



2012 AFP Risk Survey

Introduction and Key Findings

Underwritten by

 **OLIVER WYMAN**

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Thank you for your interest in the *2012 AFP Risk Survey*. In your hands is just a sample of the full report, produced in partnership with Oliver Wyman.

To see the entire story, download the full edition of the *2012 AFP Risk Survey* report. In addition to the wealth of information contained in this abridged edition, the full edition also includes data on:

- The anticipated impact of risks and uncertainty on organizations' future earnings
- The steps taken by organizations in response to their risk exposure
- The challenges to managing risk exposure

To read the full report, go to www.AFPonline.org/risksurvey. Please note that the full report is available to both members and non-members of AFP, and only requires you to log into the website to gain access to the full report

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January 2012

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**Association for
Financial Professionals®**

Association for Financial Professionals
4520 East-West Highway, Suite 750
Bethesda, MD 20814
Phone 301.907.2862
Fax 301.907.2864
www.AFPonline.org



Calculated Risk: Taking control of increased earnings uncertainty

Interconnected financial, operational and strategic risks are increasingly impacting corporate earnings. Recent natural catastrophes, sovereign debt crises, regime changes and overall economic concerns have disrupted supply chains, increased the volatility in commodity prices, and are generally introducing an unprecedented level of uncertainty into financial results. Most of the critical variables that companies need to consider in developing their short and long-term strategies are becoming increasingly difficult to forecast.

In recognition of this new reality, the Association for Financial Professionals has launched its first annual risk survey with support from the Global Risk Center of the Oliver Wyman Group. This survey is designed to provide a snapshot of the key risk areas and management challenges faced by senior corporate financial practitioners and their organizations.

The survey's findings underscore the fact that it is more important than ever for financial professionals to develop the necessary risk management capabilities in order to thoroughly understand the impact of risk when making critical decisions. Of primary concern are risks associated with financial, economic, and operational uncertainty. Yet, while most financial professionals are confident in their ability to evaluate financial risks, they face challenges in determining the potential impact of risks associated with regulatory change, natural catastrophes and macroeconomic changes—primarily because of limited or unreliable data sources.

It also illustrates how a changing risk landscape is already altering many companies' strategies. Most executives surveyed believe their earnings uncertainty has significantly increased over the last five years and they expect that this uncertainty will only continue to rise in the future. In response, many are becoming more cautious about long-term financial commitments, often putting capital investment and expansion plans on hold.

Oliver Wyman is pleased to partner with the Association for Financial Professionals in efforts to provide its members with information that supports their ability to make critical decisions in this highly uncertain environment and to serve as a basis for dialogue in the upcoming year. We hope these findings are informative and useful.

Alex Wittenberg
Partner
Oliver Wyman Group

Alex Wittenberg is a New York-based Partner in Oliver Wyman's Global Risk & Trading Practice and the head of Oliver Wyman's Global Risk Center. He has over 20 years of cross-industry experience in risk management advisory and risk transfer solutions. Alex specializes in integrating risk into strategic decision making and financial performance, designing risk governance for boards and management, and developing risk assessment, mitigation, and analytical frameworks.

Introduction

Organizations must increasingly manage an unprecedented level of uncertainty in their earnings introduced by a growing range of risks related to financial markets, commodities, operational disruptions and macroeconomic developments. Yet many find it difficult to do so, in part because they lack the ability to obtain and quantify the data involved.

It is important for companies to take control of the rising uncertainty in their earnings by adopting a new mindset and making more risk-adjusted decisions. Those that develop the capability to make critical decisions in highly uncertain environments can improve their ability to meet key goals and metrics – setting themselves apart from their competitors who cannot.

With this in mind, the Association for Financial Professionals (AFP) and Oliver

Wyman have joined together to produce a series of annual surveys to study the impact that risk and uncertainty have on Treasury and Finance and on organizations as a whole.

This inaugural survey, conducted in October 2011, examined what financial professionals consider to be the key risks that cause them the greatest concern. It generated responses from 435 financial professionals across North America that highlight what companies perceive to be the biggest risks to earnings and the challenges in dealing with them. The survey also examined the extent to which financial professionals expect greater uncertainty with their organizations' earnings over the next five years and the actions organizations are taking to mitigate this risk.

AS FINANCIAL PROFESSIONALS, WE LIKE TO QUANTIFY THINGS.

Here are some numbers from the Association for Financial Professionals/Oliver Wyman Risk Survey that we find compelling.

93%

Respondents who expect more earnings uncertainty in the next five years

72%

Respondents concerned about financial risk

57%

Respondents who expect supply chain disruptions will have a significant impact on earnings

70%

Respondents who expect regulatory risks will have a significant impact on earnings

50%

Respondents who expect energy prices will impact their earnings

35%

Respondents reducing staff

30%

Respondents reducing capital expenditures

by the
NUMBERS

Survey Findings

The primary area of concern for three-quarters (72 percent) of responding organizations is managing financial uncertainty, including risks associated with credit, liquidity, interest rates and currency/foreign exchange. Other categories of risk cited by survey respondents are those associated with macroeconomic conditions—such as the pace of economic growth and

inflation (38 percent)—and business/operations risks such as supply chain and/or production disruptions, litigation, labor and outsourcing (36 percent). External risks (country risk, regulatory, natural disaster) and commodity risks (power/heat, crude oil & distillates, agricultural and metals) are also concerns for a significant share of organizations but to a lesser degree.

Categories of Risk that Generate the Greatest Concern (Percent of Organizations)

	All	Revenues Under \$1 billion	Revenues Over \$1 billion	Publicly Traded	Privately Owned
Financial (credit, liquidity, interest rate, currency/FX)	72%	73%	69%	68%	71%
Macroeconomic (GDP growth, inflation)	38	42	40	44	38
Business/Operations (supply chain disruptions, production interruptions, litigation, labor, outsourcing, IT)	36	36	35	33	35
External (country risk, regulatory, natural disaster)	27	29	23	14	27
Commodities (power & heat, crude oil & distillates, agricultural, metals)	22	16	29	27	22

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AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research and Strategic Analysis, Kevin A. Roth, PhD, who is joined by a team of research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. AFP Research also produces *AFP EconWatch*, a weekly economic newsletter. Study reports on a variety of topics, including AFP's annual compensation survey, and *AFP EconWatch*, are available online at www.AFPonline.org/research.

Oliver Wyman

With offices in 50+ cities across 25 countries, Oliver Wyman is a leading global management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm's 3,000 professionals help clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com

The Global Risk Center is Oliver Wyman's research institute dedicated to analyzing increasingly complex risks that are reshaping industries, governments, and societies. Its mission is to assist decision makers to address these risks through research and insights that combine Oliver Wyman's rigorous analytical approach to risk management with leading thinking from research partners.

For more information, please contact:

Alex Wittenberg

Partner in the Global Risk & Trading Practice
at Oliver Wyman and the head of

Oliver Wyman's Global Risk Center

+1.646.364.8440

alex.wittenberg@oliverwyman.com



About the Association for Financial Professionals

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

General Inquiries AFP@AFPonline.org

Web Site www.AFPonline.org

Phone 301.907.2862



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Oliver Wyman is a leading global management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development.

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