interest rate risk (No. 12) where the prospect is for higher financing costs as central banks phase out their quantitative easing programmes. One respondent said that borrowers "are woefully unprepared for a 'normal' rate environment".

Has credit risk really declined?

Another strong concern in this area is **bank profitability** (No. 5) both in the short term because of the legacy of bad debts, many still not fully recognised, and in the longer term as banks adjust to the costly structural and regulatory changes that have been imposed on them in the last 2-3 years. Although concern about **credit risk** has receded from the high position it occupied during the crisis (down from No. 2 to No. 7), respondents stressed that debt levels remain high in all the major categories, and could easily get worse if the economic recovery falters or interest rates rise sharply. There is also concern that bankers may be pushed to **misprice risk** (No. 6) by the pressures of competition and an abundance of central bank-provided liquidity.

Risers and fallers

The dramatic changes that are taking place in the global banking industry are reflected in equally sharp changes in risk perceptions. Here is a selection of risks whose ranking has altered markedly since our last survey in 2012.

RISING RISKS

Regulation: Concern about regulatory overkill, and potential damage to banks.
Political interference: More governments setting the rules for banks.
Technology risk: Outdated systems vulnerable to cybercrime and outages.
Pricing of risk: Temptation for banks to underprice risks because of competitive pressure and the abundance of CB liquidity.
Criminality: Strong rise in cybercrime.
Interest rates: End of quantitative easing could cause serious problems for banks.
Emerging markets: Concern about economic and financial stability, particularly in China.
Sales and business practices: Banks may not have full control over mis-selling and other abuses.

FALLING RISKS

Credit risk: Hopefully past the worst as economies recover.
Capital availability: Banks' capital ratios are improving.
Liquidity: Central banks will ensure that supply is plentiful.
Derivatives: Trading of exotic products now under tighter control.

Central banks will make sure banks have enough liquidity

Liquidity risk is one of the big movers in this survey, falling from position No. 3 in 2012 to No. 15 in this survey. One respondent said: "I can't imagine the central banks are going to stop giving liquidity assistance any time soon, including to technically insolvent banks..." There has also been a decline in concern about the banks' ability to raise fresh **capital** to meet higher regulatory requirements (down from No. 4 to No. 10), though this adjustment is also being achieved by deleveraging, which has implications for the availability of credit more widely.

The institutional risks in banks show a generally easing trend. The **quality of corporate governance** continues to be the strongest concern at No. 8, driven by perceptions that boards do not have a sufficient understanding of modern banking practices, and give strong executives too much rein. The **quality of risk management** (No. 11) is a particular concern, though it is recognised that this is an area where much work has been done to raise standards. Both of these risks were a greater worry to non-bankers than to bankers. Concern about **management**