ASSOCIATION FOR FINANCIAL PROFESSIONALS

2020 AFP®

RISK SURVEY REPORT

COMPREHENSIVE REPORT

Supported by MARSH & McLENNAN ADVANTAGE INSIGHTS

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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

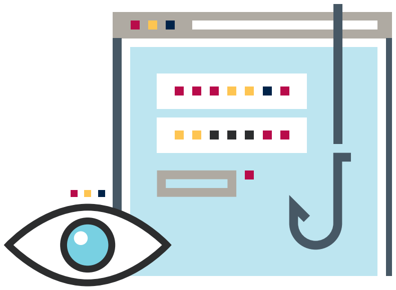
The risk landscape has evolved over the past decade and it is evident that risks impacting organizations have changed significantly. In 2009, the U.S. economy was limping into recovery after a brutal recession. Indeed, the recession of 2008 forced many organizations to render some of their workforce 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

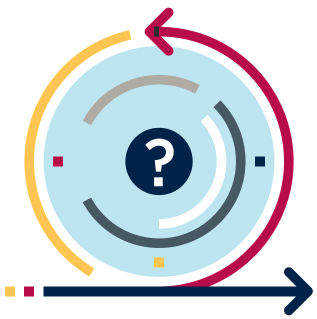


Cybersecurity Risks Are The Most Challenging To Manage Today And Will Continue to Be A Challenge Three Years Hence

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).



Concerns About Upcoming Uncertainty

A majority of treasury professionals (58 percent) are concerned about the upcoming economic uncertainty in the U.S., and 19 percent indicate they are very concerned.

Similarly, 58 percent of corporate practitioners are nervous about the global economy.

Over Sixty Percent of Organizations are Structured to Assess Risk

Risk Assessment at Organizations

The majority of companies today are structured to assess risk either via a dedicated function or have a process through which individual functions assess and report risk. Thirty-eight percent of organizations have a dedicated function actively assessing risk and reporting it regularly; 29 percent of companies assess and report risk by each function (e.g., IT, HR, Legal, Supply Chain, etc.). Other companies are more informal in their risk assessment process with 23 percent of respondents stating their organization assesses risk only when the need arises. Nine percent of companies have no formal risk assessment process in place.

01 KEY FINDINGS

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 resp*ondents 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.

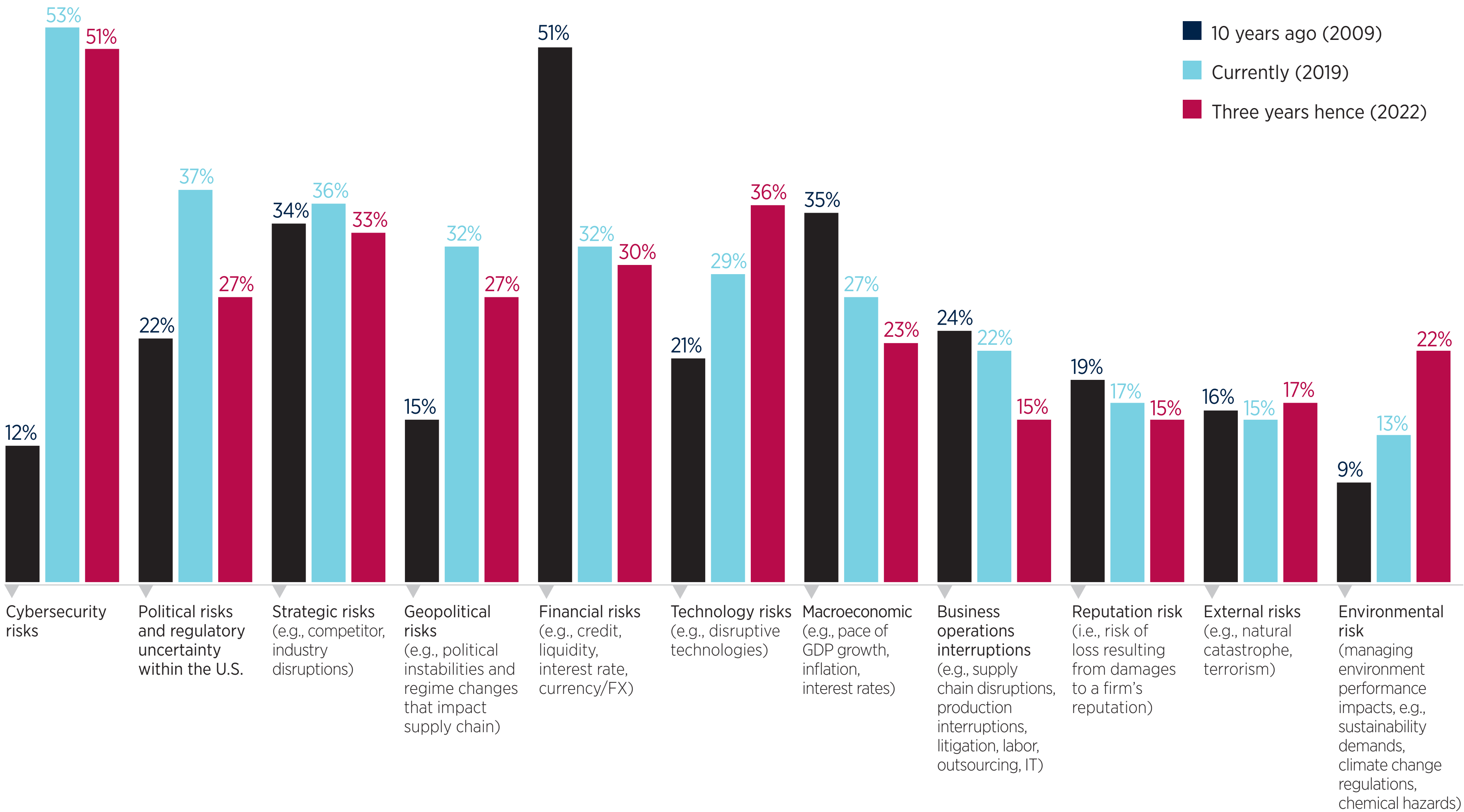
In last year's report, the risk of most concern was strategic risk—60 percent of treasury professionals indicated strategic risk was their greatest concern. That figure has declined to 36 percent in this year's survey, signaling that organizations are now better equipped to manage strategic risks and 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.

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:
Organizations' Exposure to Uncertainty in Earnings on a Continual Increase

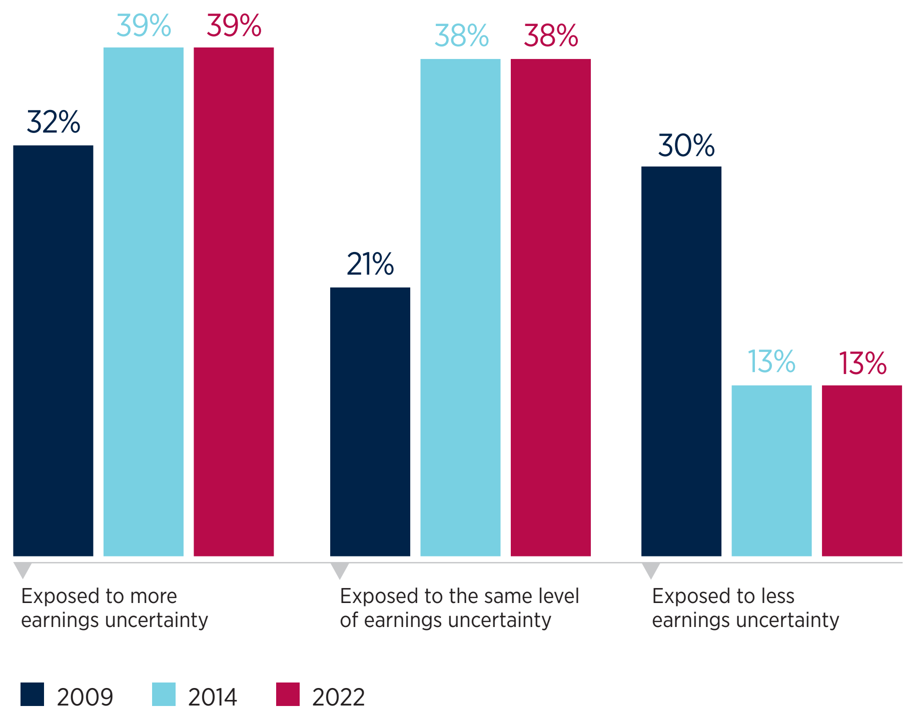
Change in Exposure to Uncertainty in Earnings

The global economy is also facing its share of adversity. There has been extensive back and forth regarding tariffs and trade with China. Brexit, too, has contributed to a prevailing uncertainty. Additionally, the U.S. is on the eve of a presidential election which could result in significant changes in economic and trade policy. Recent rate cuts by the Federal Reserve Board have also underscored some fears of an impending recession. At the same time, the U.S. economy displayed strong indicators in 2019. As 2020 began, unemployment continued to be historically low, the job market was tight—resulting in a talent squeeze—and the stock market was posting record highs.

Thirty-two percent of respondents report that their organizations' exposure to uncertainty in earnings is greater today than it was 10 years ago, while 30 percent believe the exposure is less. Those same companies likely have more global capabilities and therefore more complex operations. In the *2012 AFP Risk Report,* 62 percent of respondents indicated their organizations were exposed to greater earnings uncertainty than in 2007—prior to the recession. This suggests that organizations were still very vulnerable to risks arising from a volatile economy. Moving ahead to 2014, 39 percent of this group reported that their organizations' earnings were exposed to greater uncertainty than they were five years before, 38 percent indicated it was unchanged and only 13 percent believed exposure might be less. Interestingly, current survey results show that the share of financial professionals anticipating their companies' exposure to earnings uncertainty will be greater in 2022 is the same as those who believe that that exposure to earnings uncertainty in 2014 was greater than it is now.

These survey results suggest that there is greater uncertainty regarding earnings as organizations are unable to anticipate completely the risks that might arise and impact revenue.

Change in Exposure to Uncertainty in Earnings Relative to 2009, 2014 and 2022
(Percentage Distribution of Organizations)



KEY FINDING 4:
Forecasting Risk a Greater Challenge in 2009

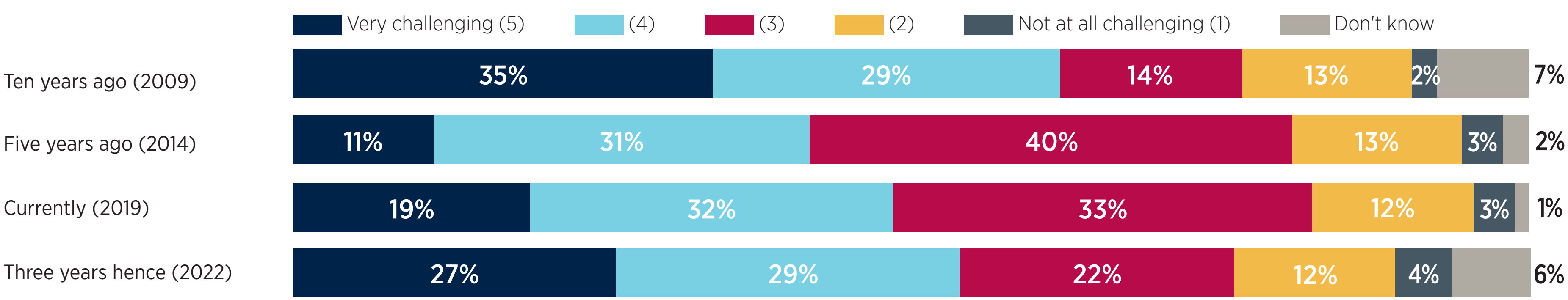
Shifting Challenge in Forecasting Risk

In 2009 almost two-thirds (64 percent) of respondents agreed that forecasting risk was challenging, with 35 percent reporting the task as very challenging. This result is not surprising considering that a decade ago the global economy was on very unsure footing after the 2008 recession. Organizations were struggling as they attempted to control expenses while their revenues declined. Financial risks impacting organizations were significant. Business leaders were not suitably equipped to mitigate the harsh effects of the recession and they were unable to maintain their firms' balance sheets at normal levels through the downturn. In 2014, treasury and finance professionals seemed less overwhelmed than they were in 2009: 42 percent reported forecasting risk was a challenge—a full 22 percentage points lower than in 2009.

Unease appears to have returned among corporate practitioners with regard to forecasting risk. Currently, 51 percent of survey respondents report that forecasting risk is challenging; this share increases as we look ahead, with 56 percent of this group expecting the task of forecasting risk will continue to be an issue in 2022.

Forecasting risk will likely be more difficult for companies, especially as key historic events continue to unfold and exposure grows with corporate geographic expansion. For example, Brexit will have an impact on organizations with European operations and companies will be unable to plan with any clarity until Brexit is resolved. Furthermore, U.S. trade policies can impact businesses, and while those policies are still being negotiated, planning for the future is also a challenge.

Challenge of Forecasting Risks at Organizations
(Ratings on a 5-to-1 scale, with 5 = very challenging, 1 = not challenging)
(Percentage Distribution of Organizations)



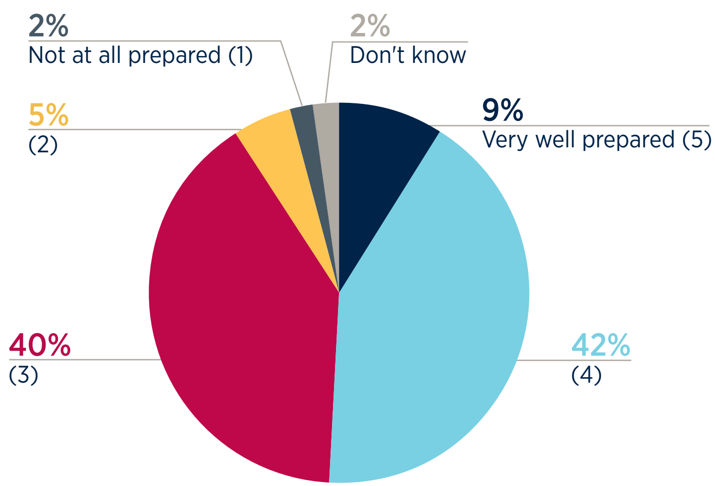
KEY FINDING 5:
Organizations are Well-Prepared to Manage Risks

Preparedness of Treasury Professionals to Manage Risks at their Organizations

Slightly over half of survey respondents do believe their organizations are well prepared to manage risks, although only 9 percent report a high level of preparedness. This is an encouraging finding as it suggests organizations are focusing their efforts and resources on being better equipped to minimize the impact of various risks and are being proactive in anticipating risks.

Companies are better at identifying, quantifying and selecting partners to help mitigate risk. One example is that many organizations are taking a systematic approach to hedging cash flows in new currencies and countries.

Level of Preparedness to Manage Risks at Your Organization
(Ratings on a 5-to-1 scale, with 5 = very well prepared, 1 = not at all prepared
(Percentage Distribution of Organizations)



KEY FINDING 6:
Concerns About Upcoming Uncertainty

Concern Regarding Upcoming Economic Uncertainty

At the time this survey was conducted (October 2019), there was increased discussion about a looming recession in the U.S. In addition, geopolitical factors were creating unease even though employment numbers were strong and stock markets on the rise. Business relationships and operations at many organizations are closely linked with companies across borders; consequently, fears of economic uncertainty can spread easily beyond a single economy. A majority of treasury professionals (58 percent) are concerned about the upcoming economic uncertainty in the U.S., and 19 percent indicate they are very concerned. Similarly, 58 percent of corporate practitioners are nervous about the global economy.

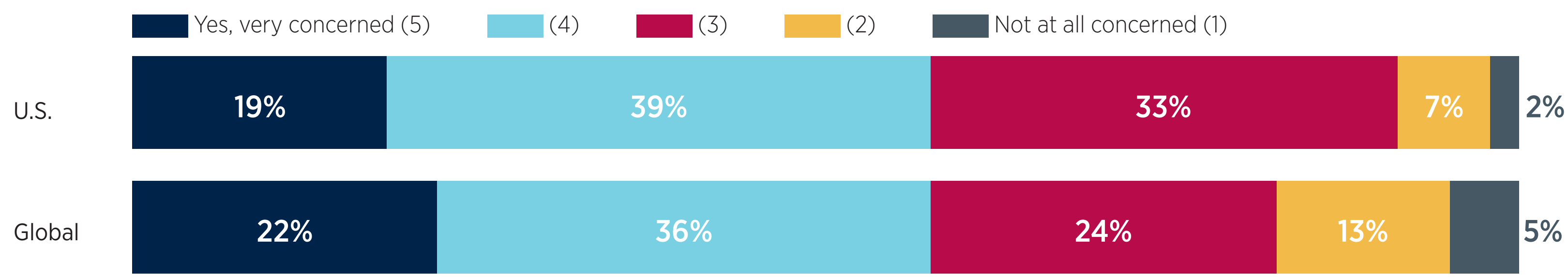
Reasons for concern about economic uncertainty in the U.S.

- Impact of upcoming U.S. presidential election and impact on the regulatory landscape
- Election uncertainty and turmoil surrounding the elections
- Trade restrictions/impact of tariffs
- Fear of the unknown
- Business operations are directly impacted by economic instability

Reasons for concern about global economic uncertainty

- Geopolitical uncertainty
- Tariffs
- Brexit
- Political unrest
- Trade war with China
- Global chaos
- Hong Kong protests
- Erratic tariff policy administration

Level of Concern About Upcoming Economic Uncertainty
(Ratings on a 5-to-1 scale, with 5 = very concerned, 1 = not concerned at all)
(Percentage Distribution of Organizations)



KEY FINDING 7:
Treasury Professionals Are Preparing to Tackle Economic Uncertainty

Preparing for Upcoming Economic Uncertainty

Treasury and finance professionals are certainly displaying signs of concern about upcoming economic uncertainty. But one question arises: are their organizations prepared to tackle economic uncertainty?

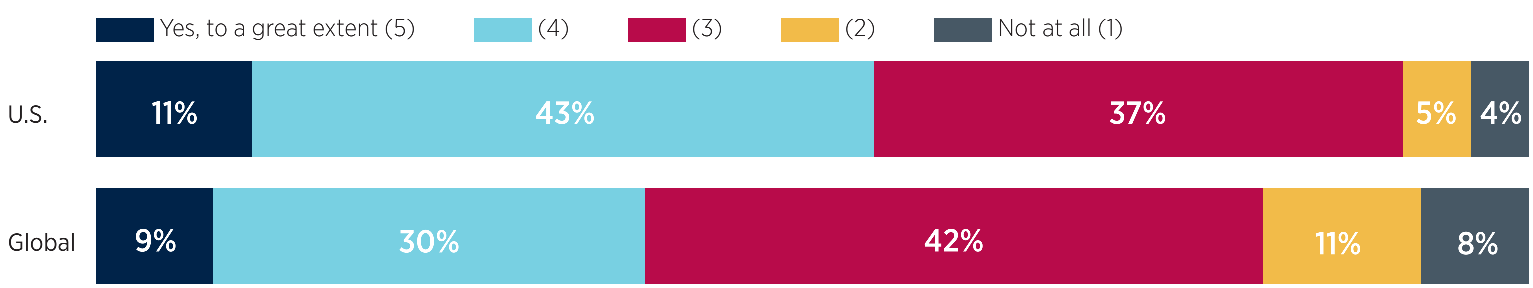
A majority (54 percent) of survey respondents reports that their organizations' senior leaders are preparing to manage economic uncertainty in the U.S., confirming that it is a priority on their radar. Thirty-nine percent are preparing to face global uncertainty. Divestments and acquisitions have become more frequent as companies look to continue providing shareholder return.

After the great recession in 2008, financial professionals became much more adept at liquidity management. Managing the balance sheet in order to weather the economic storm and keep the company afloat became even more important. With the recession still in their rearview mirrors, financial professionals became better able to manage through uncertainty. Making smaller business investments and managing the physical and the financial supply chain to ensure access to ample liquidity have become vital.

Organizations are adopting various methods when planning for economic uncertainty in the U.S. and globally. Survey respondents cite the following methods:

	U.S.	Globally
Analysis to determine financial performance in various scenarios	63%	57%
Increased updates/tracking of key risk indicators	62%	66%
Improved customer management/tracking	45%	41%
Enhanced tracking of macroeconomic indicators	39%	44%

Preparing to Tackle Upcoming Economic Uncertainty
(Ratings on a 5-to-1 scale, with 5 = company preparing to a great extent, 1 = company is not preparing at all)
(Percentage Distribution of Organizations)



KEY FINDING 8:
Treasury Professionals Are Well-Equipped to Manage Risk Today, Not So a Decade Ago

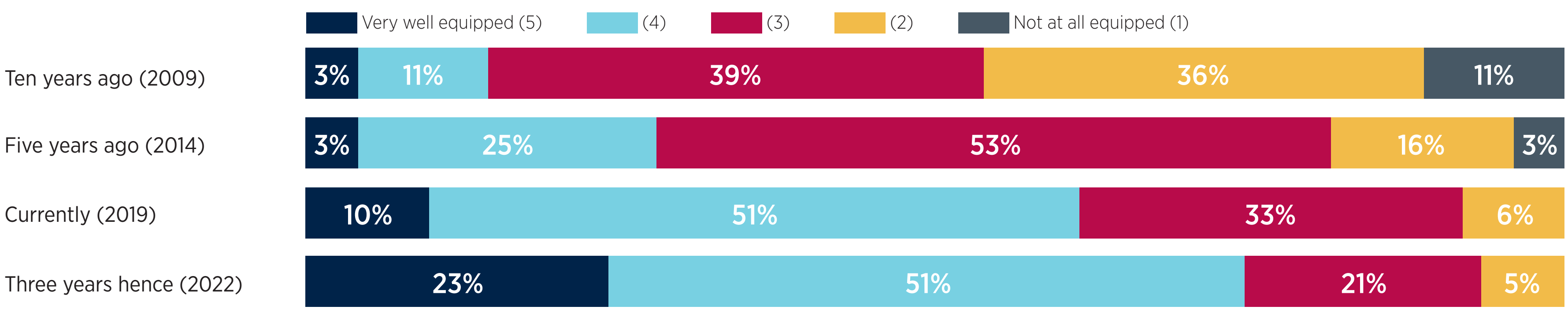
Equipped to Manage Risk

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)

KEY FINDING 9:
Relevant and Timely Information Are Significant Constraints When Forecasting Risk

We know it is important for organizations to prepare for risks in order to minimize the impact of those risks; and significant shares of resources are being utilized to plan for risks and to control them. But there are factors that will hinder the process even if it is carefully planned. Companies often look to leading and lagging indicators to measure risks. As business uncertainty increases, the indicators utilized in forecasting risk need to remain relevant. Since strategic risk is regarded as an important risk to manage, more focus on applying external indicators to internal metrics is needed. Sourcing risk forecasting information is often a difficult task, but with the right partners, much of that quantification can take place.

The two impediments most often mentioned by respondents are:

- **Difficulty in capturing relevant and timely data from external sources** (cited by 46 percent of respondents)
- **Insufficient relevant and timely data from within the company** (42 percent)

Risk managers have limited control over accessing data from external sources—e.g., vendors, partners and other third-party providers. It is therefore understandable that obtaining timely data from outside sources presents a challenge for them in forecasting risk. Interestingly, 42 percent of respondents indicate they are also finding it challenging to capture timely data from within their own company. This could be rectified by streamlining processes so that data flows to the right people at the right time. However, an added challenge for those managing risk is that the data might not be trustworthy and the quality of information might not be usable.

Other barriers faced when financial professionals are tasked with forecasting risk are:

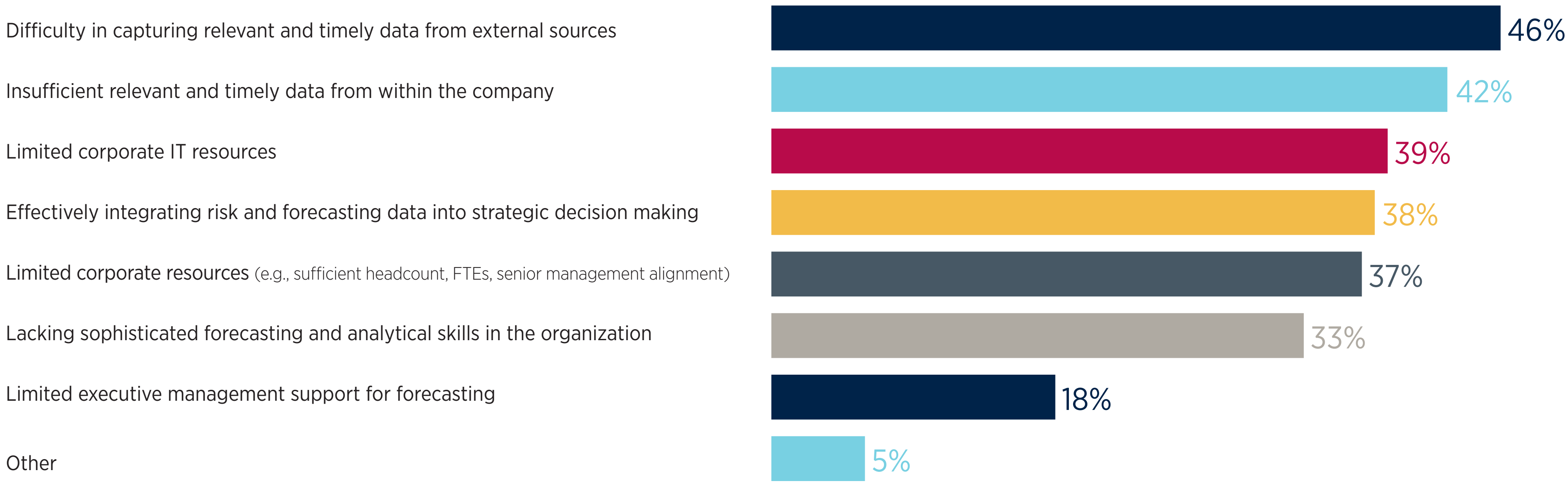
- **Limited corporate IT resources** (cited by 39 percent of respondents)
- **Limited corporate resources: e.g., sufficient headcount, FTEs, senior management alignment** (37 percent)
- **Lacking sophisticated forecasting and analytical skills in the organization** (33 percent)

All three impediments are resource issues within a company. If business leaders are cognizant that forecasting risk is a high priority and are willing to allocate investment in these areas, some of these barriers preventing effective risk forecasting can be lowered.

Thirty-eight percent of respondents report that the ability to effectively integrate risk and forecasting data into strategic decision making is an impediment to their risk forecasting process. Therefore, to overcome this barrier, those managing risks daily need to heighten awareness among those in the C-suite regarding risks and their impact. Once risk and forecasting are linked with strategic decision making, the concerns with lack of resources might also be resolved.

KEY FINDING 9 (continued)

Significant Impediments to Organization's Ability to Accurately Forecast Its Metrics
(Percent of Organizations)



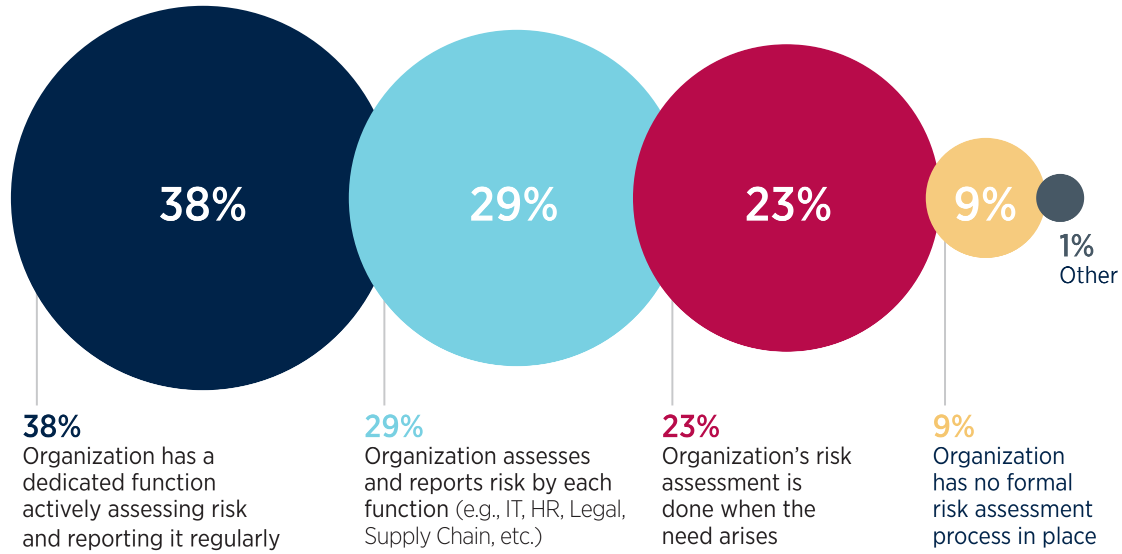
KEY FINDING 10:
Over Sixty Percent of Organizations Are Structured to Assess Risk

Risk Assessment at Organizations

Risk assessment is a significant aspect of the risk management process. Performing thorough and regular risk assessments can help managers identify and detect risk at an early stage thereby preventing extensive damage. This can assist business leaders' planning so they can adjust to a constantly changing risk atmosphere.

The majority of companies today are structured to assess risk either via a dedicated function or a process through which individual functions assess and report risk. Thirty-eight percent of organizations have a dedicated function actively assessing risk and reporting it regularly; 29 percent of companies assess and report risk by each function (e.g., IT, HR, Legal, Supply Chain, etc.). Other companies are more informal in their risk assessment process with 23 percent of respondents indicating their organization assesses risk only when the need arises. Nine percent of companies have no formal risk assessment process in place.

Organized to Assess Risk
(Percentage Distribution of Organizations)



Conclusion

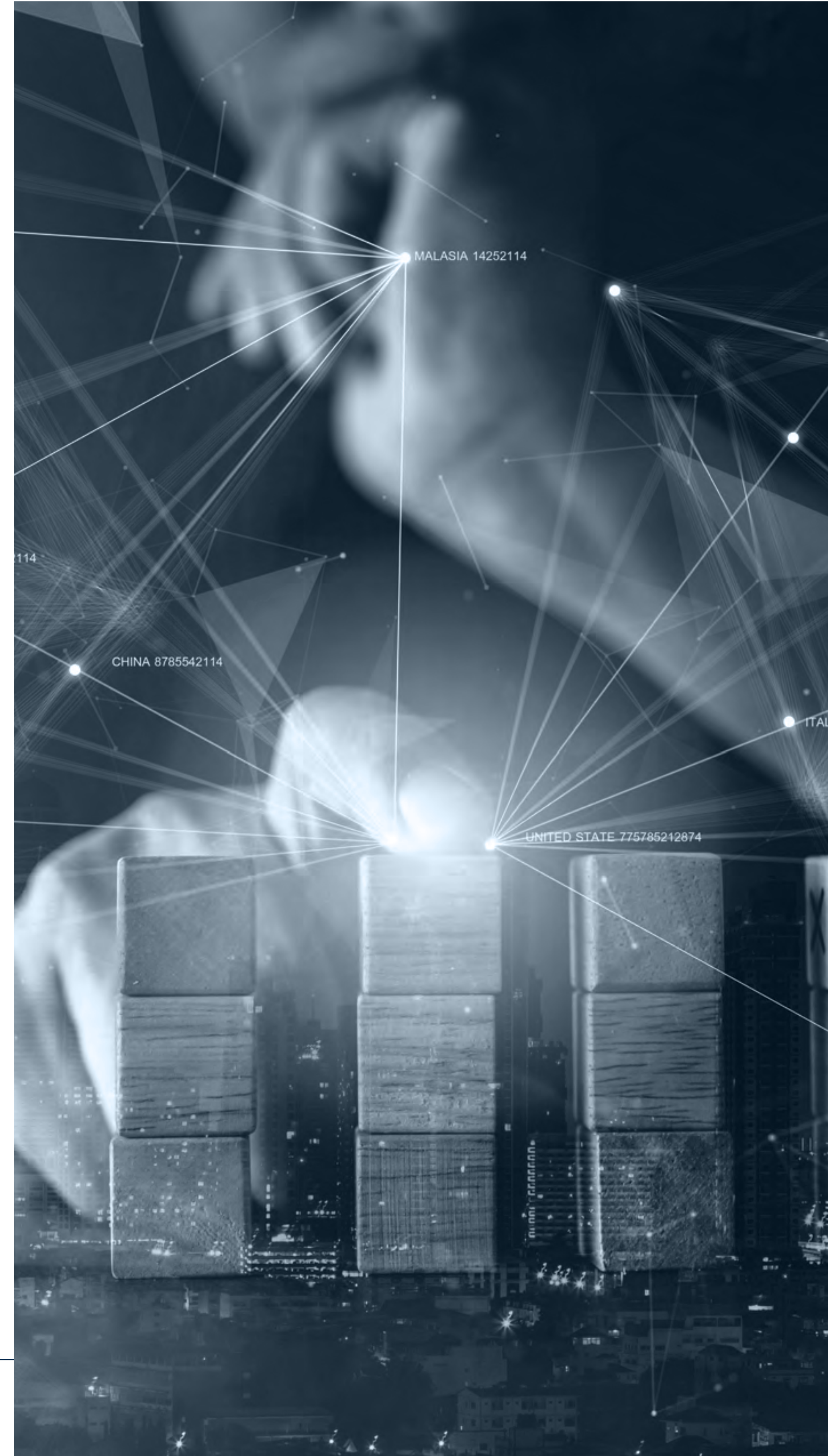
Findings from this *2020 AFP Risk Report* indicate that risk management continues to be a priority. The general sentiment among financial professionals is that their organizations are prepared to manage risks. Companies are actively looking ahead and appropriately concerned about upcoming economic uncertainty 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.



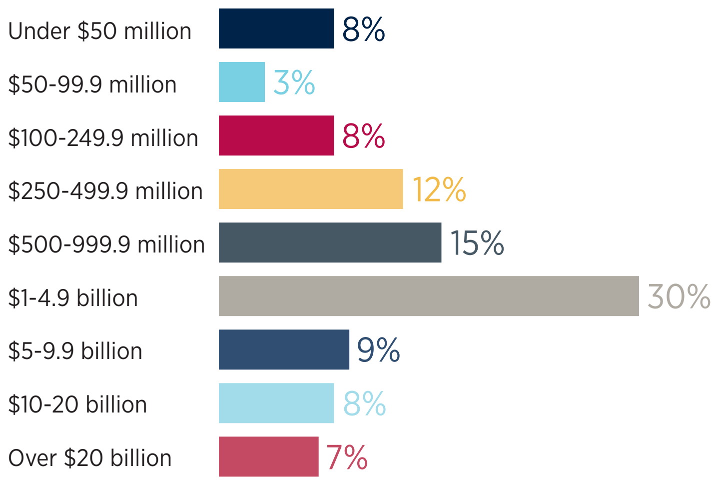
02 ABOUT THE SURVEY PARTICIPANTS

About the Survey Participants

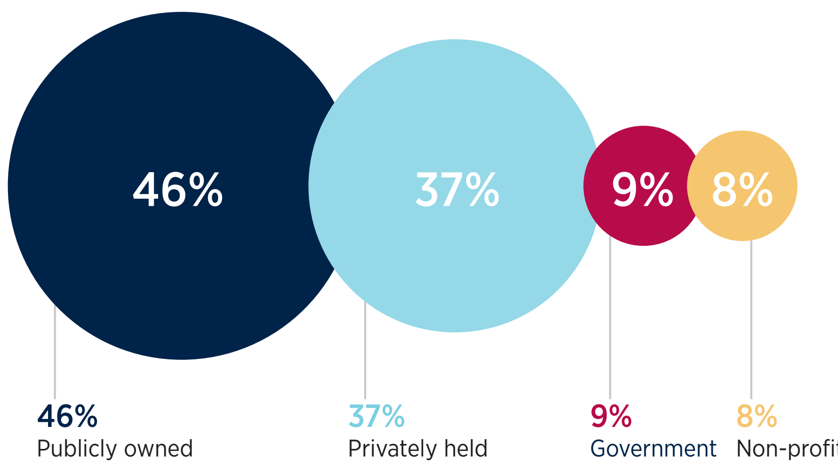
In October 2019, the Research Department of the Association for Financial Professionals® (AFP) conducted the *2020 AFP Risk Survey.* The survey was sent to AFP members and prospects that held job titles of CFO, Treasurer, Controller, Cash Manager, Director Treasury and Assistant Treasurer. Responses 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)

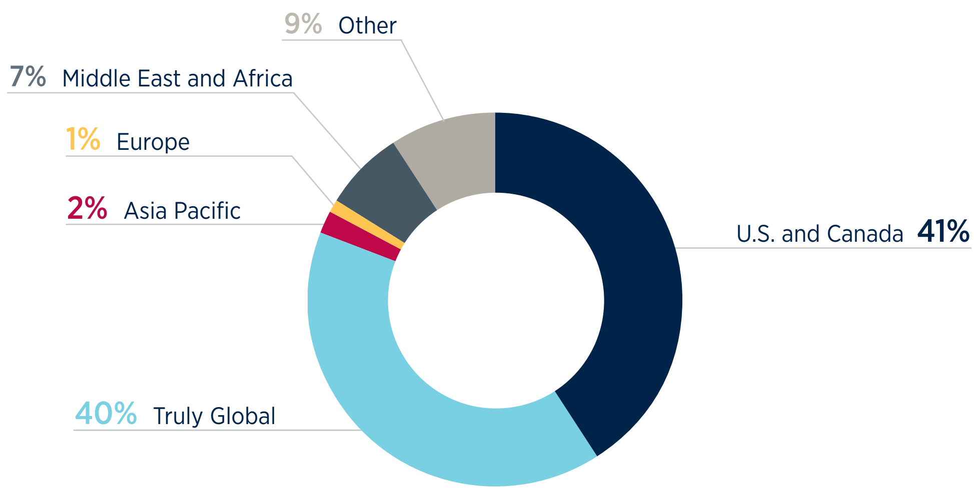


ABOUT THE SURVEY PARTICIPANTS (continued)

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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