2014 AFP Risk Survey

Report of Survey Results

Underwritten by
OLIVER WYMAN

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Association for Financial Professionals®

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OLIVER WYMAN

Turning a New Age of Market Uncertainty to Your Advantage

Companies need to harmonize their risk analysis and financial forecasting capabilities in order to meet the challenge of shifting markets and industries.

When confronted with an uncertain future, many executives often revert to past practices or closely follow their industry peers in an attempt to insulate their organizations from undue volatility. But for those who choose to take calculated risks, the uncertain nature of the current business environment presents a unique opportunity to improve strategic position and financial performance. As global markets, national economies and industries are searching for innovative and efficient solutions to fundamental issues and new technologies are disrupting the status quo, there is an unprecedented opportunity for companies to create long-term shareholder value. There is also a disproportionate downside in failing to recognize and meet these challenges, causing companies to recede into irrelevance from once unassailable positions. Taking advantage of these new prospects requires the ability to seamlessly integrate risk analysis and financial forecasting into the evaluation of strategic opportunities in order to quickly and thoroughly filter those opportunities that offer the greatest short- and long-term rewards.

With this in mind, Oliver Wyman is pleased to partner again with the Association for Financial Professionals® (AFP) to produce its third annual Risk Survey. The results indicate that senior financial professionals continue to grapple with uncertainty, as 86 percent of respondents anticipate they will have as much, if not more, difficulty in forecasting critical risks to their businesses over the next three years.

However, unlike results from the previous risk surveys, most respondents are less concerned with how macroeconomic risks will impact their businesses. Instead, nearly half of all senior financial professionals are focused on how potential political/regulatory risks and competition could destabilize corporate performance as their companies emerge from a prolonged economic downturn. Across a wide range of industries, unconventional players are displacing traditional leaders by seizing new opportunities created by shifting industry landscapes. In financial services, for example, non-banks such as insurers and pension funds are capturing market share from traditional banks in a rapidly growing shadow banking system. In the energy sector, over the next 30 years natural gas could overtake coal as the second-most used energy source after oil. In health and life sciences, innovative healthcare providers are challenging the pervasive inflation in medical delivery by pioneering new models for providing better healthcare at lower costs.

For those looking to stay in the forefront of this transition, the *2014 AFP Risk Survey* results illustrate that executives are moving away from defensive tactics to proactive initiatives. The majority of respondents report their organizations are raising their revenue growth targets and launching new products and services. Nearly half are entering new geographic markets and increasing their capital expenditures.

But companies need to continue to improve how they integrate risk and forecasting analysis into strategic decisions if they hope to keep up with the speed at which new risks are reshaping the business landscape. At present, 79 percent of respondents say their companies' financial planning and analysis teams have a low-to-moderate level of cooperation with risk management. It is therefore not surprising that the majority of this year's survey respondents feel their organizations need to improve their risk and financial planning and analysis capabilities in order to take advantage of strategic openings. In part, this will be accomplished by standardizing/harmonizing risk and performance management reporting and also by improving the collection and analysis of customer "big data".

We believe the firms that take a more proactive approach to bringing their risk analysis and financial forecasting capabilities into alignment will be able to realize strategic rewards that will clearly differentiate them from their competitors.

We hope you will find the results of our third annual risk survey informative and useful.

Alex Wittenberg
Partner, Oliver Wyman Group

Alex Wittenberg is a New York-based Partner in Oliver Wyman's Energy Practice and head of the firm's Global Risk Center. He has more than 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

How financial professionals manage risk for their organizations continues to be of paramount importance. For the last three years, the Association for Financial Professionals® (AFP) and Oliver Wyman have partnered together to produce a series of annual surveys that study the risk landscape for treasury and finance functions specifically and for organizations as a whole. The inaugural survey, conducted in October 2011, examined the key risks that were of primary concern to organizations: financial, macroeconomic, business/operations, external risks and commodities. The subsequent survey, conducted in November 2012, focused on how organizations addressed these risks through a risk-adjusted framework.

In October 2013, AFP conducted the third survey of the series which concentrates on how companies are integrating risk information into their business and financial planning. AFP's Research Department sent the survey to senior-level corporate member practitioners and prospects; a total of 554 financial professionals responded. Survey respondents represented a wide range of North American organizations, both publicly and privately owned and of varying sizes.

This *2014 AFP Risk Survey* report summarizes the survey findings and provides insights on financial professionals' perceptions of the risk environment, their organizations' responses to the risk environment, the opportunities for better risk management through improved coordination with an organization's financial planning and analysis function (FP&A), and the benefits and hurdles companies encounter in this effort. The study reveals that organizations expect the current business environment to remain challenging; 84 percent of survey respondents report that their organizations are exposed to the same or higher level of uncertainty today than three years ago. At the same time, the top risk concerns have changed with businesses recently shifting their focus from macroeconomic factors to issues surrounding competitors and customers.

In this environment, the highest levels of most organizations are becoming increasingly involved in risk management. Over 90 percent of financial professionals note that risk management is either "extremely important" or "very important" at their companies' executive management levels. Further, the survey results show that leading companies are focusing on collaboration between FP&A and risk management to improve the quality of finance and risk inputs from a variety of business units in order to provide their executive teams with better business insights for strategic planning and forecasting.

Readers are invited to compare the *2014 AFP Risk Survey* findings and data and benchmark against their own risk management practices and goals. Additionally, AFP recommends the following as next steps:

- Engage the company's CFO in a discussion about the process and goals of risk management within the organization.
- Compare company risk management practices to peers' practices and identify areas for improvement.
- Develop a detailed plan for integrating risk management and FP&A processes to improve business insights.

BY THE
NUMBERS

As financial professionals we like to quantify things.

Here are some compelling numbers from the 2014 Association for Financial Professionals Risk Survey, sponsored by Oliver Wyman.

65%

Respondents who are increasing focus on risk culture and awareness within organizations

86%

Respondents who expect their ability to forecast risks to earnings to remain, or become more, difficult three years from now

61%

Respondents who are raising their revenue growth targets

92%

Respondents who believe their executive management teams consider risk assessment important or extremely important

61%

Respondents who are investing more in their IT systems

48%

Respondents who expect competition to have a greater impact on their earnings in the next three years

61%

Respondents who see improved quality of finance and risk inputs with greater coordination between FP&A and risk management

48%

Respondents who expect political/regulatory risk to have the greatest impact on their earnings in the next three years

67%

Respondents who want to standardize risk and performance management reports

Highlights of Survey Results

The key findings of the *2014 AFP Risk Survey* include:

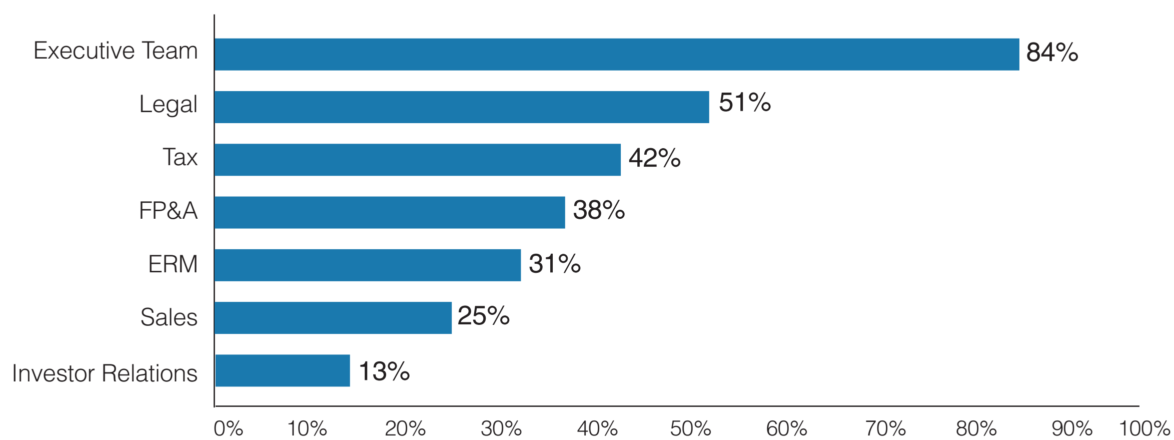
Risk Environment

- Forty-five percent of financial professionals report that their organizations are exposed to more uncertainty about earnings today than three years ago.
- Financial factors (e.g., credit, liquidity, interest rate, currency, foreign exchange) and external factors (country risk, regulatory, natural disaster) are considered the primary drivers of earnings uncertainty (cited by 26 and 25 percent of respondents, respectively).
- Thirty-five percent of financial professionals indicate it is more difficult to forecast risk currently than it was three years ago; 46 percent anticipate that forecasting risk will be more difficult three years from now than it is today.
- The three risk factors financial professionals expect will have the greatest impact on their organizations' earnings in the next three years are political/regulatory uncertainty, competition and customer satisfaction/retention.

Risk Response and Challenges

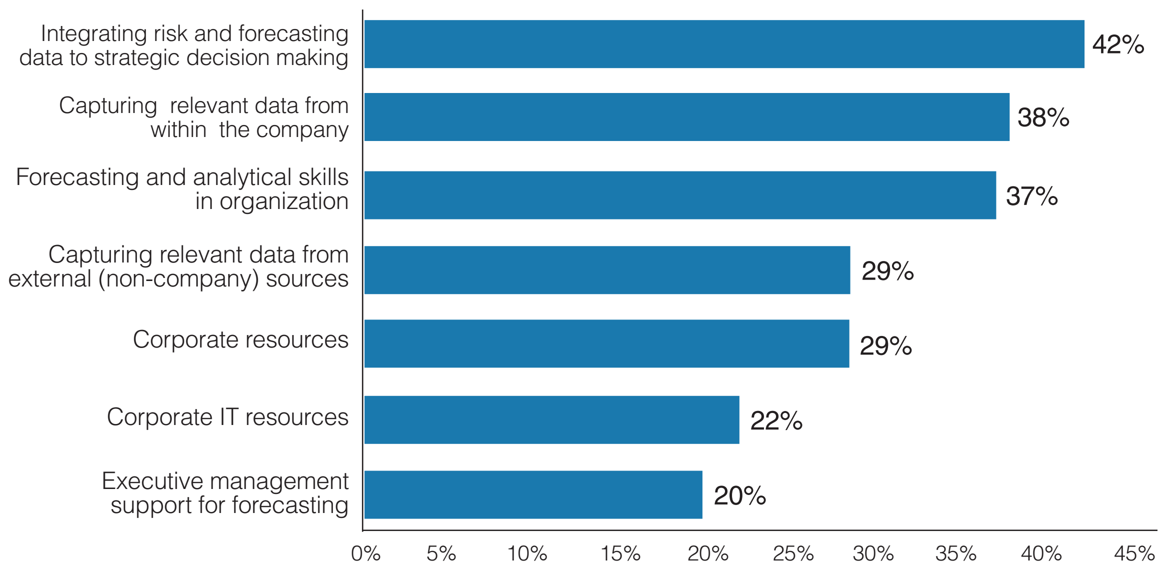
- The most common action organizations are taking to counter current and emerging business risks is increasing the focus on risk culture and awareness within organizations, followed by increasing IT investments and increasing revenue growth targets.
- Risk management is a key issue for executive management teams and Boards of Directors at most organizations.
- Eighty-four percent of financial professionals report that outside of the treasury function, their organizations' executive teams are main partners in identifying and assessing key assumptions for risks.

Key Partners Outside of Treasury Who Assess Key Assumptions for Risk
(Percent of Organizations)



- About a third of financial professionals believe risk management would be more successful and effective at their companies if it were integrated with the organizations' strategic planning functions.
- The primary challenges to organizations' ability to forecast metrics are integrating risk and forecasting data to strategic decision making and capturing relevant data within the company.

Primary Challenges to Organizations' Ability to Forecast Metrics
(Percent of Organizations)



Integrating Risk Management and FP&A

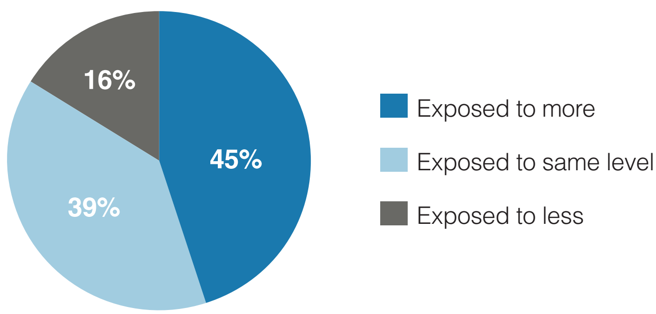
- At more than half of organizations (53 percent) there is a moderate level of collaboration between FP&A and risk management–and just 21 percent of financial professionals report a high degree of collaboration between these two functions at their organizations.
- About two-thirds of those financial professionals who indicate that FP&A is a key partner in reassessing business assumptions at their organizations report the primary benefits of better coordination between FP&A and risk management are improved quality of finance and risk inputs from across business units and consistent business /market assumptions.
- Over a third of financial professionals indicate that their organizations' strategic planning efforts would benefit most from additional risk-adjusted analysis.
- At nearly half the organizations, the FP&A group employs risk analysis on a regular basis while at 29 percent of companies the FP&A group does so occasionally.
- Two-thirds of financial professionals indicate they would like their organizations to enhance the additional risk and FP&A analytical capabilities by standardizing risk and performance management reports.

The Risk Environment

Organizations are exposed to increased earnings uncertainty

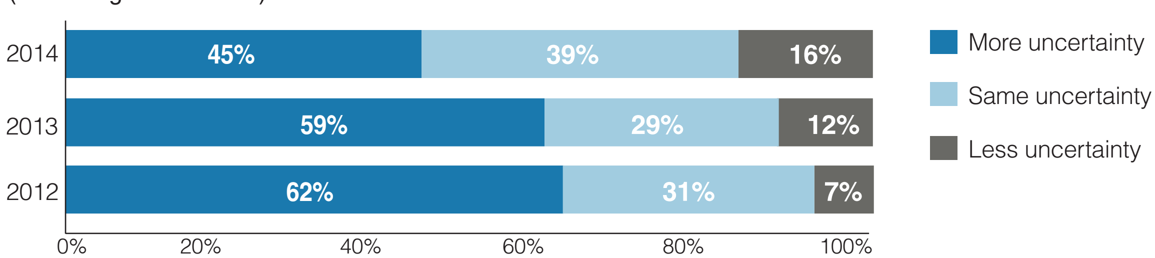
More than four years after the end of the "Great Recession," companies remain exposed to high levels of risk. Forty-five percent of financial professionals report that their organizations are exposed to more uncertainty about earnings today than three years ago. Only one in six (16 percent) believes their organizations are operating under conditions with less uncertainty than three years ago. Thirty-nine percent of survey respondents indicate the level of uncertainty has remained unchanged. Results are similar regardless of organization size or ownership type (publicly traded or privately owned). In addition, financial professionals report a very similar pattern of change in their companies' exposure to uncertainty about earnings relative to three years ago when the U.S. economy had just started to recover from recession.

Change in Exposure to Uncertainty in Earnings Relative to Three Years Ago
(Percentage Distribution)



The majority of financial professionals continue to believe their companies are exposed to the same or a greater level of earnings risk exposure compared to previous years, or perhaps a high degree of risk has become "business as usual." But there are financial professionals who perceive some easing of uncertainty. In 2012, 62 percent of respondents noted that their organizations were exposed to more risk compared to that in previous years. This figure dropped to 45 percent in the current survey. Stated another way, in 2012 only seven percent of survey respondents indicated their companies' were faced with less uncertainty than in the past; that figure dropped to 12 percent in 2013 and 16 percent in the current survey.

Change in Exposure to Uncertainty in Earnings
(Percentage Distribution)



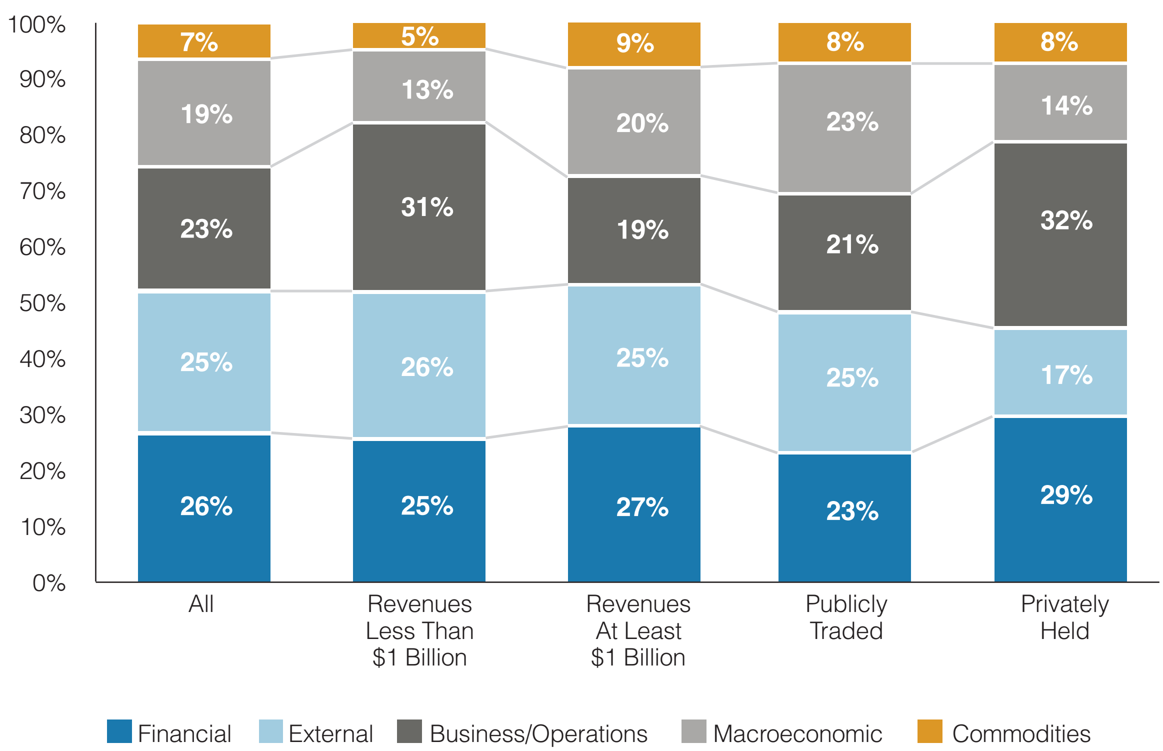
2012: relative to five years ago
2013 and 2014: relative to three years ago

Financial and external factors are drivers of earnings uncertainty

There is little consensus among financial professionals at organizations that have experienced greater earnings uncertainty as to the factors driving continuing high levels of earnings uncertainty. The most widely cited primary drivers of earnings uncertainty are financial factors (e.g., credit, liquidity, interest rate, currency, foreign exchange [FX])–noted by 26 percent of survey respondents—and external factors (e.g., country risk, regulatory, natural disaster)—noted by 25 percent of respondents. Business/operations (e.g., supply-chain disruptions, production interruptions, litigation, labor outsourcing, IT) are considered primary drivers by 23 percent of financial professionals, and macroeconomic factors (GDP growth, inflation) cited by 19 percent. Seven percent of survey respondents indicate commodities as the primary drivers of increasing earnings uncertainty.

It is interesting to note that the rank order of these five drivers differs from the results in the *2013 AFP Risk Survey.* Macroeconomic factors have declined in relative importance over the past year—from 30 percent to 19 percent, while business/operations and external factors each have increased in importance by 6 percentage points during the same period.

Primary Driver of Increase in Exposure to Earnings Uncertainty
(Percentage Distribution of Organizations that Have Experienced Greater Earnings Uncertainty)



The reasons for earnings volatility vary depending on the size and type of organization. Financial professionals from privately held companies and those from organizations with annual revenues of less than $1 billion are more likely than those from public companies and those with annual revenues of at least $1 billion to cite business/operations as the primary driver of increasing earnings uncertainty. Respondents from private and smaller organizations are also less inclined to indicate macroeconomic factors as primary drivers than are their peers at publicly traded and larger companies.

Responding to Risk

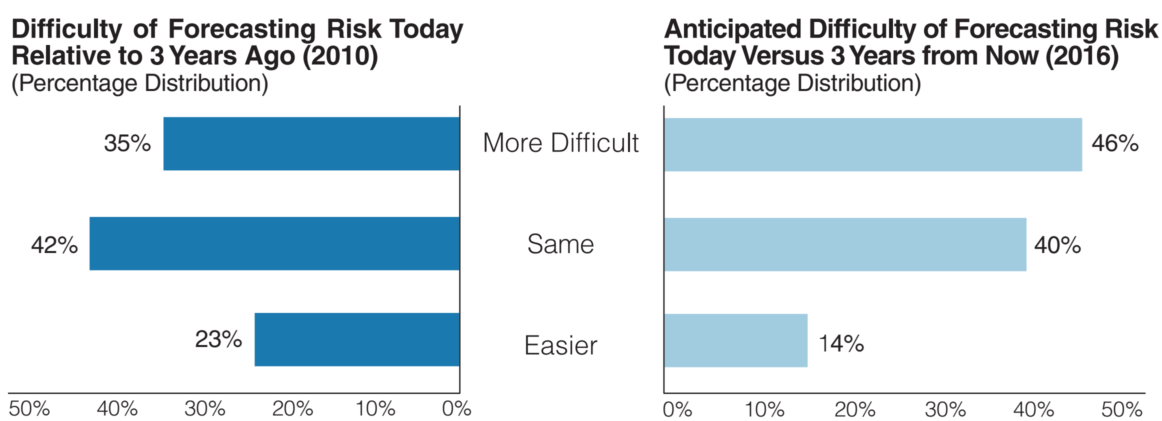
Forecasting risk continues to be a challenge for organizations

Thirty-five percent of financial professionals report that it is more difficult to forecast risk today than it was three years ago. This result is consistent across all types of organizations, regardless of size or ownership type. Slightly less than one-fourth indicates that forecasting risk is easier.

Interestingly, 86 percent anticipate three years from now that it will be as difficult or even more difficult to forecast risk. One factor underlying this view may be the growing international footprint of many companies. Forty-seven percent of respondents note that their organizations' international activities have increased over the past five years. As companies become more global, they are subject to greater business risk exposure.

Opinions about the ease or challenge of forecasting risk today compared to three years ago or three years in the future are not significantly different based on organization size. The lack of any significant difference indicates that risk factors are common across organizations, small and large. Results have also remained largely consistent from those in the 2013 survey, suggesting that forecasting risk remains a significant challenge.

Difficulty of Forecasting Risk



Competition and regulatory uncertainty expected to have the greatest impact on earnings

The three risk factors financial professionals expect will have the greatest impact on their organizations' earnings in the next three years are political/regulatory uncertainty, competition (each cited by 48 percent of respondents) and customer satisfaction/ retention (37 percent). The share of respondents citing political/regulatory risk was up 11 percentage points from the previous year's survey, reflecting in part the political environment in Washington. These factors are followed by interest rates (29 percent), GDP growth (27 percent) and product innovation (25 percent).

Financial professionals from organizations with annual revenues of less than $1 billion are more likely than those from large companies to suggest customer satisfaction will have a significant impact on earnings over the next three years (41 percent versus 28 percent). On the flip side, larger organizations face greater risk to earnings resulting from energy and commodity price volatility than do smaller ones. It is more likely that publicly traded companies will have their earnings affected by political and regulatory uncertainty than will privately owned ones (52 percent versus 43 percent).

The ranking of competition and customer satisfaction as top risks also reflect a change in business focus compared to that of three years ago. Regulatory risks do remain a top concern for U.S. businesses, but the focus since 2012 has shifted from financial concerns (GDP growth and liquidity) to growth concerns such as customer satisfaction and competition. These findings reinforce an overall trend seen in this year's survey results: as the U.S. economy improves, organizations are looking to grow and strengthen their capabilities to succeed in an uncertain business environment.

Changes in Risk Factors Expected to Have Greatest Impact on Organization's Earnings over Next 3 Years (2012-2014)
(Percentage Distribution)

Risk Ranking	2012*	2013	2014
1	GDP Growth	Customer Satisfaction/ Retention	Competition
2	Regulatory	Regulatory Risk	Political and Regulatory Uncertainty
3	Supply Chain Disruptions	GDP Growth	Customer Satisfaction
4	Liquidity	Political Risk	Interest Rate
5	Energy	Interest Rate	GDP Growth

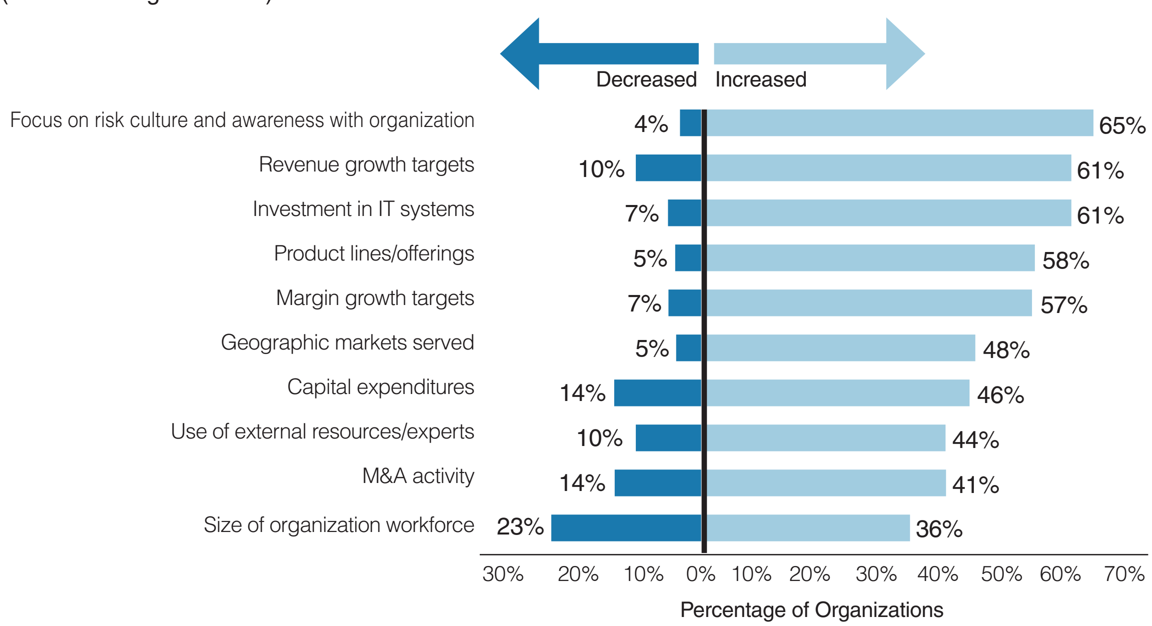
*In 2012, the question was asked differently than in 2013 and 2014 surveys.

Organizations are focusing on risk culture and awareness to address risk

Organizations are initiating various approaches to counter current and emerging business risks. Among the most common initiatives is increasing the focus on risk culture and awareness within a company (cited by 65 percent of financial professionals), followed by increases in IT investments and increasing revenue growth targets (each cited by 61 percent of respondents). The top three actions indicated by financial professionals in the current survey are similar to those cited in the *2013 AFP Risk Survey*, although the rank order has changed.

More than half of organizations are launching new product lines/offerings and/or increasing margin growth targets to mitigate risks (cited by 58 percent and 57 percent of respondents, respectively). Nearly half (48 percent) are increasing the geographic markets they serve and 46 percent are increasing capital expenditures. Smaller but still significant shares of respondents report that their companies are increasing their use of external resources and experts (44 percent) or expanding their M&A activity (41 percent). The smallest share of respondents (36 percent) indicate that their organizations are expanding the workforce, however, the percentage is seven percentage points higher than that reported in the 2013 survey. On the other hand, less than a quarter (23 percent) of organizations plans to reduce the number of personnel (compared to 33 percent cited in the previous survey).

Actions Taken in Response to Current and Emerging Business Risks
(Percent of Organizations)



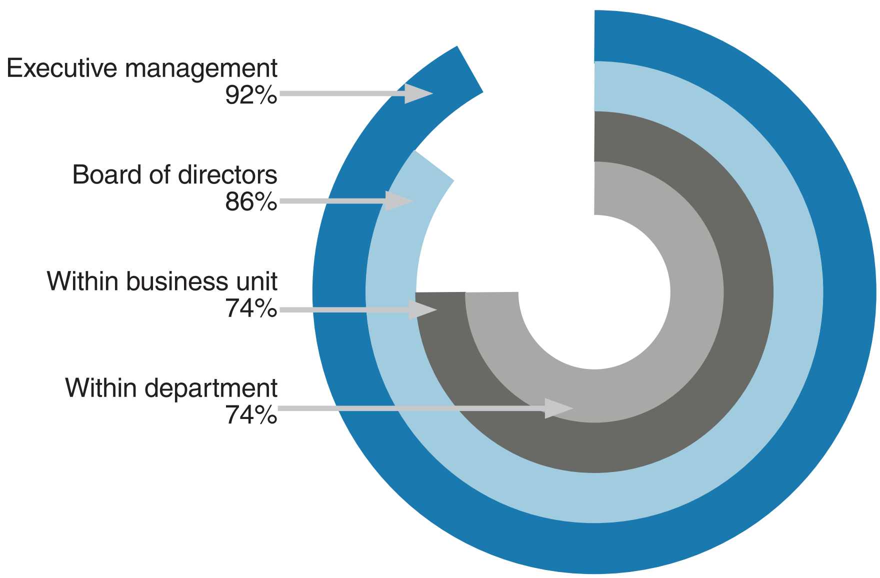
Note: 'Stay the same' figures have been omitted from the graph above. For each action, the difference between 100% and the sum of decreased and increased figures corresponds to "stay the same" figures.

Managing risk is an important priority at all levels of the organization

Risk management is a key issue for any executive management team and Board of Directors. Over 90 percent of financial professionals note that risk management is either "extremely important" or "very important" at their organizations' executive management levels and 86 percent report the same for their organizations' the Boards of Directors. Similarly, risk assessment is important at both business unit and department levels for 74 percent of organizations.

Almost 80 percent of financial professionals from larger and publicly traded organizations report that risk management is either "very important" or "extremely important" at the departmental level while 80 percent of respondents from publicly traded companies indicate similar levels of importance at the business unit level. The importance of risk assessment is higher (about 90 percent) for Boards of Directors at publicly traded companies. Financial professionals from organizations with annual revenues of less than $1 billion and those from privately held companies consider risk assessment at the departmental level less important than do their peers at larger and publicly traded companies.

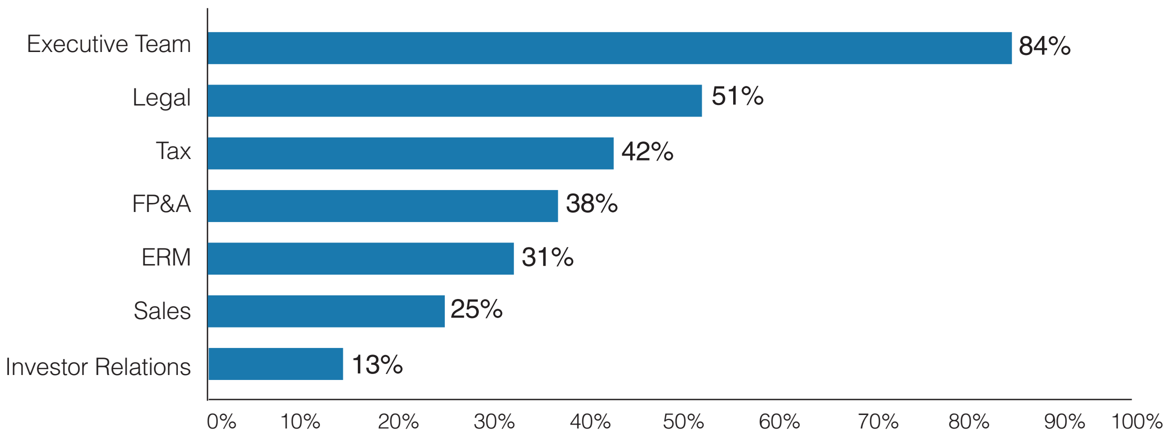
Level of Importance of Risk Assessment Within the Organization
(Percentage of Organizations Rating Risk Assessment "Extremely Important" or "Very Important")



Outside of the treasury, the executive team assesses organizational risks most frequently

A company's executive team focus on risk management is reinforced by the role the team plays in reviewing risk assumptions. The current AFP risk survey reveals that for a large majority of organizations (84 percent), the executive team is the main partner *outside the treasury function* that assesses the key assumptions for risks. Other key partners tasked with assessing business risks are legal (cited by 51 percent of respondents), tax (42 percent) and financial planning and analysis (FP&A) (38 percent). FP&A is more commonly involved in reassessing assumptions at about half of large and publicly traded organizations. The legal team at over half the publicly traded companies and those with revenues of at least $1 billion play an important role in reassessing key assumptions for risk.

Key Partners Outside of Treasury Who Reassess Key Assumptions for Risk
(Percent of Organizations)



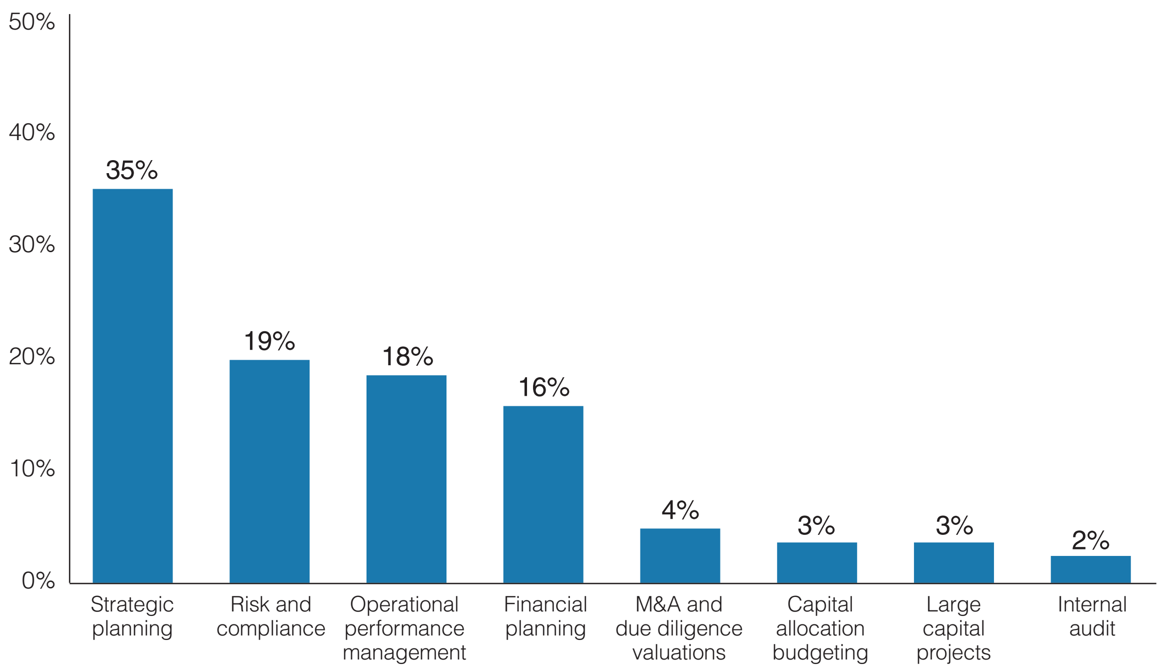
Successfully Integrating Risk Management within the Organization

Organizations are looking to integrate risk with strategic planning

Many financial professionals (35 percent of survey respondents) believe risk management would be most successful and effective if integrated with strategic planning at their companies. Other possible integration areas are risk and compliance (cited by 19 percent of survey respondents), operational performance management (18 percent) and financial planning (16 percent).

Financial professionals at privately held companies and organizations with annual revenues of less than $1 billion hold a similar view: risk management would most successfully integrate with strategic planning, operational performance management and financial planning. Conversely, those financial professionals from larger and publicly traded companies are more likely than their counterparts at smaller and privately held ones to select risk and compliance as an area for successful integration of risk management.

Effective Integration Points for Risk Management in the Organization
(Percentage Distribution)



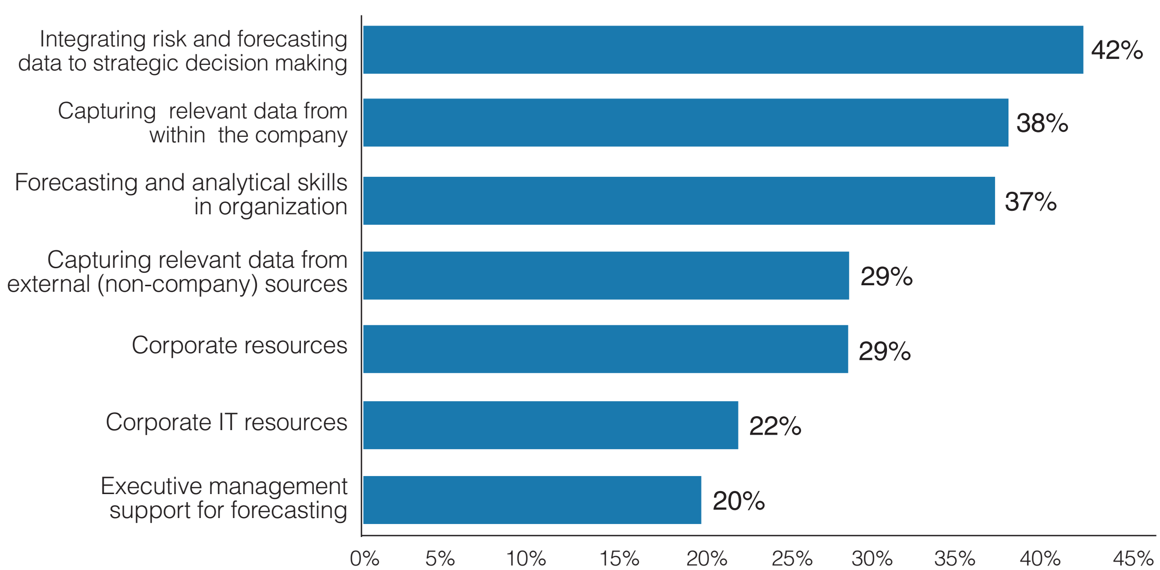
Integrating risk and forecasting data remains key challenges for most organizations

As noted, many of the financial professionals surveyed (35 percent) believe risk management would be most effective if integrated with strategic planning, and close to one fifth of respondents tags operational performance management as an effective integration point. However, organizations face significant challenges with such integrations.

Forty-two percent of respondents note that integrating risk and forecasting data with strategic decision-making is a key challenge while 38 percent cite capturing relevant data within the company. These factors also reflect the difficulty organizations have in capturing, managing and processing large amounts of data. Forecasting and analytical skills within the organization are cited by over one-third of financial professionals (37 percent). It is worth noting that corporate IT resources and executive management support for forecasting are less commonly cited challenges compared to forecasting metrics (ranging from 20 percent to 22 percent).

Integrating risk and forecasting data to strategic decision-making is a greater impediment at larger and publicly traded companies than at smaller and privately held ones. This finding can be attributed to the sheer size of available information and the complexity of such information. The greater the volume, the bigger the implications and the more complex the task is of integrating those pieces of risk and forecasting data to strategic decision-making. Capturing relevant data from external sources is a greater concern for privately held organizations than publicly owned ones (35 percent versus 24 percent) and also for smaller organizations than larger ones (34 percent versus 25 percent).

Primary Challenges to Organizations' Ability to Forecast Metrics
(Percent of Organizations)



Greater collaboration between financial planning & analysis and risk management offers many benefits

To realize the full benefits of implementing risk management within an organization and provide valuable risk insights for strategic planning, performance management and other organizational areas, many companies are taking steps to re-engineer existing processes. In particular, leading companies are looking to better coordinate the efforts of financial planning & analysis (FP&A) and risk management.

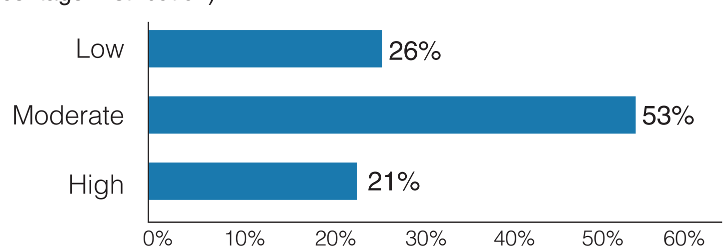
FP&A and risk management have traditionally played two separate roles within organizations. FP&A is primarily focused on financial forecasts and providing variance analysis and performance measurement. In contrast, the primary focus of risk management is to identify and quantify risks and develop risk-mitigation strategies. Under traditional approaches, FP&A conducts forecasts with less attention paid to drivers of potential variation while risk management practitioners often assess key risks without incorporating the most relevant financial metrics.

However, both groups have an opportunity and a common goal to support C-suite decisions with complementary perspectives of risk and return. Greater collaboration between these two groups has the potential to effect several critical improvements in an organization's overall risk management and business planning in an uncertain environment. Such improvements include:

- Reduction in overlapping information and over-abundance of data collection
- Improved quality and consistency of key inputs from across business units
- Quicker responses to external changes through dynamic analytical capabilities
- Alignment of risk-return profiles
- Improved presence and impact of both FP&A and risk management functions within the organization

The collaboration between FP&A and risk management is still being tested at a majority of organizations. At more than half, there is a moderate level of collaboration between FP&A and risk management (53 percent), and just 21 percent of financial professionals report a high level of collaboration at their organizations. The remaining 26 percent of companies have a low level of collaboration between FP&A and risk management. There is a higher level of collaboration between FP&A and risk management at smaller organizations and those which are privately held (26 percent and 29 percent, respectively). A probable reason for this trend is that larger organizations have more defined functions and therefore are more siloed in their operations.

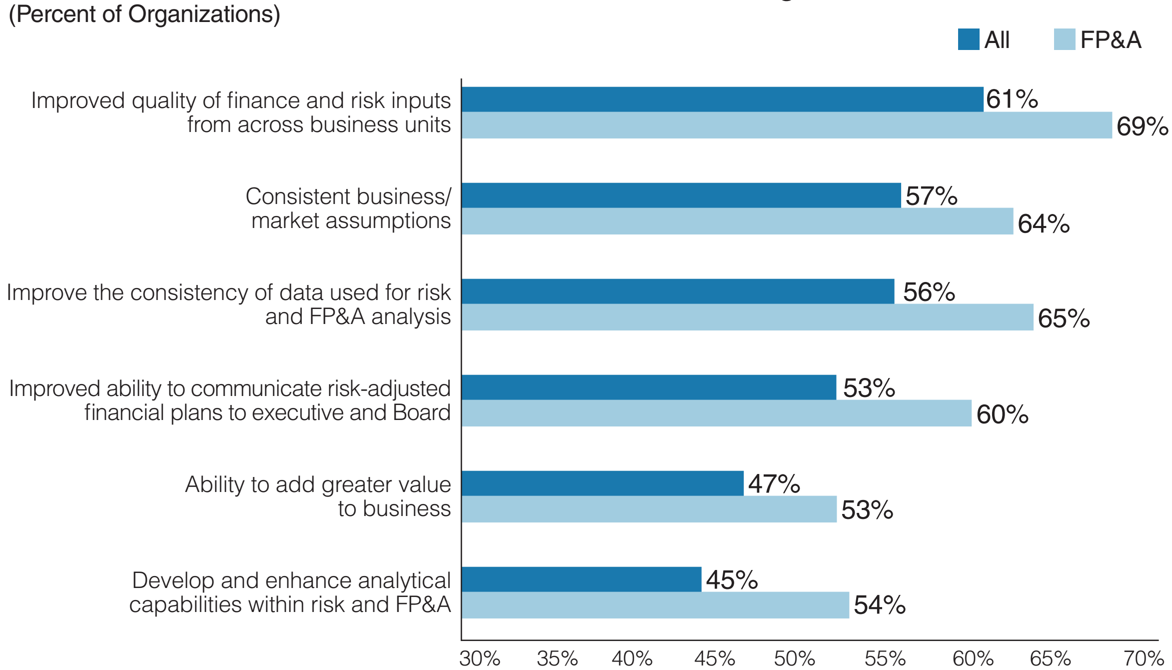
Degree of Collaboration Between FP&A and Risk Management
(Percentage Distribution)



Improved FP&A and risk management coordination results in better risk management

The leading companies that have focused on greater integration between FP&A and risk management are seeing the benefits. Those respondents who indicate that FP&A is a key partner in reassessing business assumptions at their organizations (the "FP&A aligned" group) report improved quality of finance and risk inputs from across business units (69 percent of the FP&A group). Other notable benefits identified are consistent business/market assumptions (57 percent), improved consistency and data use for risk and FP&A analysis (56 percent and 65 percent of the FP&A group) and the improved ability to communicate risk-adjusted financial plans to executive management and the Board (53 percent). The ability to add greater value to the business and developing and enhancing analytical capabilities within risk and FP&A are noted benefits by 47 percent and 45 percent of financial professionals, respectively.

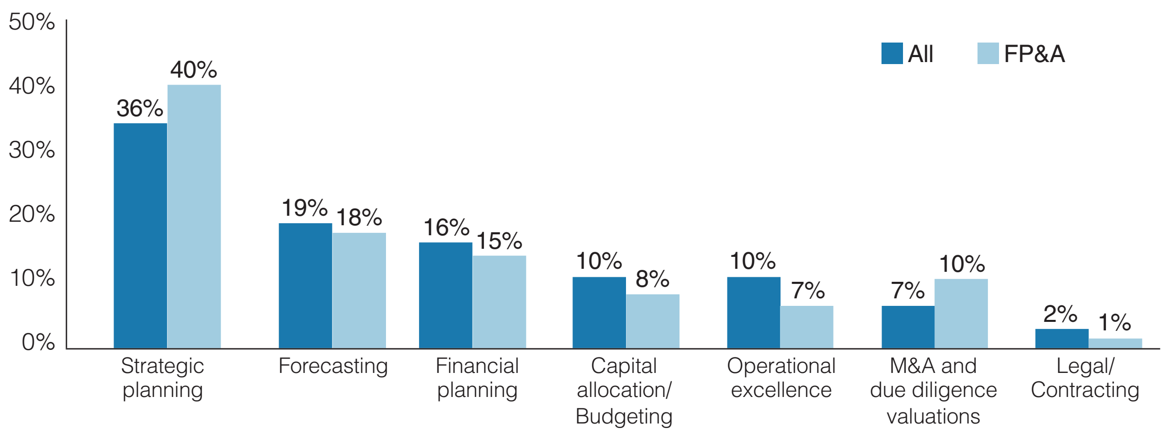
Benefits of Better Coordination Between FP&A and Risk Management
(Percent of Organizations)



Most organizations expect risk-adjusted analysis to result in improved strategic planning

Looking deeper into the specific business decisions that would be improved by greater integration between FP&A and risk management, over a third of financial professionals (36 percent) indicate that their organizations' strategic planning would benefit most from additional risk-adjusted analysis. Other decision-making processes that would improve with additional risk-adjusted analysis are forecasting (cited by 19 percent of respondents), financial planning (16 percent) capital allocation and budgeting (10 percent) and operational excellence (10 percent). These findings reinforce the need to closely integrate strategic planning, risk management and FP&A.

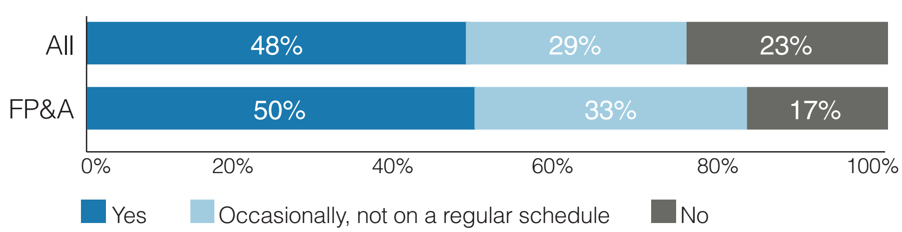
Decision Making Process to Benefit Most from Risk Adjusted Analysis
(Percentage Distribution)



FP&A and risk management employ similar tools

FP&A and risk management teams use common tools to develop dynamic and timely risk-adjusted data and insights. At nearly half of organizations (48 percent), the FP&A group employs risk analysis on a regular basis while at 29 percent of companies, the same functional area does so occasionally. Financial professionals from larger and publicly traded companies and from organizations where FP&A is a key partner in reassessing business assumptions indicate their companies are more likely to employ FP&A as a part of the risk analysis process on a regular basis. Not surprisingly, the FP&A-aligned group employs risk analysis more often (50 percent of the time on a regular schedule and 33 percent of the time if performed occasionally) than do organizations as a whole.

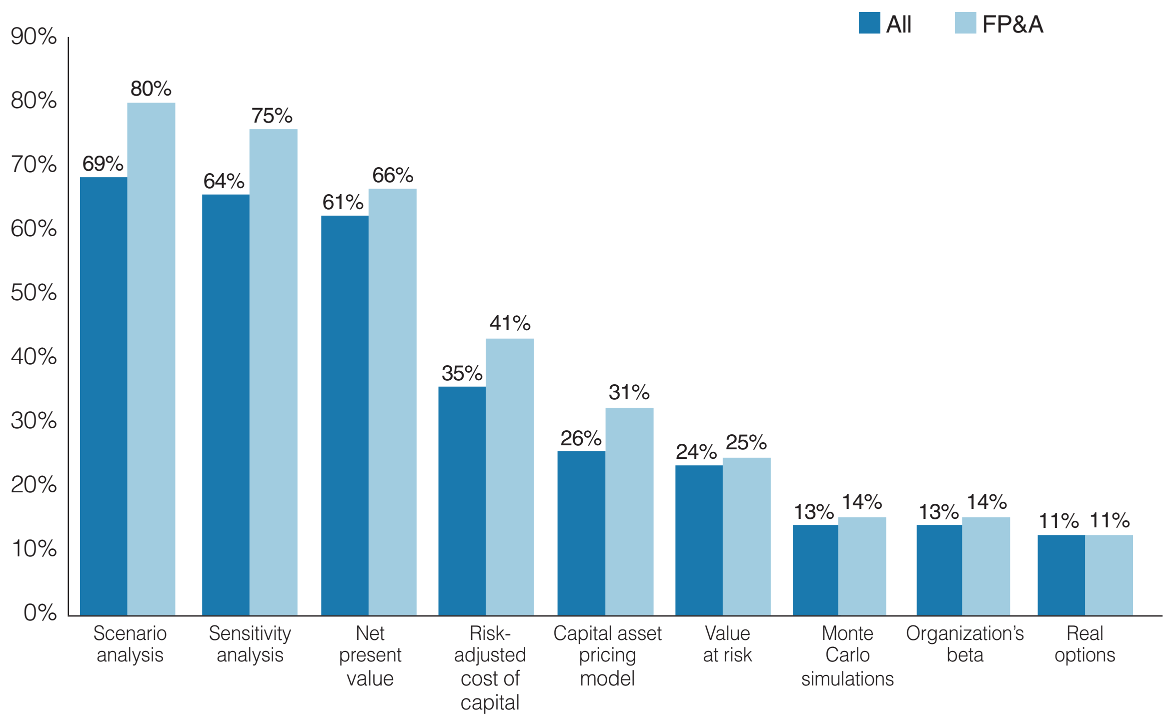
FP&A Employment of Risk Analysis on a "Regular Basis"
(Percentage Distribution)



The most common risk-oriented tool used by FP&A to analyze business situations is scenario analysis (cited by 69 percent of all respondents), followed by sensitivity analysis (64 percent) and net present value (61 percent). Risk-adjusted cost-of-capital and value-at-risk models are used by FP&A at 35 percent and 24 percent of organizations, respectively. Far less utilized are Monte Carlo simulations (13 percent), the organization's beta (13 percent) and real options (11 percent).

Financial professionals from large organizations and companies that are publicly traded are more likely to use sensitivity analysis to analyze business situations than are their peers at smaller organizations or privately held ones. Organizations where FP&A is a key partner in reassessing business assumptions are more likely to use scenario analysis (80 percent) and sensitivity analysis (75 percent). Again, note the greater utilization of scenario analysis, sensitivity analysis and net present value by the FP&A-aligned group.

Risk Metrics and Models Used by FP&A
(Percent of Organizations)

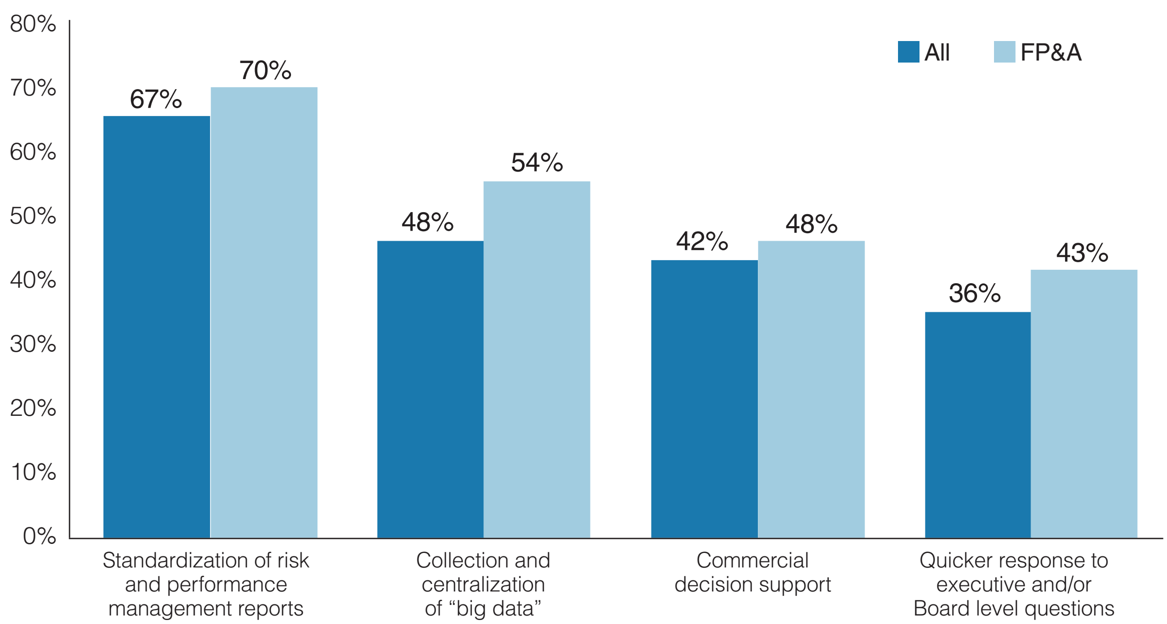


Most organizations desire greater standardization of risk- and performance-management reports

A majority of financial professionals (67 percent) indicates they would like their organizations to enhance the additional risk and FP&A analytical capabilities and outputs the companies currently have by standardizing risk and performance management reports. Other improvements financial professionals would like to see implemented include the collection and centralization of "big data" (cited by 48 percent of respondents), commercial decision support (42 percent) and quicker response to executive level and Board questions (36 percent).

Standardization of risk and performance management reports is an enhancement most desired by financial professionals at organizations where FP&A plays an important role in reassessing business assumptions. Other improvements desired by financial professionals from both the FP&A-aligned group and those from larger organizations are the collection and centralization of "big data" (cited by 54 percent of respondents from each group). Survey respondents from the FP&A-aligned group have higher expectations for risk and FP&A analytical capabilities/outputs, particularly for the standardization of risk and performance management reports and the collection of centralization of big data (cited by 54 percent of respondents).

Desired Risk and FP&A Analytical Capabilities/Outputs
(Percent of Organizations)



Conclusions

Today's business environment, while improving, remains uncertain and forecasting risk is challenging. In such a market, those companies that have more comprehensive and thorough insights about the potential impacts of risk and uncertainty on their key financials will be better positioned to nimbly and proactively respond to changing business developments. To meet this challenge, leading companies are focusing on integrating risk management and financial planning and analysis.

Results from the *2014 AFP Risk Survey* reveal a number of approaches and benefits from current trends in risk management. Key conclusions from this year's survey include:

Organizations continue to be exposed to a certain level of uncertainty in the business environment. Eighty-four percent of respondents report their organizations are exposed to the same or more uncertainty currently than three years ago.

Organizations are focusing on risk awareness in order to respond to current and emerging business risks to ensure business success. The most popular actions organizations have taken include focusing on risk culture and awareness within the organization, followed by setting revenue growth targets and investing in IT systems. Other approaches include diversifying product lines and offerings and revising margin growth targets.

The top-level management and organizational oversight are increasingly involved in risk management. Financial professionals note that risk management is either "extremely important" or "very important" at their executive management level and Board level (cited by 92 percent and 86 percent of respondents, respectively).

Organizations benefit from increased integration between FP&A and risk management. Companies with greater integration between the two functions are better positioned to thrive in an uncertain business environment. Improved quality of finance and risk inputs from all business units provides the executive team with better business insights for strategic planning, forecasting and financial planning.

Leading companies are focusing on collaboration between FP&A and risk management. Joint efforts in the collection process of key finance and risk inputs has the potential to result in greater efficiency in data collection and storage, and improved quality and consistency of data for analytical purposes within FP&A and risk management.

About the Survey

In October 2013, the Research Department of the Association for Financial Professionals® (AFP) surveyed its senior level corporate practitioner membership about uncertainty and how their organizations manage risk. The survey was sent to AFP members and prospects with job titles of CFO, treasurer, controller, vice president of finance and assistant treasurer. The total 554 responses are the basis of this report. The respondent profile closely models that of AFP's membership. A demographic profile of the survey respondents is presented below.

AFP thanks Oliver Wyman for being a valued partner on the *AFP Risk Survey* series. In addition to its underwriting support, Oliver Wyman provided AFP with 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 Revenues (USD)
(Percentage Distribution of Organizations)

Under $50 million	13%
$50-99.9 million	8
$100-249.9 million	9
$250-499.9 million	10
$500-999.9 million	12
$1-4.9 billion	27
$5-9.9 billion	8
$10-20 billion	6
Over $20 billion	7

Level of International Revenue
(Percentage Distribution of Organizations)

0% of revenue	28%
1-25% of revenue	37
26-50% of revenue	17
51-75% of revenue	10
76-100% of revenue	8

Change in International Activities Over Last Five Years
(Percentage Distribution of Organizations)

Increased	47%
Remained the same	47
Decreased	6

Ownership Type
(Percentage Distribution of Organizations)

Publicly owned	39%
Privately held	44
Non-profit (not-for-profit)	9
Government (or government owned entity)	8

Industry Sector
(Percentage Distribution of Organizations)

Financial Services (Banking, Investment, Brokerage, Insurance, etc.)	19%
Energy (Utilities, Oil, etc.)	9
All Other Manufacturing (Excluding Consumer Products, Pharmaceuticals, Technology)	9
Consumer Products (Manufacturing, Sales, Distribution, etc.)	8
Technology (Development, Manufacturing, Sales, Distribution, etc.)	8
Government/Not for Profit	5
Retail	5
Agriculture	4
Healthcare Provider	3
Pharmaceuticals/Biotechnology	3
Automotive	2
Chemicals	2
Communications	2
Media/Professional Services	2
Mining and Metals	2
Air Transport	1
Surface Transport (Maritime, Motor Transport, Rail)	1
Other Industry	15

Appendix: Survey Data Tables

Table 1: Change in Exposure to Uncertainty in Earnings Relative to Three Years Ago
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held
Exposed to more	45%	45%	46%	44%	41%
Exposed to the same level	39	39	37	38	41
Exposed to less	16	16	17	18	18

Table 2: Primary Driver of Increase in Exposure to Earnings Uncertainty
(Percentage Distribution of Organizations that Have Experienced Greater Earnings Uncertainty)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held
Financial (credit, liquidity, interest rate, currency/FX)	26%	25%	27%	23%	29%
External (country risk, regulatory, natural disaster)	25	26	25	25	17
Business/Operations (supply chain disruptions, production interruptions, litigation, labor, outsourcing, IT)	23	31	19	21	32
Macroeconomic (GDP growth, inflation, consumer price index)	19	13	20	23	14
Commodities (energy, agricultural, non-agricultural)	7	5	9	8	8

Table 3: Difficulty of Forecasting Risk Today Relative to 3 Years Ago (2010)
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held
Easier	23%	23%	25%	28%	22%
Same	42	42	39	38	42
More Difficult	35	35	36	34	36

Table 4: Anticipated Difficulty of Forecasting Risk Today Versus 3 Years from Now (2016)
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held
Easier	14%	13%	15%	16%	14%
Same	40	37	37	39	38
More Difficult	46	50	48	45	48

Table 5: Risk Factors Expected to Have Greatest Impact on Organization's Earnings over Next 3 Years
(Percent of Organizations)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held
Competition	48%	49%	44%	52%	47%
Political and regulatory uncertainty	48	51	50	52	43
Customer satisfaction/retention	37	41	28	33	38
Interest rates	29	30	30	26	30
GDP growth	27	20	37	35	22
Product innovation	25	24	24	25	25
Energy price volatility	18	14	23	23	16
Commodity (non-energy) price volatility	17	14	22	22	17
Information technology risk	17	18	15	13	16
Currency volatility	15	13	15	19	13
Labor and HR issues	14	14	13	13	14
Inflation	13	14	12	8	14
Credit	13	14	13	12	12
Tax risk	13	13	15	15	14
Country risk	12	11	13	15	10
Liquidity	12	15	11	8	16
Supply chain disruptions	11	13	10	9	15
Natural catastrophe	7	6	8	8	7

Table 6: Key Partners Outside of Treasury Who Reassess Key Assumptions for Risk
(Percent of Organizations)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held
Executive team	84%	84%	80%	79%	85%
Legal	51	49	53	58	48
Tax	42	38	45	51	42
FP&A	38	30	50	52	34
ERM	31	24	41	41	21
Sales	25	27	22	22	30
Investor relations	13	14	14	21	10

Table 7: Level of Importance of Risk Assessment within the Organization
(Percent of Organizations Rating Risk Assessment 'Extremely Important' or 'Very Important')

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Within department	74%	69%	79%	78%	69%	78%
Within business unit	74	74	76	80	68	76
At the executive management level	92	91	92	92	90	93
At the board of directors level (e.g., audit committee)	86	84	87	91	82	90

Table 8: Actions Taken in Response to Current and Emerging Business Risks
(Percent of Organizations)

	Increased	Same	Decreased
Focus on risk culture and awareness within organization	65%	31%	4%
Revenue growth targets	61	29	10
Investment in IT systems	61	32	7
Product lines/Offerings	58	37	5
Margin growth targets	57	36	7
Geographic markets served	48	47	5
Capital expenditures	46	40	14
Use of external resources/Experts	44	46	10
M&A activity	41	45	14
Size of organization workforce	36	41	23

Table 9: Risk Metrics and Models Used by FP&A to Analyze Different Business Situations
(Percent of Organizations)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Scenario analysis	69%	68%	70%	71%	71%	80%
Sensitivity analysis	64	54	75	72	59	75
Net present value	61	60	62	64	61	66
Risk-adjusted cost of capital	35	29	41	44	29	41
Capital asset pricing model	26	20	33	31	21	31
Value at risk	24	18	30	28	19	25
Monte Carlo simulations	13	10	16	14	9	14
Organization’s beta	13	9	18	22	8	14
Real options	11	13	9	8	14	11

Table 10: Degree of Collaboration between FP&A and Risk Management
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
High level of collaboration	21%	26%	17%	15%	29%	19%
Moderate level of collaboration	53	48	59	58	48	55
Low level of collaboration	26	26	24	27	23	26

Table 11: Benefits of Better Coordination between FP&A and Risk Management
(Percent of Organizations)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Improved quality of finance and risk inputs from across business units	61%	59%	63%	63%	60%	69%
Consistent business/Market assumptions	57	56	58	59	56	64
Improve the consistency of data used for risk and FP&A analysis	56	57	56	63	53	65
Improved ability to communicate risk-adjusted financial plans to executive and board	53	52	55	59	48	60
Ability to add greater value to business	47	50	43	45	52	53
Develop and enhance analytical capabilities within risk and FP&A	45	39	50	46	44	54

Table 12: Desired Risk and FP&A Analytical Capabilities/Outputs
(Percent of Organizations)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Standardization of risk and performance management reports	67%	65%	70%	69%	65%	70%
Collection and centralization of "big data"	48	51	45	48	49	54
Commercial decision support	42	41	43	44	46	48
Quicker response to executive and/or Board level questions	36	39	33	36	34	43

Table 13: Decision-Making Process to Benefit Most from Risk-Adjusted Analysis
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Strategic planning	36%	35%	37%	34%	38%	40%
Forecasting	19	18	20	20	20	18
Financial planning	16	20	10	15	17	15
Capital allocation/Budgeting	10	6	15	13	6	8
Operational excellence	10	13	7	8	12	7
M&A and due diligence valuations	7	5	8	9	6	10
Legal/ Contracting	2	1	2	1	1	1

Table 14: Effective Integration Points for Risk Management in the Organization
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Strategic planning	35%	37%	33%	37%	34%	39%
Risk and compliance	19	15	23	22	17	18
Operational performance management	18	20	15	13	20	19
Financial planning	16	18	14	14	18	15
M&A and due diligence valuations	4	2	5	4	4	3
Capital allocation budgeting	3	2	4	4	3	1
Large capital projects	3	4	3	3	2	4
Internal audit	2	2	3	1	2	1

Table 15: Primary Challenges to Organization's Ability to Accurately Forecast its Metrics
(Percent of Organizations)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
Integrating risk and forecasting data to strategic decision-making	42%	40%	45%	46%	38%	50%
Capturing relevant data within the company	38	40	37	43	34	42
Forecasting and analytical skills in organizations	37	35	38	35	38	38
Capturing relevant data from external sources	29	34	25	24	35	31
Corporate resources	29	25	33	31	27	27
Corporate IT resources	22	19	25	27	22	27
Executive management support for forecasting	20	22	18	19	21	20

Table 16: FP&A's Use of Risk Analysis on a "Regular Basis"
(Percentage Distribution)

	All	Revenues Less Than $1 Billion	Revenues At Least $1 Billion	Publicly Traded	Privately Held	FP&A
FP&A uses risk analysis on a regular basis	48%	44%	53%	50%	47%	50%
FP&A does not use risk analysis on a regular basis	23	26	20	16	28	17
Occasionally, not on a regular schedule	29	30	27	34	25	33

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Association for
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About the Association for Financial Professionals

Headquartered outside Washington, D.C., the Association for Financial Professionals (AFP) is the professional society that represents finance executives globally. AFP established and administers the Certified Treasury Professional™ and Certified Corporate FP&A Professional™ credentials, which set standards of excellence in finance. The quarterly AFP Corporate Cash Indicators™ serve as a bellwether of economic growth. The AFP Annual Conference is the largest networking event for corporate finance professionals in the world.

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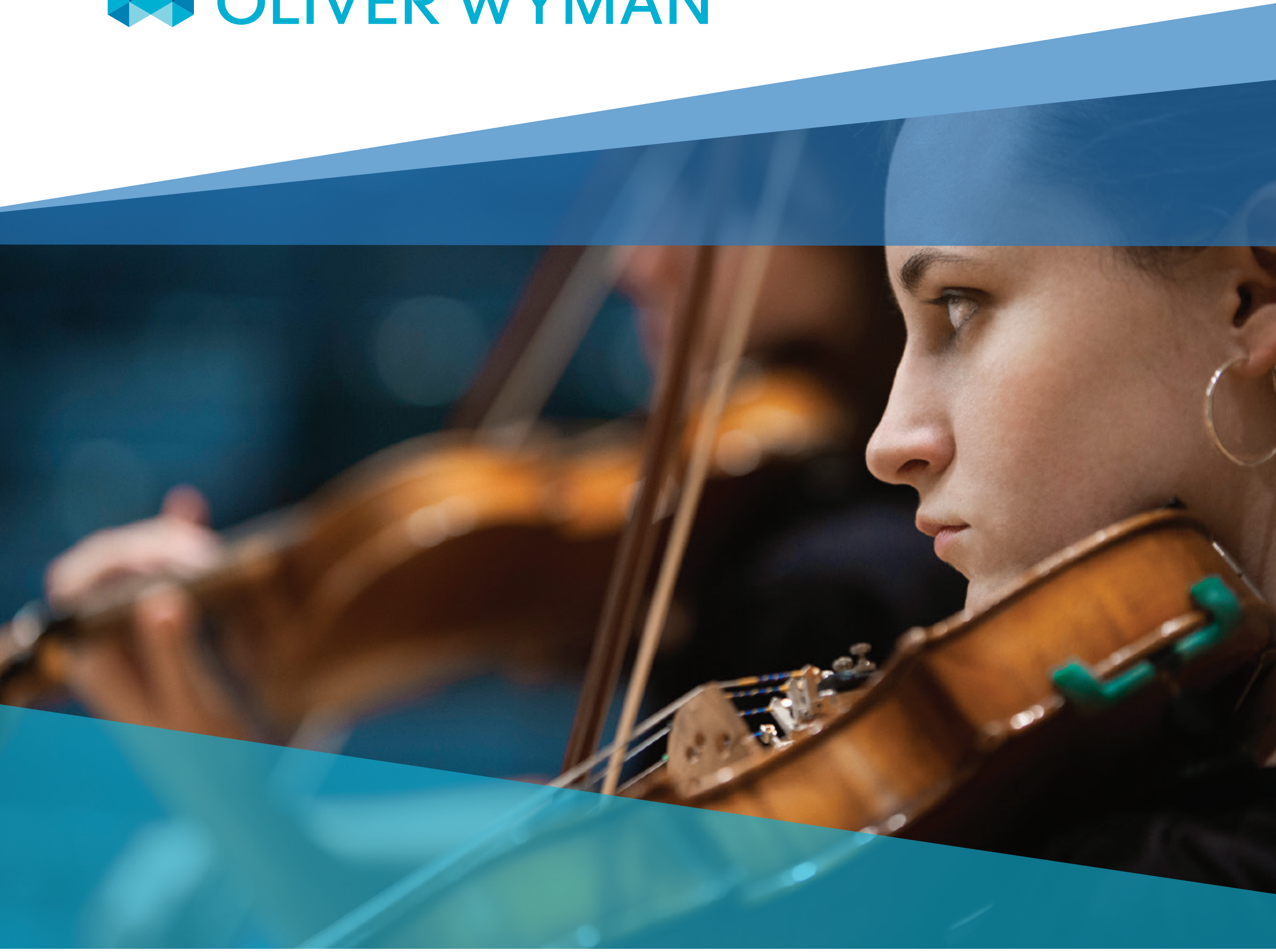

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