



Threat Evolution

AFP RESEARCH

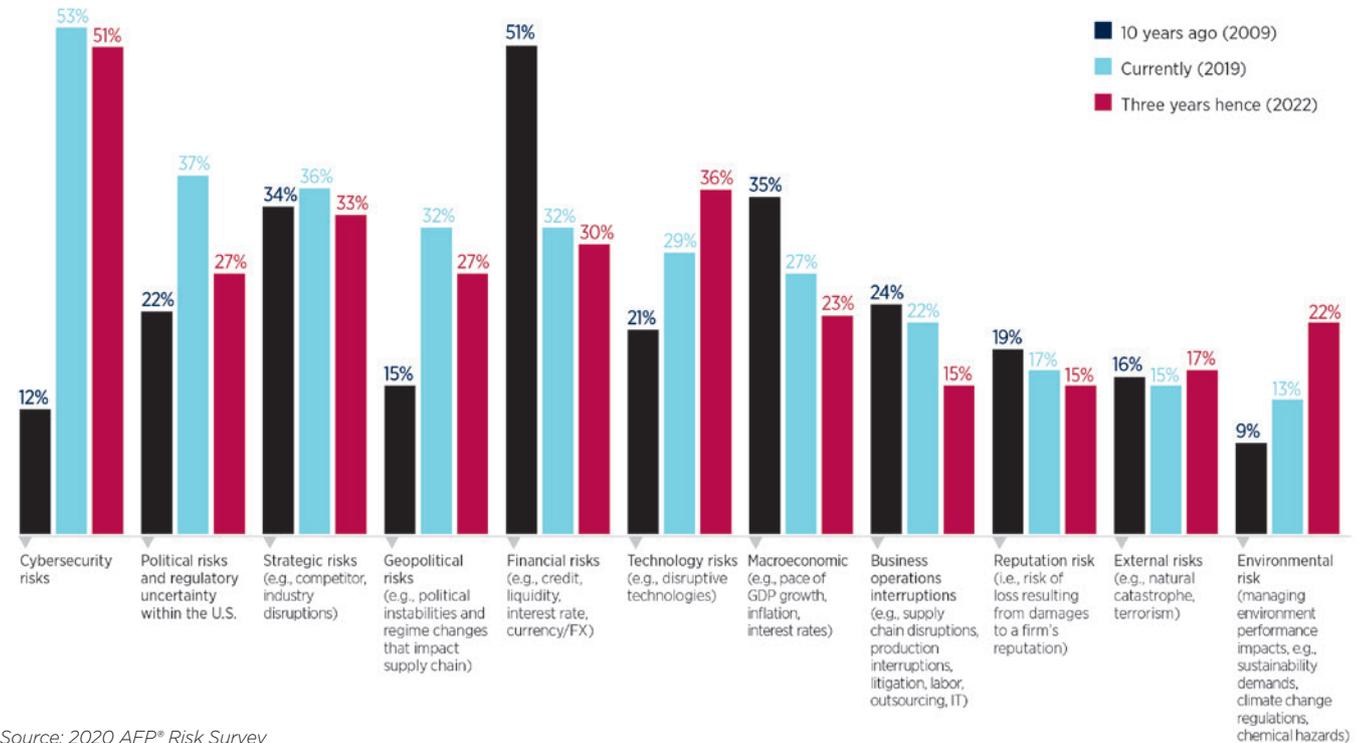
Cyber risk is financial professionals' top concern

Treasury and finance professionals believe that cyber risk is the most challenging risk to manage and will continue to be for the foreseeable future, according to the *2020 AFP Risk Survey*, supported by Marsh & McLennan.

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Risks That Were/Are/Will Be the Most Challenging to Manage

(Percent of Respondents Who Rank Risks in Top Three)



Source: 2020 AFP® Risk Survey

Cyber risk continues to increase

Cyber risk across organizations has become rampant in the last decade. In a poll of nearly 365 practitioners, the survey found that 53% report that cybersecurity risk is currently the most challenging risk to manage. Additionally, fully 51% of respondents believe 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; a decade ago, only 12% of survey respondents cited cyber risk as difficult to control.

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. Responsibility and accountability for cyber risk 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.

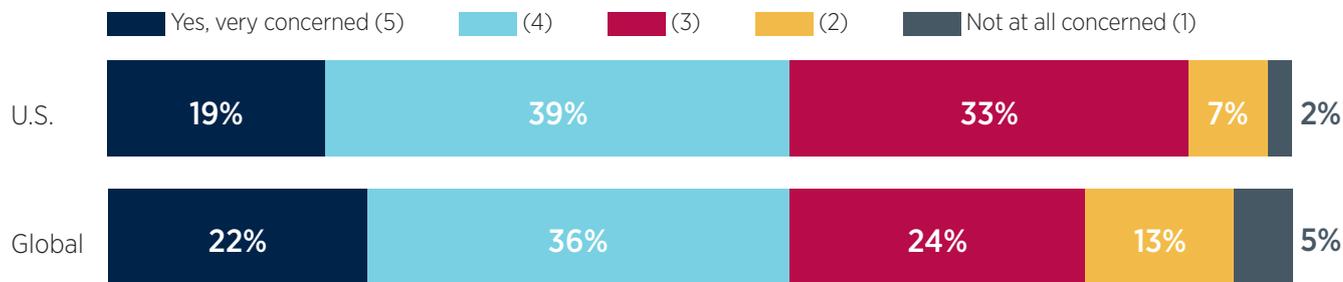
Risks poised to impact earnings

Survey results also revealed the risks that financial professionals believe will have the greatest impact on earnings in the next three years. Strategic risks (e.g., competitor, industry disruptions, etc.) topped the list (40%), followed by financial risks (35%), political risks and regulatory uncertainty within the U.S. (33%), and macroeconomic risks (31%).

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.

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)



Source: 2020 AFP® Risk Survey

With 2020 being a presidential election year in the U.S., there is uncertainty around whether or not there will be a change in administration and the impact any such change could 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 interest rate cuts by the Federal Reserve Board late last year have done little to allay the fears of business leaders about financial and macroeconomic risks impacting organizations’ earnings. Fully 57% of treasury professionals revealed that they are concerned about upcoming economic uncertainty in the U.S., with 19% indicating that they are very concerned. Similarly, 58% of corporate practitioners said they were nervous about the global economy.

At the time the 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 UK gave the Conservative Party a solid majority in Parliament; consequently, plans for Brexit continue. Meanwhile, 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.

Financial professionals adapting

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.

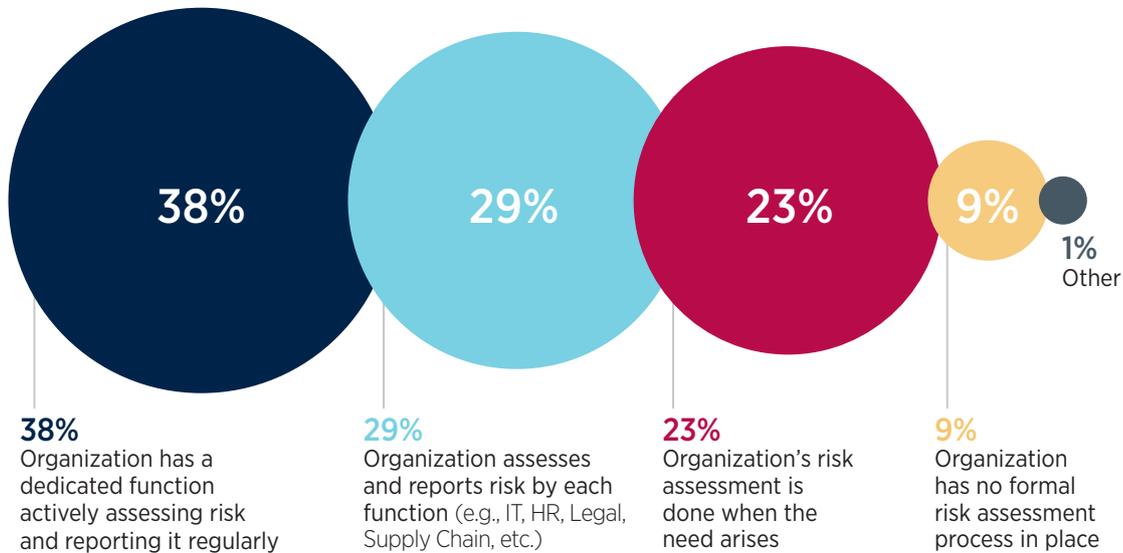
As the risk landscape has continued to evolve, companies have been adapting accordingly, performing thorough and regular risk assessments. Fully 38% of organizations have a dedicated function actively assessing risk and reporting it regularly, while 29% have a process through which individual functions assess and report risk. Other companies are more informal in their risk assessment process, with 23% stating their organization assesses risk only when the need arises. Only 9% of respondents said that they have no formal risk assessment process in place.

“Today, organizations have to grapple with multiple risks,” said Jim Kaitz, President and CEO of AFP. “Cyber risk flew under the radar a decade ago, but financial professionals now understand that they will still be struggling with controlling this risk for the foreseeable future. Over time, we are sure to see risks continue to evolve and risk managers will need to adapt accordingly.”

“While financial leaders are better prepared to manage known risks, the survey data points to the need to improve the ability to systematically identify new, emerging risks and analysis of known risks, such as cyber and extreme weather,” said Alex Wittenberg, Executive Director, Marsh & McLennan Advantage. “Few organizations

Organized to Assess Risk

(Percentage Distribution of Organizations)



Source: 2020 AFP® Risk Survey

have adopted formal processes for engaging senior leadership and the board in a discussion of how an increasingly uncertain environment will impact strategy decisions.”

Conclusion

Findings from the 2020 AFP Risk Survey indicate that risk management continues to be a top 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.

But as much as organizations plan for risk, the unexpected will always occur. For example, cybersecurity wasn't on the radar of financial leaders a decade ago, but over time risk managers have found it to be the most difficult risk to manage. Organizations are planning and investing in methods to keep ahead of risk, but cybercriminals aren't easy to outsmart.

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.



Results are available at
www.AFPonline.org/risksurvey.