AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS

2020 AFP®

RISK SURVEY REPORT

KEY HIGHLIGHTS

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INSIGHTS

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This summary report includes highlights from the comprehensive *2020 AFP Risk Survey Report*. The complete report comprising all findings and detailed analysis is exclusively available to AFP members. **Learn more about AFP membership**.

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Key Findings Covered in the Comprehensive 2020 AFP Survey

- Cybersecurity Risks Most Challenging to Manage Currently, and Will Be So Three Years Hence
- Risk Managers Anticipate Strategic, Financial and Political Risks Will Have Greatest Impact on Organization's Earnings
- Organizations' Exposure to Uncertainty in Earnings on a Continual Increase
- Forecasting Risk a Greater Challenge in 2009
- Organizations Are Well-Prepared to Manage Risks
- Concerns About Upcoming Uncertainty
- Treasury Professionals Are Preparing to Tackle Economic Uncertainty
- Treasury Professionals Are Well-Equipped to Manage Risk Today, Not So a Decade Ago
- Relevant and Timely Information Are Significant Constraints When Forecasting Risk
- Over Sixty Percent of Organizations Are Structured to Assess Risk

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INSIGHTS

Following a decade of financial expansion, what are the expectations for the next 18-36 months? Throughout 2019 there were a number of surveys that examined the potential of a recession, leading us to ask financial leaders if they consider themselves better prepared to manage risk and volatility than ten years ago.

The results of the *2020 AFP Risk Survey* show that slightly over half of respondents believe their organizations are well prepared to manage risks and better prepared than ten years ago. Only 14 percent of respondents report they were well equipped to manage and forecast risk in 2009 and today 61 percent of the survey respondents state they believe they are well equipped to forecast and manage risk. This likely represents concerted efforts since the financial crisis to strengthen risk oversight, processes and reporting.

The survey also flags the priority areas going forward. Compared to today, a higher percentage of respondents expect the challenges of forecasting risks to increase over the next three years. Cybersecurity, disruptive technology, strategic risks and environmental risks are expected to be harder to contextualize, quantify and manage. Collectively, the data points to the need to improve processes and analysis around emerging risks – those that are new or changing in significance, and whose trajectory exhibits a high level of uncertainty. These risks are often hard to detect and even more difficult to assess.

Few organizations currently have a formal process for identifying emerging risks and this needs to change if executive leadership and the board want to understand the potential impact on strategic decision making.

Marsh & McLennan is pleased to sponsor this survey for the 9th year and to continue our dialogue with the financial community on how to strengthen an organization's risk management capabilities.

Alex Wittenberg

Executive Director, Marsh & McLennan Advantage

Introduction

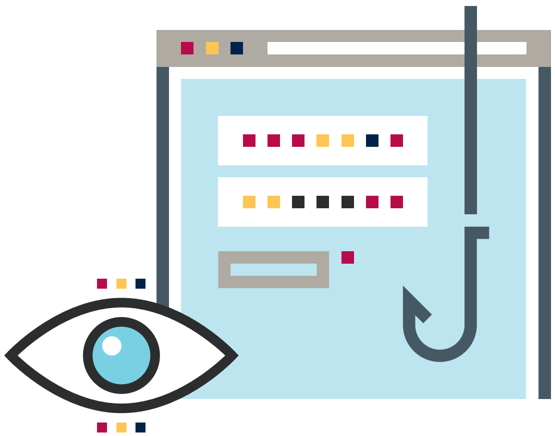
The risk landscape has evolved over the past decade and it is evident that risks impacting organizations have changed significantly. In 2009, the U.S. economy was limping into recovery after a brutal recession. Indeed, the recession of 2008 forced many organizations to render some of their workforce redundant, cut back on production and, in the most severe cases, even go under. Financial leaders were struggling to get their businesses to return to normalcy. Managing the risks that arose as a consequence of the recession was key for them. In the *2012 AFP Risk Survey*, 72 percent of respondents cited financial risks as an area of concern, reflecting financial leaders' continued anxiety post-recession. In last year's *2019 AFP Risk Report*—which reported data for 2018—39 percent of respondents indicated they were worried about financial risks—a significant decline from seven years earlier. Also in the 2012 report, 62 percent of financial professionals reported that their organizations were exposed to greater uncertainty than they were five years earlier. This, again, suggests that organizations at that time were not safeguarded significantly against risks; in 2019, 39 percent of respondents indicated their organizations were exposed to greater earnings uncertainty than in 2014. It appears organizations made substantial progress in planning for some risks.

There have been frequent occurrences of cyberbreaches at organizations. In a survey conducted at AFP's 2019 Annual Conference, 88 percent of corporate practitioners reported that their organizations had been victims of actual or attempted cyberattacks in the previous 18 months (*2019 AFP Cyberrisk Report*). Data from this year's risk survey substantiate this finding, as 53 percent of financial professionals indicate cyberrisk is challenging to manage. Interestingly, only 12 percent of this group considered cyberrisk difficult to manage in 2009. Technology advancements such as the proliferation of end-user channels and devices have created more points of compromise, extensive use of e-commerce and internet banking, and availability of information via social media can result in greater exposure to fraud and more vulnerability to cybercrime, thus making those committing cybercrimes more successful. Organizations are having to invest in resources to keep these criminals at bay. While a cyberattack may not result in severe financial losses, the loss of confidential company data and the damage to corporate reputations with customers and suppliers can be detrimental too.

Against this shifting risk landscape, *The Association of Financial Professionals® (AFP) 2020 AFP Risk Survey* was conducted to gauge current perceptions of the risk environment and determine the risks that are challenging to manage. It also examines shifting risk priorities over time, the extent to which organizations are prepared to handle volatility/uncertainty and answers the question of whether or not financial professionals are better equipped with data and analytical tools currently than they were before the recession. The survey looks at how the last 10 years have affected or changed the way treasury and finance professionals prepare for and manage risk.

The *2020 AFP Risk Survey* is once again supported by Marsh & McLennan. AFP thanks Marsh & McLennan for its support of the survey and for sharing insights into current risk issues. The Research Department at AFP is solely responsible for the content of this report.

Key Takeaways



Cybersecurity Risks Are The Most Challenging To Manage Today And Will Continue to Be A Challenge Three Years Hence

Over half (53 percent) of treasury professionals report that cybersecurity risk is currently the most challenging risk to manage. A majority of survey respondents (51 percent) believes that three years from now the task of managing cybersecurity risks will continue to be the most complex risk to manage. Cybersecurity risks are an example of the evolving risk landscape as only 12 percent of survey respondents noted cyberrisks were difficult to control a decade ago.

Risk Managers Anticipate Strategic, Financial and Political Risks Will Have Greatest Impact on Organization's Earnings

Survey results show that the risks which will have the greatest impact on earnings in the next three years are strategic risks (cited by 40 percent of respondents) and financial risks (35 percent). These are followed by political risks and regulatory uncertainty within the U.S. (33 percent) and macroeconomic risks (31 percent).

Treasury Professionals Are Well-Equipped to Manage Risk Today, Not So a Decade Ago

Survey findings indicate that equipping their teams to manage and forecast risks was a low priority for organizations a decade ago. Only 14 percent of respondents reported that they were well equipped to manage and forecast risk in 2009. This figure increased to 28 percent in 2014 and currently, 61 percent of treasury professionals believe they are well equipped to forecast and manage risk.

74 percent of respondents anticipate that they will be well equipped to forecast and manage risk in 2022. This trend will likely continue as obtaining data has become more cost effective and the cost of technology decreases.

KEY FINDING 1:
Cybersecurity Risks Are The Most Most Challenging to Manage Currently, and Will Be So Three Years Hence

Challenges in Managing Risk

A key responsibility of financial professionals is managing risk. This is a challenging task as it involves anticipating, preventing and mitigating impacts should the risk manifest.

The level of difficulty in controlling risks shifts with time. Risks that were difficult to identify or manage a decade ago may no longer be significant concerns; similarly, risks that are top of mind for risk managers currently may have been less of an issue in the past.

Over half (53 percent) of treasury professionals report that cybersecurity risk is currently the most challenging risk to manage. This result is similar to the 51 percent of survey respondents in the *2019 AFP Risk Report* who reported cybersecurity risks were of significant concern. A majority of survey respondents (51 percent) believes that three years from now the task of managing cybersecurity risks will continue to be the most complex risk to manage. Cybersecurity risks is an example of the evolving risk landscape as only 12 percent of survey respondents noted that cyberrisks were difficult to control a decade ago.

Cyberrisk across organizations has become rampant in the last decade. Not only are treasury professionals currently concerned about cybersecurity risks, they anticipate that in 2022 they will be focusing substantial efforts on controlling these risks. At companies, responsibility and accountability for cyberrisk have gone beyond IT departments, and across the organizations stakeholders are cognizant of the impact of cybercrimes. Although organizations are ramping up systems internally, they are faced with controlling increasingly malicious cyberattacks and a greater increase in the number of those committing crimes.

In last year's report, the risk of most concern was strategic risk—60 percent of treasury professionals indicated strategic risk was their greatest concern. That figure has declined to 36 percent in this year's survey, signaling that organizations are now better equipped to manage strategic risks and possibly are investing in resources to successfully mitigate them. Indeed, survey results suggest that organizations are better equipped to make smarter decisions and/or are much more optimistic about their business prospects.

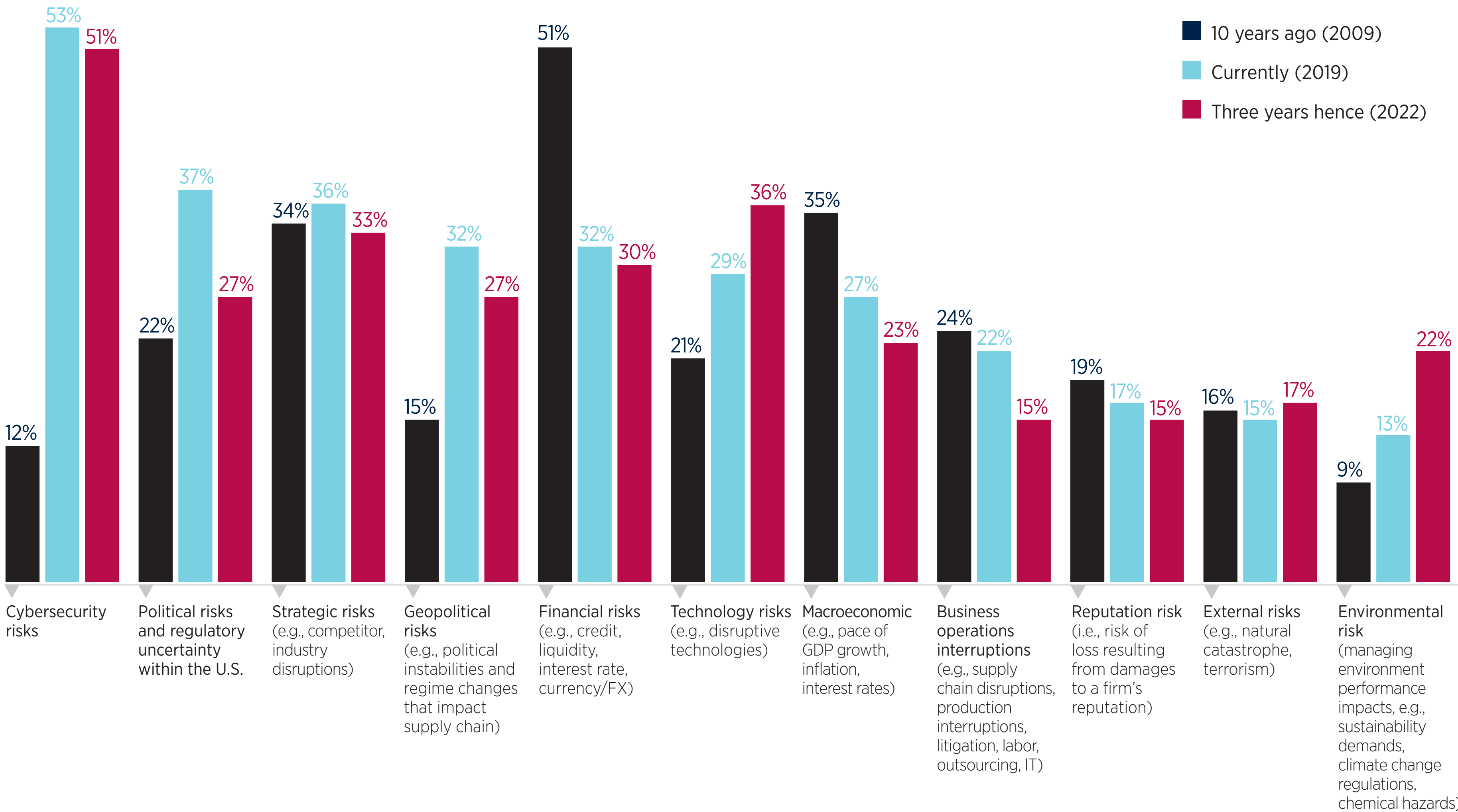
In 2009, the most challenging risk to control was financial risk, cited by 51 percent of survey respondents. Ten years ago, the economy was trying to stay afloat post-recession and financial institutions had been severely impacted by the crisis. In order to protect their companies, treasurers were consumed with managing financial risks in the global economy. Macroeconomic risks (pace of GDP growth, inflation, interest rates) were also a consequence of the recession. Financial professionals responded with prudent liquidity management, spending considerable resources minimizing these risks through cost cutting, removing redundancies and retooling operations. Thirty-five percent of respondents reported that macroeconomic risks were challenging to manage.

After having dealt with the aftermath of the recession, treasury professionals then focused on having safeguards and measures in place to better manage financial and macroeconomic risks in an environment that sought reform and more regulation. While these risks continue to be on the radar of financial leaders, smaller percentages (32 percent citing financial risks; 27 percent citing macroeconomic risks) currently indicate these risks are difficult to manage than 10 years ago.

Another risk financial professionals expect will have a greater impact over time is environmental risk. A decade ago, environmental risk was considered a challenge to manage by only 9 percent of organizations. This is possibly because sustainability was not a priority for business leaders. With the recent occurrences of high intensity hurricanes, hazardous fires, incessant rains and flooding, organizations are more concerned about the environment and global warming. Corporate stewardship is also on the rise with sustainability and resilience efforts focused on strengthening businesses' supply chains. Twenty-two percent of respondents predict environmental risks will be a challenge to manage in the next three years.

KEY FINDING 1 (continued)

Risks That Were/Are/Will Be the Most Challenging to Manage
(Percent of Respondents Who Rank Risks in Top Three)



KEY FINDING 2:
Risk Managers Anticipate Strategic, Financial and Political Risks Will Have Greatest Impact on Organization's Earnings

Risks That Will Have the Greatest Impact on Organization's Earnings in Next Three Years

Survey results show that the risks which will have the greatest impact on earnings in the next three years are strategic risks (cited by 40 percent of respondents) and financial risks (35 percent). These are followed by political risks and regulatory uncertainty within the U.S. (33 percent) and macroeconomic risks (31 percent).

Strategic risks can be managed through investment in key business areas, diversification of business prospects, mergers/divestitures and/or building out the supply chain to better match footprint efficiencies. There is an increasingly frequent link between strategic risks and technology disruption risks—e.g., tech-enabled fast adopters or new entrants changing competition dynamics, witness the Amazon effect across industries, Fintech payment providers on banks' business models and profitability.

2020 is a presidential election year in the U.S. Consequently, there is tremendous uncertainty whether or not there will be a change in administration and the impact any such change may have on the regulatory framework. This explains the sentiment that political and regulatory risks will have an impact on organizations' earnings in the next three years.

Additionally, there is some concern that the U.S. economy may be facing some headwinds, and recent interest rate cuts by the Federal Reserve Board have done little to allay the fears of business leaders. The survey results suggest that financial professionals anticipate their organizations' earnings will be affected by financial and macroeconomic risks. At the time of survey was being conducted, negative interest rates prevailed in Europe, Brexit was unresolved, tariffs were impacting businesses' bottom-lines and the China trade war continued to play out. Since then, however, a general election in the United Kingdom gave the Conservative Party a solid majority in Parliament; consequently, plans for Brexit continue. Additionally, the U.S. and China have reached a "phase-one" deal which will reduce some tariffs in exchange for more Chinese purchases of American products.

Percent of Respondents who Ranked Risks in Top Three

40% **Strategic risks** (e.g., competitor, industry disruptions)

35% **Financial risks** (e.g., credit, liquidity, interest rate, currency/FX)

33% **Political risks and regulatory uncertainty within the U.S.**

31% **Macroeconomic Risks** (e.g. pace of GDP growth, inflation,

29% **Cybersecurity risks**

29% **Technology risks** (e.g., disruptive technologies)

21% **Geopolitical risks** (e.g., political instabilities and regime changes that impact supply chain)

19% **Business operations interruptions** (e.g., supply chain disruptions, production interruptions, litigation, labor, outsourcing, IT)

11% **External risks** (e.g., natural catastrophe, terrorism)

11% **Environmental risk** (managing environment performance impacts, e.g., sustainability demands, climate change regulations, chemical hazards)

9% **Reputation risk** (i.e., risk of loss resulting from damages to a firm's reputation)

KEY FINDING 3:
Treasury Professionals Are Well-Equipped to Manage Risk Today, Not So a Decade Ago

Equipped to Manage Risk

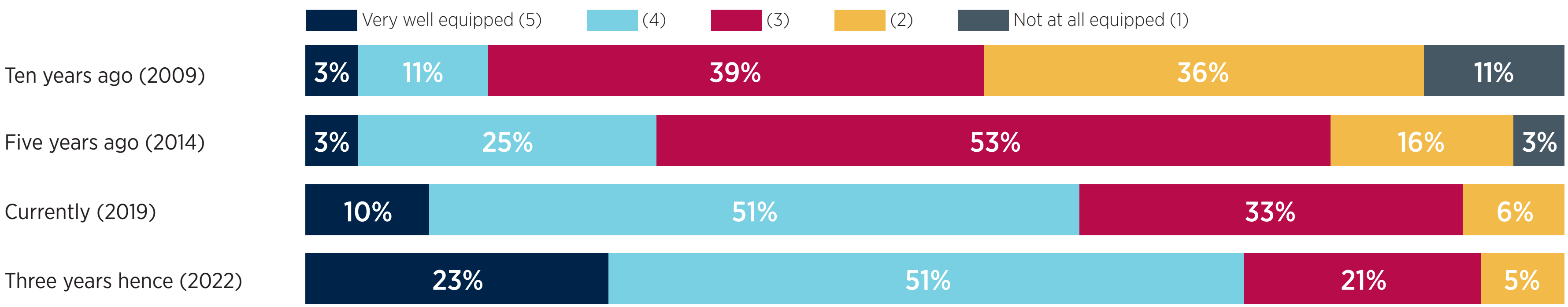
The types of risks and their levels of intensity have shifted over the past decade—as has the focus on risk management. As reported earlier, risks that were of low consequence a decade ago are now a high priority at organizations. Teams managing risks need to be equipped so they are able to detect, prevent and control the adverse effects of various risks on their organizations.

Survey findings signal that equipping their teams to manage and forecast risks was a low priority for organizations a decade ago. Only 14 percent of respondents reported they were well equipped to manage and forecast risk in 2009. This figure increased to 28 percent in 2014. Currently, 61 percent of treasury professionals believe they are well equipped to forecast and manage risk. Survey respondents understand that the impact of risks on their organizations is not abating; it is "the new normal." Notably, 74 percent of respondents anticipate they will be well equipped to forecast and manage risk in 2022.

Obtaining data has become more cost effective, as has the ability to increase focus on more strategic value drivers. Computing power has increased exponentially even as its cost has decreased over the last 10 years. Lower costs have provided the capacity to capture better insight into operations—as well as better metrics to measure risk, quantify it and ultimately mitigate it. Going forward this trend will likely continue as the cost of technology decreases while the output of the technology increases. However, organizations are likely to continue to face challenges on how to effectively analyze and leverage the volume of data they can capture and create valuable and actionable insights.

Equipped to Forecast and Manage Risk

(Ratings on a 5-to-1 scale, with 5 = very well equipped, 1 = not at all equipped) (Percentage Distribution of Organizations)



A large majority of respondents (85 percent) firmly believes that digital tools and data analytics play important roles in improving their organization's ability to forecast risk.

Importance of Digital Tools and Data Analytics in Improving Your Organization's Ability to Forecast Risk

(Ratings on a 5-to-1 scale, with 5 = important, 1 = not at all important) (Percentage Distribution of Organizations)

Conclusion

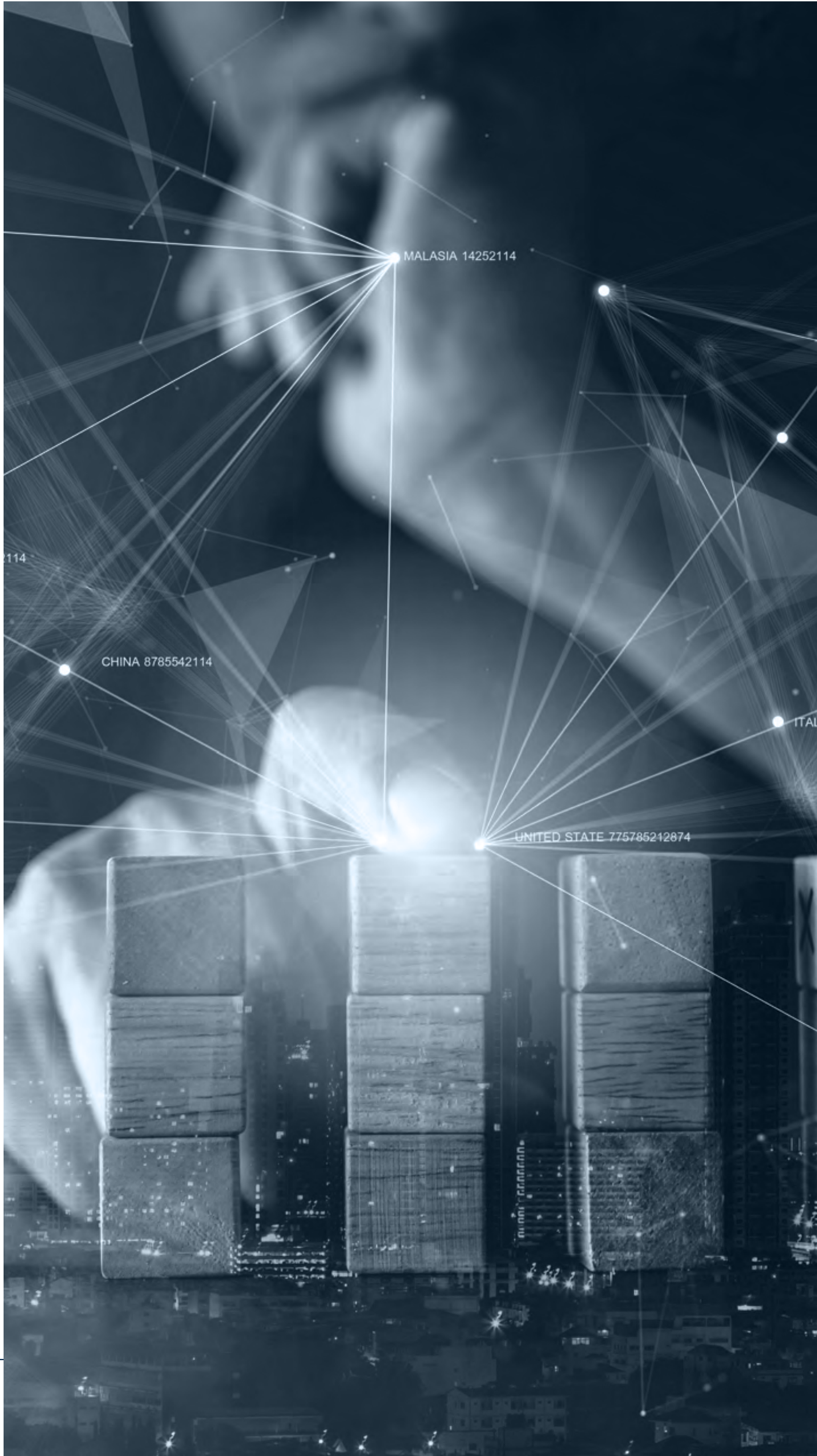
Findings from this *2020 AFP Risk Report* indicate that risk management continues to be a priority. The general sentiment among financial professionals is that their organizations are prepared to manage risks. Companies are actively looking ahead and appropriately concerned about upcoming economic uncertainty and preparing for any volatility that might arise. Survey respondents agree that their organizations are preparing treasury and finance teams to face risks and equipping them with the tools needed to efficiently manage those risks. After the recession of 2008, financial leaders are not taking any chances; they are cautious and planning for the unexpected. The vulnerability of organizations a decade ago resulted in them being seriously affected by the recession. In addition, organizations are structured to effectively assess risk, either by creating a separate function solely responsible for assessing risk or by assigning individual functions with the task of assessing risk.

There are areas on which to focus that will allow for risk management to be more streamlined. Treasury and finance professionals believe that timely information from both internal and external sources is lacking and therefore hindering risk forecasting. The flow of internal information in a timely manner requires buy-in from all teams and their leaders, and the process needs to be streamlined. However, accessing timely external data is not in the hands of treasury and finance teams, and consequently may always be an impediment when forecasting risk.

As much as organizations plan for risk, the unexpected will always occur. For example, challenges and risks may emerge from the adoption of evolving technology and ongoing digitization. There are various benefits of using these technologies, but are leaders being mindful of the adverse outcomes that might arise as the use of these technologies becomes more extensive? In addition, cybersecurity wasn't on the radar of financial leaders a decade ago, but over time risk managers have indicated it is the most difficult risk to manage. Organizations are planning and investing in methods to keep ahead of risk, but cyber criminals aren't easy to outsmart. Risk managers are cognizant of this; 52 percent of respondents to this year's survey not only admit it is challenging to manage cyberrisk currently, but anticipate that it will continue to be the most difficult risk to control in 2022 as well.

The key to safeguarding organizations from risk events is effective and comprehensive risk management. This involves ensuring proper risk identification and assessing deficiencies/gaps in coverage. Determining those risks that are predictable, unpredictable, the likelihood of an occurrence of an event and the severity of its impact are necessary. Shoring up coverage for those risks that have increased uncertainty and a higher likelihood of disruption is vital.

Assessing all factors that impact earnings, both direct and indirect—such as tax rates and labor shortages—is important, and more than likely industry-specific in terms of their impact. Remaining vigilant in quantifying risk should become part of the fabric of an organization. Monitoring third parties/vendor access, for example, can be helpful in mitigating the risk cited as the most challenging: cyberrisk. It's not an individual that can manage this; rather it will take the collaboration of financial professionals, information technology experts and others across the enterprise working in concert to assess and mitigate this and other risks.

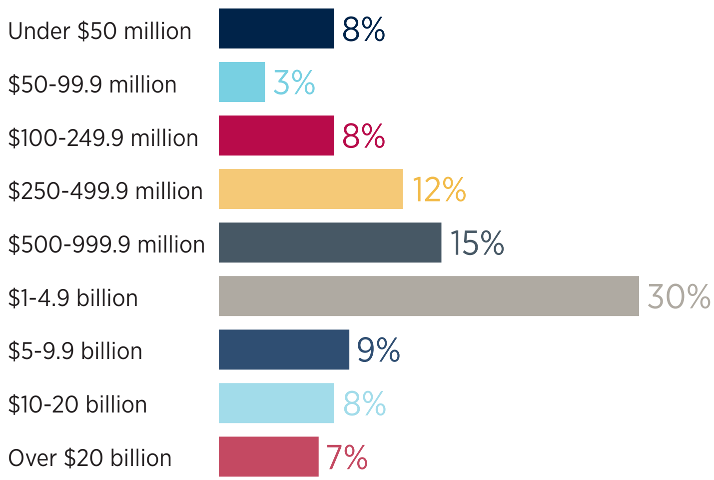


About the Survey Participants

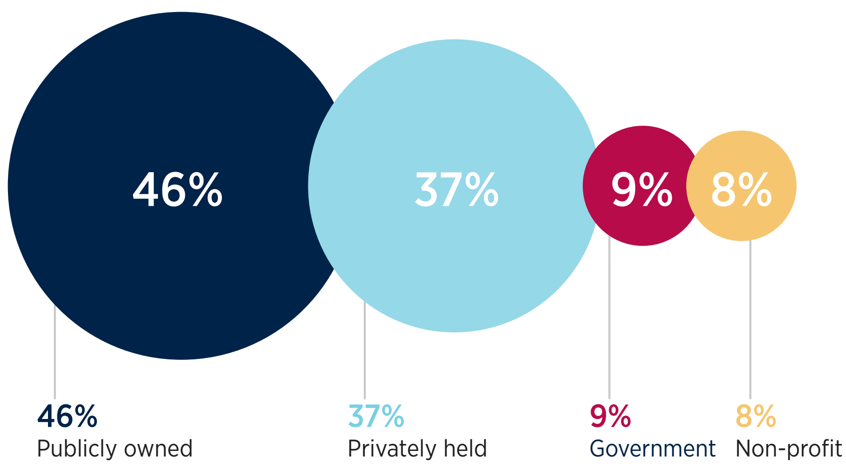
In October 2019, the Research Department of the Association for Financial Professionals® (AFP) conducted the *2020 AFP Risk Survey.* The survey was sent to AFP members and prospects that held job titles of CFO, Treasurer, Controller, Cash Manager, Director Treasury and Assistant Treasurer. Responses from 365 professionals form the basis of this report. The respondent profile closely resembles that of AFP's membership and is presented below.

AFP thanks Marsh & McLennan for being a valued partner and for its continued support of the AFP Risk Survey series, including sharing subject matter expertise for the design of the questionnaire and for the final report. The Research Department of the Association for Financial Professionals is solely responsible for the content of this report.

Annual Revenue (U.S. dollar)
(Percentage Distribution of Organizations)



Ownership Type
(Percentage Distribution of Organizations)

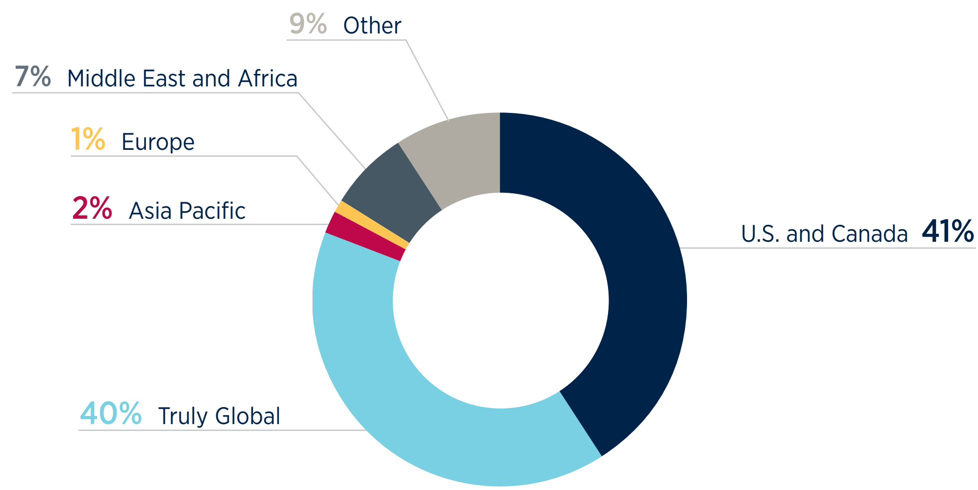


ABOUT THE SURVEY PARTICIPANTS (continued)

Industry
(Percentage Distribution of Organizations)

Administrative Support/Business services/Consulting	2%
Agriculture, Forestry, Fishing & Hunting	2%
Banking/Financial Services	15%
Construction	4%
Education	6%
Energy	3%
Government	3%
Healthcare and Social Assistance	5%
Hospitality/Travel/Food Services	4%
Insurance	6%
Manufacturing	18%
Mining	2%
Non-profit	2%
Petroleum	2%
Professional/Scientific/Technical Services	1%
Retail Trade	5%
Software/Technology	4%
Telecommunications/Media	2%
Transportation and Warehousing	2%
Utilities	6%
Wholesale Distribution	5%

Geography
(Percentage Distribution of Organizations)



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AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. AFP Research draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, FP&A and financial accounting and reporting. Studies report on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.

About AFP®

Headquartered outside of Washington, D.C. and located regionally in Singapore, the Association for Financial Professionals (AFP) is the professional society committed to advancing the success of treasury and finance members and their organizations. AFP established and administers the Certified Treasury Professional® and Certified Corporate FP&A Professional® credentials, which set standards of excellence in treasury and finance. Each year, AFP hosts the largest networking conference worldwide for more than 7,000 corporate financial professionals.

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