaning that manual adjustments, quality assurance and more in-depth data analyses, potentially from a new perspective, can only be carried out slowly. **The ability to carry out comprehensive analyses quickly can be critical, particularly in the context of emerging risks.** Not all banks can do this yet.

Figure 4:
Ideal picture of integrated planning and simulation
Integrated more thoroughly with the analysis of the bank's medium-term performance based on alternative scenarios



Source: KPMG in Germany, 2025

Universal stress testing – a well-established instrument used in overall bank control – is particularly well suited to quantifying the impacts derived from the scenario-specific analyses and the results of data analysis. Developing (quantitative) universal stress testing methods into an **integrated planning and simulation process** adds value. For this purpose, the **analyses must be available quickly** and, furthermore, **the results obtained from the qualitative analyses need to be integrated into the stress test models, or at least appropriately taken into account in the results** (e.g., through model overlays). These analyses form the basis of risk mapping as part of the ICAAP and are key elements of the strategic planning process.

In the context of risk analysis and assessment, improvement is required in the following areas:

- development of qualitative analytical capabilities in order to collate expert qualitative opinions based on a stable network throughout the organisation;
- review of processes for evaluating and interpreting relevant data in terms of the quality, completeness and speed of such processes;
- ongoing digitalisation and data management programs;
- refinement of stress testing methods.

The primary **functions of overall bank control** include the structured analysis of internal and external sources, thinking beyond risk categories, leaping between the various levels of aggregation in the risk cycle (individual deal, individual client and portfolio level) or combining various resources and management indicators. What is new is the way in which this occurs. Scenario-specific situations must be well understood at **shorter intervals with the help of a resilient network, and questions relevant to the entire organisation must be identified and answered**. Strong analytical and **communication skills** are **needed** to fully understand and integrate the various perspectives and, with input from experts, suggest possible courses of action.

These are the requirements of an essential new role: that of the **emerging risk manager. Their place in the organisation is in overall bank control. They are a generalist with a comprehensive understanding of the business and operating model and the associated risks**. Thanks to their strong network, they are able to discuss **detailed questions with the specialists and make a summary assessment** ("connect the dots").

Based on the various analyses and expert opinions, the emerging risk manager prepares a comprehensive picture of the threat level and is able to summarise the risks and rewards in a balanced way, providing **recommendations for risk diversification** in a structured **report** to the organisation's decision-makers and governing bodies for their discussion and decision.

Example

Digital dependence on the USA

Europe's digital dependence on the USA clearly illustrates the advantages of having an early strategic direction. It will likely not be possible in the foreseeable future to build up enough digitalisation capacity in Europe to overcome this dependence. Nevertheless, it could be a strategic decision to progressively invest now in local cloud service providers to support their ambitions for growth and therefore reduce the concentration risk in this regard from the perspective of operational risk management.

Skills profile: emerging risk manager/team

Essential criteria:

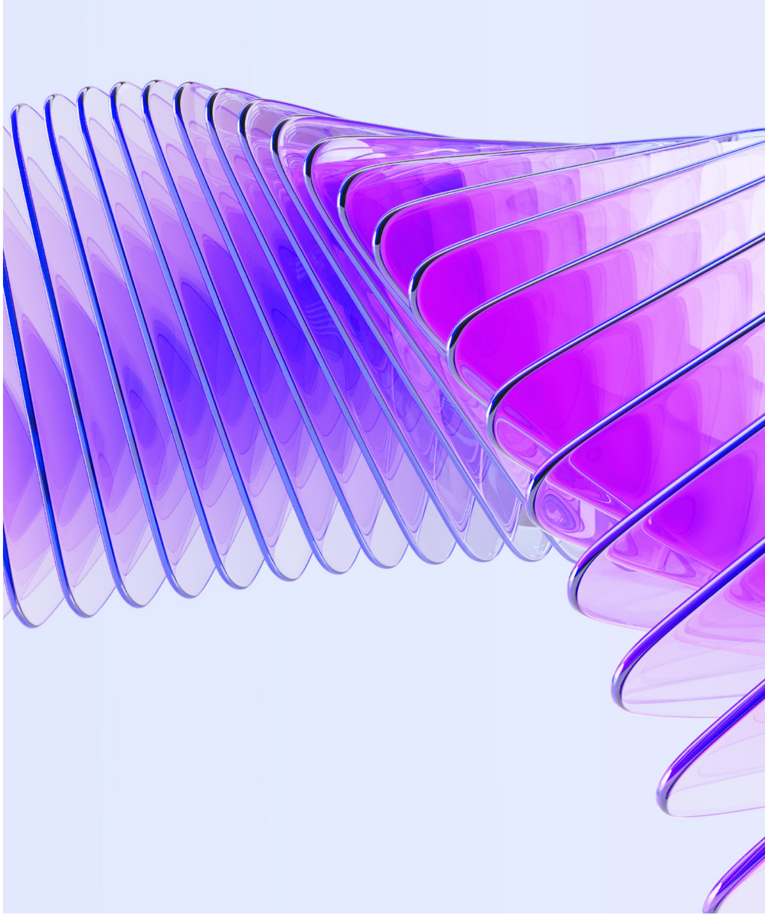
- Critical analysis skills
- Ability to recognise connections
- Ability to think unconventionally and "outside the box"
- Consciousness of interconnectedness
- Robust understanding of income and cost structure, resources (capital, liquidity, balance sheet, infrastructure, HR, etc.) as well as reputation and regulatory standing
- Thinking in relation to risk: solid basic knowledge of types of risk (credit risk, operational risk, market risk, liquidity risk)

Responsibilities:

- Continual identification of risks
- Coordination and consolidated interpretation of more in-depth analyses
- Development of alternative courses of action
- Preparation of reports and provision of support to facilitate discussion by management committees and governing bodies

Place within the organisation

- Usually part of the risk control function
- As close as possible to the manager responsible for ICLAAP matters
- Easy and straightforward access to relevant parties throughout the bank (particularly from the three lines of defence)
- As experienced as possible to ensure the necessary influence and relevance



Example

Russia-Ukraine war

The war has resulted in massive geopolitical and economic turmoil, particularly in Europe. In the short term, soaring energy prices, high inflation and market turmoil adversely affected the risk profile. Credit risks increased in energy-intensive sectors and trading losses and devaluations affected income. Sanctions and compliance requirements increased operational risk. Other consequences included a decline in capital market activity and a sudden increase in demand for financing (primarily working capital) in the short term, although this declined over the medium term due to the weaker economy. All in all, the bank's overall structural risk increased, particularly in Europe. However, it should also be emphasised that banks in particular can benefit from central bank reactions – directly by means of favourably-priced liquidity programs and higher interest rates as a response to inflation.

Proposition 3

(Emerging) risk management is a matter of culture.

Emerging risks, which include risks that often manifest in new forms or that are not well understood or have only just emerged, present new challenges for risk management methods. Archetypes from the animal kingdom can help to classify them:

Black Swans

Events that are unpredictable and extremely unlikely, but have a significant impact. The term was popularised by Nassim Nicholas Taleb in his book, "The Black Swan: The Impact of the Highly Improbable" (2007).

Examples:

- the coronavirus pandemic
- the fall of the Berlin Wall
- the September 11 terrorist attacks
- the 2004 Indian Ocean tsunami

Elephant in the Room

An older metaphor for obvious problems that are ignored. It refers to highly probable risks that are considered "normal". Their impact can vary and can also be severe.

Examples:

- vulnerability to disruption due to offshoring parts of the supply chain
- corruption within political and economic systems
- high levels of sovereign debt in many countries
- the ageing of the population

Gray Rhinos

Highly probable risks that are not considered "normal". They are known and their impact is significant. Michele Wucker coined this term in her book, "The Gray Rhino: How to Recognize and Act on the Obvious Danger We Ignore" (2016).

Examples:

- the climate crisis
- the risk of a Russian attack on Ukraine after its annexation of Crimea
- raw material shortages
- biodiversity loss

To identify and understand such events, it is not enough to simply think along process lines. Instead, it is important to **identify situation-specific problem areas, ask relevant questions and identify the necessary parties involved** so that answers and alternative options can also be identified.

Whereas **black swans**, which can only be identified with difficulty, require a **fast response**, it takes some effort for other types of emerging risks to become clear in the minds of the parties involved. To identify **elephants in the room**, the observer must change their perspective, while **gray rhinos** require an **"accept or act"** approach. Managing these risks therefore goes hand in hand with a conscious decision and the implementation of appropriate action. Essentially, therefore, emerging risk management is above all a matter of (risk) culture.

It is important to note here that **culture can be changed!** Efforts should therefore be made to **develop the risk culture**, thereby also improving emerging risk management. Black swans, elephants in the room and gray rhinos present **various challenges in the context of culture**. For example, why are some risks not discussed, even though everyone knows about them? Why is nothing done to counter certain risks, even though it is very clear what could and should be done? A culture that prioritises speed and agility is critical for effectively managing these events. The following may help to achieve this mindset:

- **Introduce agile work methods:** Agile teams support rapid adjustments and iterative processes. They have learned to adjust quickly to new situations and to correct poor decisions rather than handle them by pointing the finger.

- **Speed up decision-making processes:** Decentralising decision-making authority can reduce bureaucratic hurdles. An example would be introducing "decision-making zones" in which teams can make decisions independently without having to wait for approval from above.

- **Ensure the rapid flow of information:** The implementation of communication channels that enable the rapid dissemination of information is another important starting point for creating the cultural foundations for efficient emerging risk management.

- **Culture of open discussion:** Fostering an environment in which employees are encouraged to speak openly about risks that are often ignored is essential. Regular "risk round tables" can be useful here, where employees from different departments get together to speak openly about risks. The round table discussions should be moderated by managers who create an atmosphere of openness and trust.

- **Initiate a change of perspective:** Workshops and training sessions can help to crack open existing ways of thinking and foster the development of new perspectives. An example of this would be "reverse brainstorming", where employees are asked to look at risks from a completely new perspective and develop solutions.

- **Allow contrary opinions to be expressed:** A culture in which differing opinions and perspectives are welcome must be encouraged in order to penetrate through existing group dynamics. Discussion of and about emerging risks can be stimulated by actively encouraging debate and the sharing of opposing points of view.

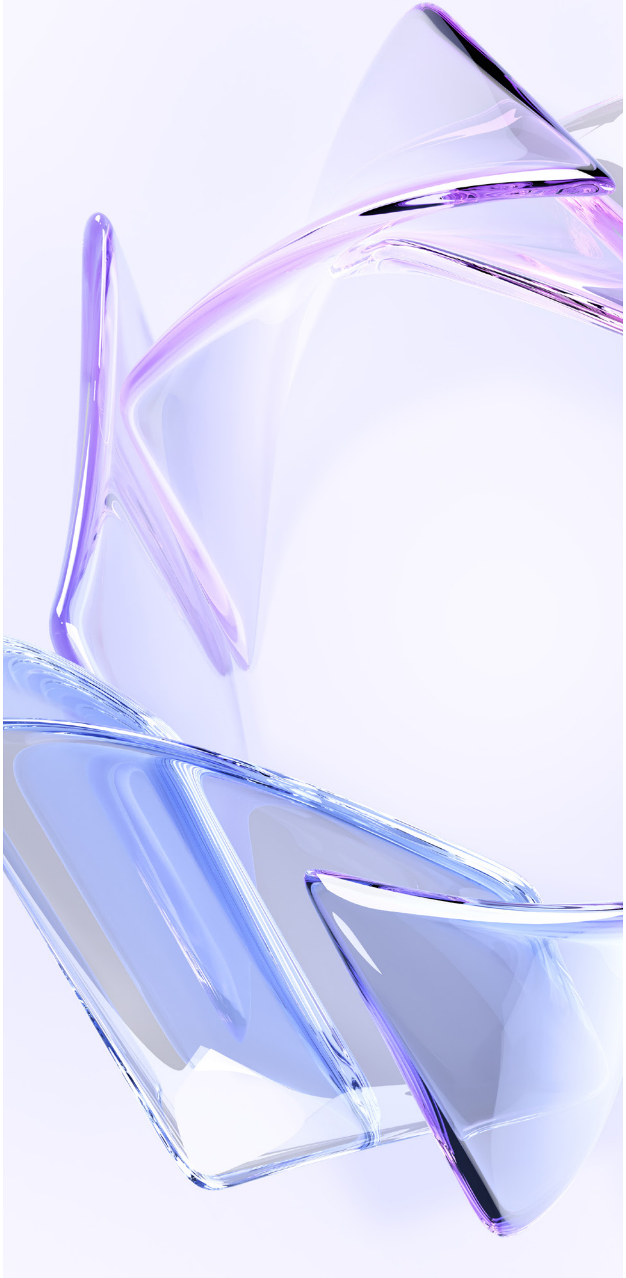
- **Lead by example:** Managers themselves should speak openly about (often ignored) risks and share their own experiences. This might take the form of monthly "leadership talks" at which managers present their opinions and strategies for managing risks. They should also create a culture of trust, where employees feel safe expressing their concerns (psychological safety).

- **Instigate disruption:** Initiatives that deliberately trigger changes can help to enhance awareness of these risks. For example, employees could be encouraged on "innovation days" to develop and present innovative solutions for existing risks.

- **Encourage in-depth analysis:** Investments in tools and training that allow risks to be analysed in detail promote a better appreciation of their significance.

- **Encourage proactivity:** Developing incentive systems that reward proactive risk management encourages active employee engagement. An example of this would be to introduce and celebrate an "identified risk of the quarter".

All of these approaches require a **conscious decision to change the organisation's mindset**. By promoting agility, open communication and proactive analysis, banks can improve their ability to effectively identify and manage emerging risks. This will also mean they are quicker to identify and test out opportunities in a risk-conscious way.



The person responsible for the emerging risk framework should exemplify this mindset:

- **Openness**, so that new risks can be identified and assessed
- **Creativity,** so that risks can be overcome in innovative ways
- **Willingness to learn**, to ensure continuous learning and adaptation
- **Mindset agility**, the ability to adjust quickly to new situations

The aim is to establish **a flexible risk management approach where dynamism and agility through-out the risk cycle enable rapid action**. "Holding a finger to the wind" from time to time at all levels across all lines of defence encourages flexible responses to changes in the risk landscape. This means that **risk identification is the responsibility of everyone in the organisation**, and identified risks are also followed up within the organisation and, if necessary, analysed in greater detail. **The emerging risk manager has a key role to play here.** Ultimately, the emerging risk manager should be supported in order to be successful in their frequently organisation-wide work. Assigning the role an appropriate position in the job hierarchy could be a way of providing such support.

To summarise

The emerging risk manager will be most effective in an organisation which sees risk identification, assessment and management not as separate tasks delegated to specific individuals or teams, but as a shared responsibility of the business as a whole. In other words, one in which a modern risk culture is part of the organisation's identity.

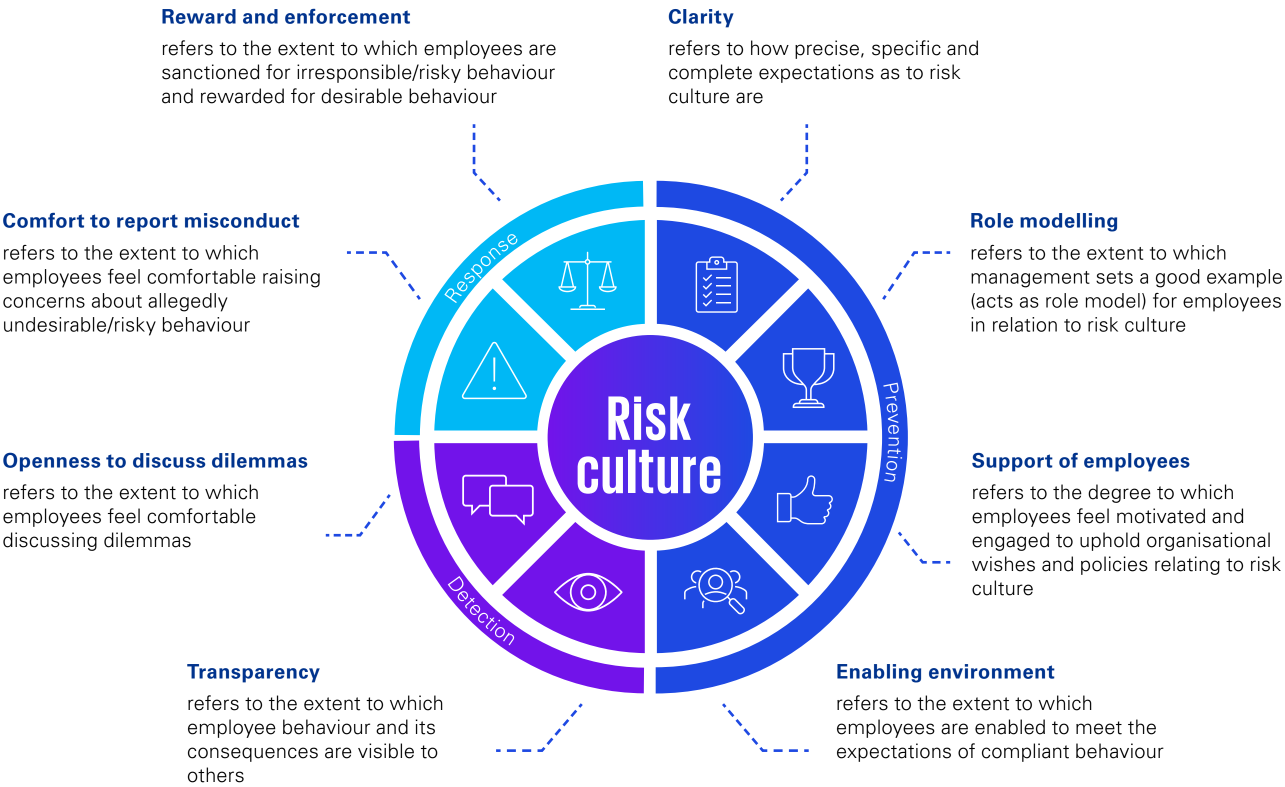
Risk culture is **measurable and manageable**. It can be measured by reference to the perception of the parties involved, which can be recorded in a structured way and analysed using appropriate empirical methods from the field of psychology. Cultural aspects can be measured, for example, by reference to a **model with eight cultural drivers** (see figure 5):

This model helps organisations to evaluate and improve their risk culture. It highlights how important it is for a strong and uniform risk culture to be included as an integral component of risk management. A **healthy risk culture leads to better decision-making and increases resilience to risks**.

The model includes both **hard controls** (formal management mechanisms such as policies and procedures) and **soft controls** (cultural and behaviour-related control mechanisms such as values and beliefs). The management elements include the incentive framework, the employee recruitment and retention process, early warning systems and the lessons learned process.

Influencing risk culture is therefore a **key step up from process-based risk management towards an agile, situational approach**. Establishing a "desired" culture is a long-term project that can typically take six to ten years.

Figure 5:
Soft Controls Model



Source: KPMG in Germany, 2025

Proposition 4

Emerging risk management requires an active supervisory body – as a driving force, taking a more proactive role in risk management

Emerging risks not only present new challenges for bank management, but also require **a shift in the role of the supervisory body**. As the highest oversight body, it has an increasingly important role to play in ensuring the effectiveness of risk management, particularly in a rapidly changing and uncertain environment.

Rethinking reporting requirements – more often, more in-depth, more forward-looking.

Conventional reporting cycles have limitations as far as emerging risks are concerned – emerging risks' lack of predictability, rapid rate of change and interdependencies require reporting at shorter intervals, with situation-based reports and a stronger focus on early indicators. The supervisory body should be proactive about stipulating that risk reporting should not be simply retrospective but also scenario-based, interdisciplinary and forward-looking. Communication between the management body and the supervisory body must be guided by the speed with which the risk landscape changes: **emerging risks often develop outside established escalation channels**, which is why communication between the management body, the risk control function and the supervisory body or risk committee should be **more frequent, more situation-based and more focussed**.

The supervisory body should not simply wait for reports, but proactively request updates on priority matters, for example by making targeted enquiries about modified risk assessments, the resilience of critical processes or the effectiveness of early indicators. This allows risk-related communication to transition from formal reporting to a dynamic, risk-based sharing of information aimed at the early identification and assessment of strategic threats.

The supervisory body plays a key role in shaping risk culture by setting the "tone from the top".

- by calling for **open discussion of uncomfortable topics** (e.g., "elephants in the room");
- by **asking targeted questions about non-financial risks** (e.g., risks relating to technology, reputation or sustainability); and
- by **actively evaluating cultural aspects as part of its control function** (e.g., psychological safety, handling mistakes, constructive objections).

The regulator has clear expectations of the supervisory body.

The ECB's "Draft guide on governance and risk culture" published in July 2024 represents a clear statement of what is expected of the supervisory body. The regulator outlines specific expectations in relation to, for example:

- **Collective suitability:** The supervisory body should have a diverse skills profile that is competent to deal with risk.
- **Responsibility for culture:** The committees expressly share responsibility for developing the risk culture. It is not just about paying lip service to setting the "tone from the top" but about actually making this part of the organisation's management framework.
- **Communication culture:** Interaction – both formal and informal – with the heads of the control functions should be intensified.
- The committee chairperson and the heads of the internal control functions should **consult outside meetings** in order to discuss relevant issues (e.g., resourcing, regular reports, performance reviews and the agendas for upcoming meetings), and the substance and outcomes of such consultations must be reported to the full management body.

The regulator therefore views the supervisory body as not just an overseer but as an **active driver of resilient risk management** and as a **key player in managing uncertainty, ambiguity and risk appetite**.

The supervisory body can act as a driving force, particularly in the case of latent, slow-burning risks that are difficult to measure, which helps the organisation to not only identify risks but also to talk about them openly and address them in a timely way. **Emerging risk management is a management responsibility**, including and especially at the level of the management and supervisory bodies. The supervisory body should also refine its role in alignment with the ECB's "Draft guide on governance and risk culture" **from one of oversight to one of strategic partnership with the management body, from approver to instigator of culture, and from passive recipient of risk reports to proactive navigator** in times of growing uncertainty, doing so by scrutinising and questioning management decisions.

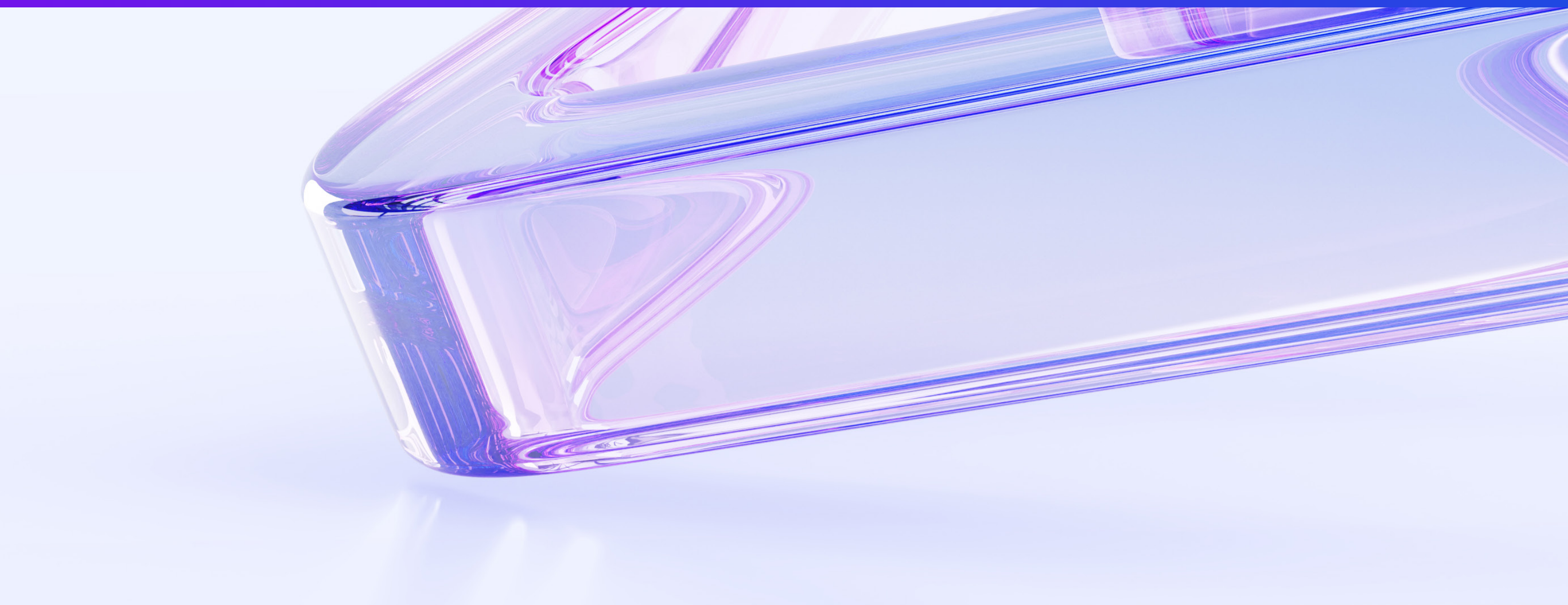
The ECB's "Draft guide on governance and risk culture" therefore sees the **supervisory body as becoming more closely involved with the management body's management of the bank's operations**. It remains to be seen how the ECB will use its discretion and interpretive flexibility in practice, for example as part of the Supervisory Review and Evaluation Process (SREP). And of course, there is also the question of ultimate responsibility.

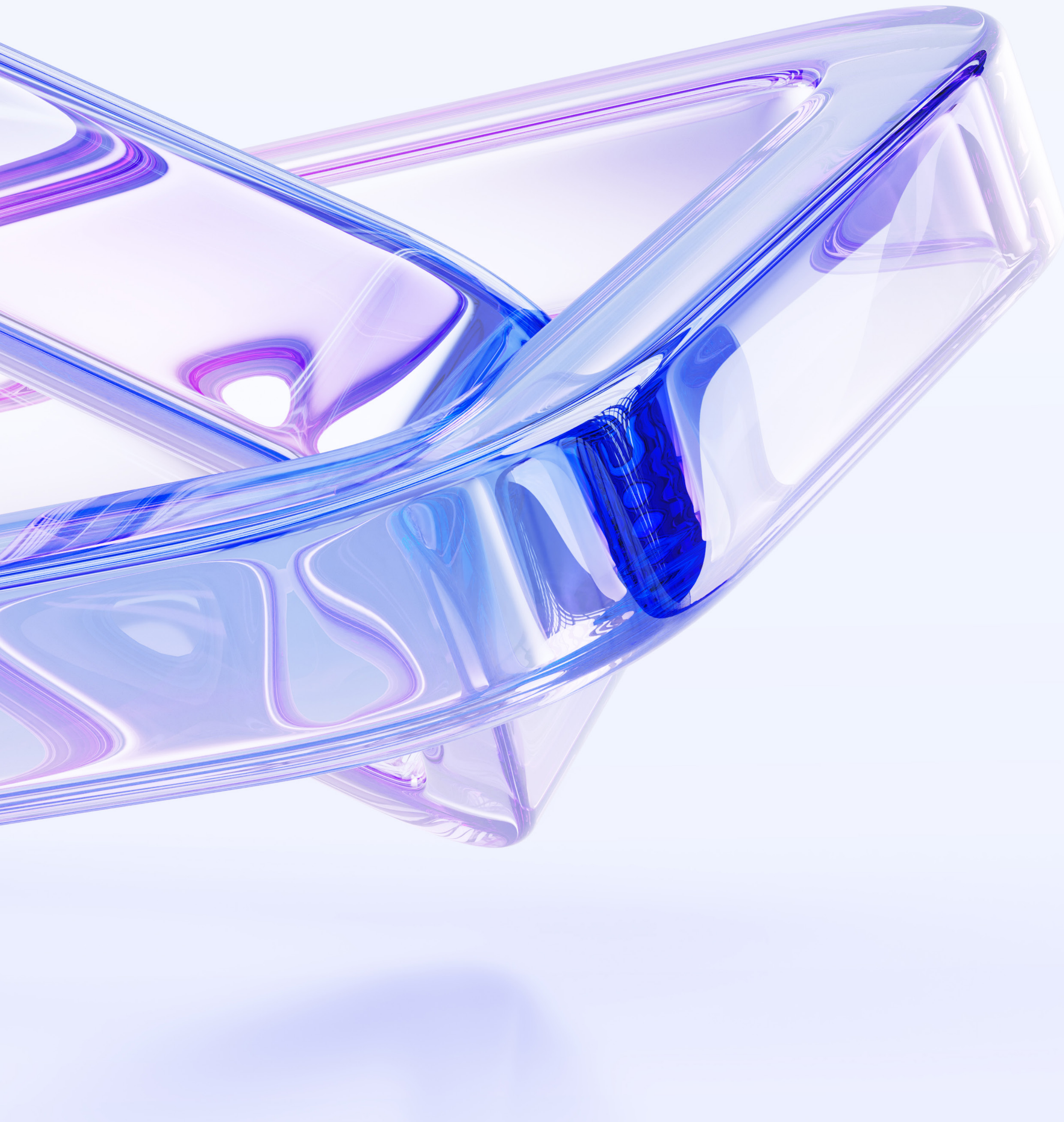
Summary & outlook

The risk environment is **changing rapidly**. This requires that banks' **risk management processes also evolve appropriately**. A key task is to **develop the role of the emerging risk manager** who, equipped with the "right" mindset, has a systematic overview of emerging risks and, if needed, can analyse them and their **broad future consequences** drawing on expertise within and outside the organisation.

The role is supported by others in a **cultural environment** where **risk management is seen as adding value**, allowing the emerging risk manager to translate their skills as a generalist into effective action. They develop recommendations for action and present them to the management bodies for discussion and decision.

The role of the governing bodies, in Germany the management board and **the supervisory board, becomes much more important in this context**. The ECB's "Draft guide on governance and risk culture" makes clear that the management body itself also has to address the issue of changing the risk culture. This also increases the responsibility of the supervisory body (or its committees) in the context of the bank's risk management. Success will depend on them even more in the future – as **pioneers of emerging risk management at the bank**.





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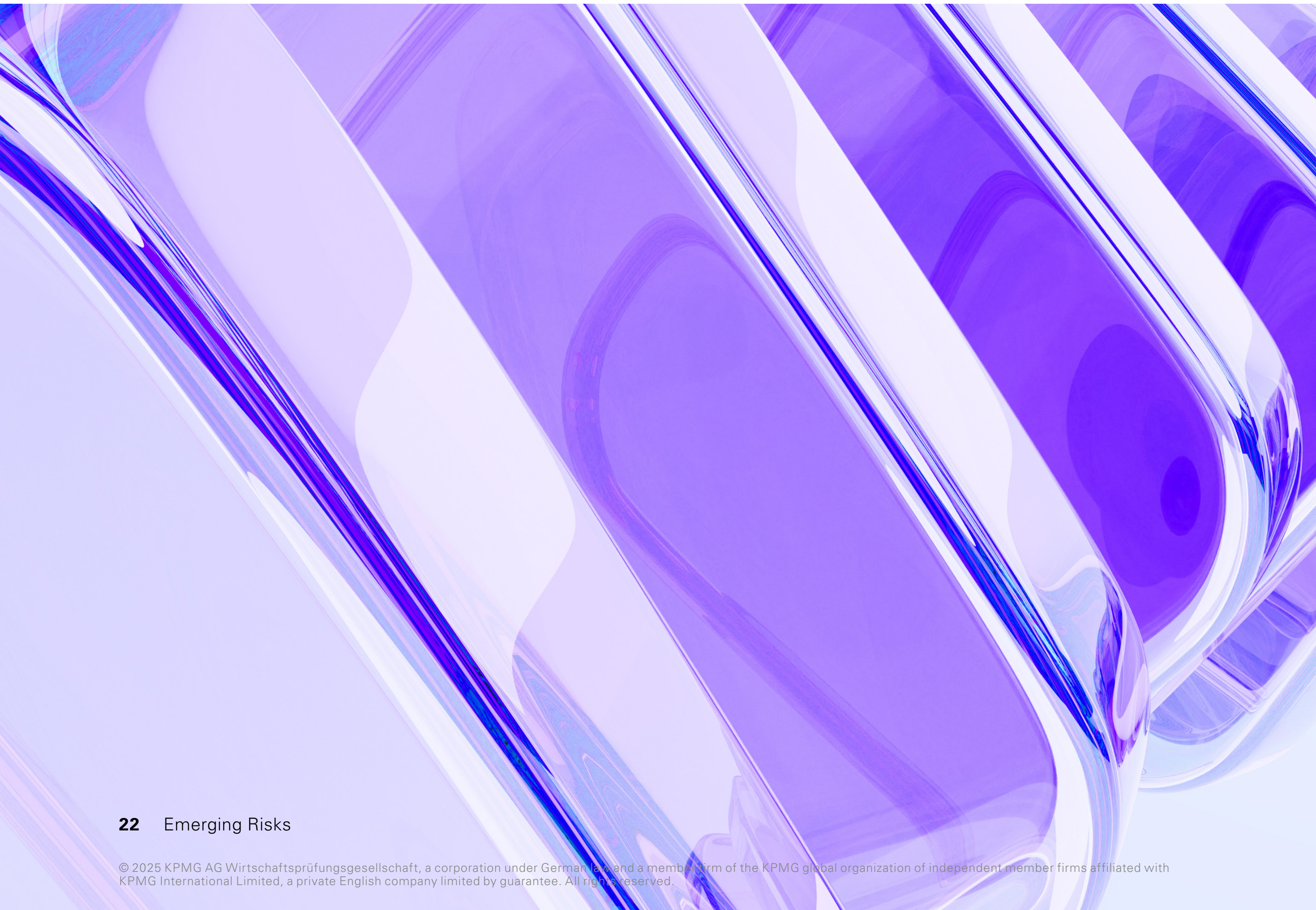

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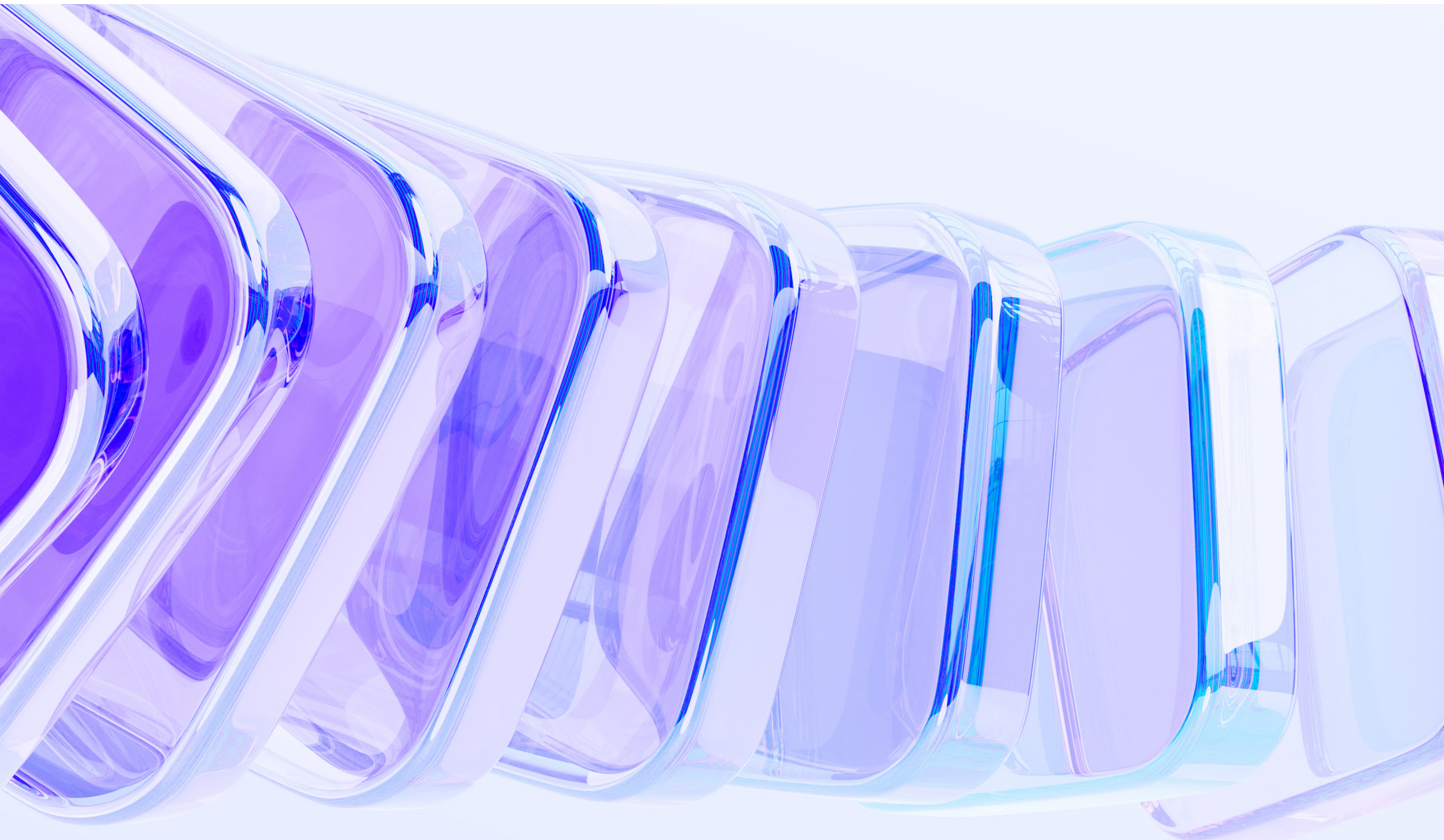

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