Contents

04 Foreword
The Future of Risk Management

05 Introduction
The (R)evolution of Risk Management

06 About the Study

07 Chapter 1. Blurry Vision: Finance Teams Struggle to Manage Risk

11 Chapter 2. Uncertain Times: Tomorrow’s Risk Management is Hampered by Today’s Data Practices

14 Chapter 3. The Future of Finance: Revolution, Evolution, or Devolution?

16 The Path Forward
3 Ways to Simplify the Finance Transition to Modern Risk Management

21 Conclusion
The Time is Now
The Future of Risk Management
Utopia or Dystopia? Bridging the Modern Tool Perception Gap in Finance

In many respects, the role of the modern finance team has been elevated to new heights. Finance leaders are now accountable for and involved in a gamut of activities ranging from the detailed, tactical reporting that finance has always been responsible for to the overarching strategic direction of the business. At once charged with helping to grow the business profitably and the management of an ever-increasing array of risks, it’s clear that both the responsibilities and the charter of the team have expanded in scope and in complexity.

It’s hard to escape from the hype surrounding all the possibilities available to finance leaders to help manage their organizational risk. We hear almost daily of new use cases and developments in technology, data, and tools such as machine learning, robotic process automation, and cloud-based systems to manage risk. Many finance teams have begun implementing machine and data-based approaches to simplifying and strategizing their workflows to improve outcomes and free up resources for strategic action. And from what we can tell, leaders at the top are extremely excited by the possibilities of these tools.

Outside research seems to validate this phenomenon of high willingness and low adoption. A recent 2017 Forrester Research Study of finance leaders commissioned by Dun & Bradstreet found that disparate data, organizational silos, and lack of data integration were named as barriers for roughly a third of finance organizations to creating a data-driven operating model—the foundation for adopting technologies and tools such as machine learning or robotic process automation.

Our study revealed that although many finance teams are beginning to leverage modern tools to manage risk, that there’s much work to be done to advance the effectiveness and business results of risk management approaches in general. It’s clear that tools—even futuristic tools—are only a piece of the strategic puzzle. In spite of the excitement among analysts and industry leaders alike, there’s an investment of time, money, and resources that needs to be committed to ensure that these tools of the future help improve business outcomes. Risk management is no different.

There’s a huge opportunity for the future of finance to deliver value through innovation as the very definition of risk changes. From building internal cultures around innovation, to exploring opportunities for automation, to becoming inspired by the possibilities of data, AI, blockchain, and machine learning, the business world is especially hungry for a new breed of finance leader to help navigate through the new complexities of risk management. Risk management of the future isn’t tool-dependent—it’s strategy dependent. Creating a bright future for the business means rejecting the ideas of tools as dystopian disruptors stealing jobs, as well as countering notions that tools alone are the keys to business utopia.

We’ll explore more of these findings within this study, as well as considerations for finance leaders desiring to modernize their teams in the short-term.
INTRODUCTION

The (R)evolution of Risk Management
Finding Opportunity for Modern Finance in a Universe of Risk

It’s an exciting time to be in the finance function. Finance leaders have the opportunity today to move from reporting on the business to driving strategic outcomes within the business. Not only is the finance function being disrupted, the tools that finance leaders have at their disposal are experiencing an unprecedented amount of disruption as well. Accenture predicts a totally new operating model for finance by 2020. “This steady influx of intelligent machines into the finance workforce will not overrun humans, but there is a tipping point for finance jobs on the horizon. As routine tasks become automated, finance professionals will be freed up to focus on more judgment-intensive activities. Some jobs will transform, and new roles will emerge.” With all of this change comes the strategic and operational imperative to manage risk.

To understand how finance leaders are viewing and managing this risk, Dun & Bradstreet conducted a survey in 2018 of finance leaders across industries, functional roles and business sizes to comment on the risks they’re facing today, how they’re using data to manage that risk, and how they see their organizations adopting emerging technologies and tools in the future to manage risk.

THE FINDINGS

In spite of the promises of emerging technologies and tools, finance leaders are struggling internally to manage risk effectively with data, and many rate their own ability to manage and monitor risk as particularly challenging.

1. Finance Teams Struggle to Manage Risk

Overall, most finance leaders believe their own efforts to manage, monitor, and predict risk pose a moderate to high risk to their businesses.

2. Tomorrow’s Risk Management is Hampered by Today’s Data Practices

Finance leaders simply aren’t leveraging modern methods of risk management to the fullest. Nearly half are still collecting data in silos and not sharing it across the company, although most are using data to manage risk today.

3. The Future of Finance: Revolution, Evolution, or Devolution?

Many finance leaders see promise in modern tools such as automation, data, and analytics to manage risk, yet most respondents currently rate themselves as “low” in sophistication, or they do not use these tools at all.

““To make the transition to a more forward-looking model requires a lot of innovative thinking. Unfortunately, many finance functions are not structured to support that.””

– Jim Carroll, futurist and trends and innovation expert
About the Study

METHODOLOGY

How are the finance leaders of today managing risk, and what role does data play in their current and future risk management efforts? In April 2018, Dun & Bradstreet commissioned an internally-driven study of finance professionals, using an online survey tool to collect and evaluate the results. The study targeted thousands of finance professionals in roles ranging from end user to executive within companies of all sizes within the US, UK, and Canada. A total of approximately 1,100 responses were received.

ABOUT THE RESPONDENTS

LOCATION OF RESPONDENTS’ HEADQUARTERS

85% United States 3% United Kingdom and Ireland
9% Canada 3% Other

FUNCTIONAL LEVEL

6% Executive 32% Director 26% Individual Contributor
23% VP/SVP 13% Manager

BUSINESS SIZE

29% 24% 47%
Small (1–150) Medium (151–500) Large (501+)
CHAPTER 1

Blurry Vision
Finance Teams Struggle to Manage Risk
The Risk Landscape
Top Risks Facing Finance Leaders Internally

Many organizational risks aren’t easily managed, let alone identified. Monitoring risks within the customer, supplier, or partner base ranked as the #1 risk facing finance leaders today, with 38% of finance leaders calling this a “high” risk. Forecasting or predicting risk and growing profitably were in the #2 and #3 positions. Finance leaders rank “scaling operations” as the lowest-risk initiative, with over 75% calling this a “low” or “moderate” risk.

These results indicate that understanding risks and opportunities is a primary barrier to effective risk management within most companies, whereas scaling and adapting to the risks themselves are of lesser concern. Ineffective or inadequate use of data, analytics, or emerging technologies is a possible indication for the high level of risk associated with generating insights on risks and opportunities.

* Scale based on number of participant responses to the question, “Rate the level of risk your company is facing by impact.”

### LEVEL OF RISK FINANCE LEADERS ARE FACING BY IMPACT*

<table>
<thead>
<tr>
<th>Risk</th>
<th>LOW</th>
<th>MODERATE</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring risks within the customer, supplier, or partner base</td>
<td>204</td>
<td>243</td>
<td>270</td>
</tr>
<tr>
<td>Forecasting or predicting risk</td>
<td>192</td>
<td>243</td>
<td>263</td>
</tr>
<tr>
<td>Growing profitability</td>
<td>202</td>
<td>223</td>
<td>261</td>
</tr>
<tr>
<td>Integrating your business data across the organization for more</td>
<td>212</td>
<td>240</td>
<td>234</td>
</tr>
<tr>
<td>efficiency &amp; effectiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Optimizing cash flow</td>
<td>242</td>
<td>220</td>
<td>228</td>
</tr>
<tr>
<td>Innovating effectively</td>
<td>207</td>
<td>253</td>
<td>212</td>
</tr>
<tr>
<td>Minimizing fraud</td>
<td>282</td>
<td>221</td>
<td>204</td>
</tr>
<tr>
<td>Standardizing financial, credit, or compliance policies</td>
<td>273</td>
<td>233</td>
<td>203</td>
</tr>
<tr>
<td>Creating a holistic risk management strategy</td>
<td>206</td>
<td>228</td>
<td>189</td>
</tr>
<tr>
<td>Scaling operations</td>
<td>230</td>
<td>230</td>
<td>143</td>
</tr>
</tbody>
</table>

### TOP 5 RISKS FINANCE LEADERS ARE FACING BY IMPACT

- Monitoring risks within the customer, supplier, or partner base
- Forecasting or predicting risk
- Growing profitability
- Integrating your business data across the organization for more efficiency & effectiveness
- Optimizing cash flow
Industry Risks
Perceptions of External Threats

When asked about various risks to their industries, most finance leaders did not rank the below risks as “high” within their industries. The top two industry risks were a decline in customer viability and supply chain disruption, with over 65% of finance leaders rating these as “moderate” or “high” risks. Bankruptcies followed in third place, with nearly 60% of finance leaders rating these as moderate or high risks.

There may be a relationship between the industry-wide concerns of customer viability and supplier viability with the top risks facing finance leaders internally, such as monitoring and forecasting risk.

These results indicate that understanding risks and opportunities is a primary barrier to effective risk management within most companies, whereas scaling and adapting to the risks themselves are of lesser concern. Ineffective or inadequate use of data, analytics, or emerging technologies is a possible indication for the high level of risk associated with generating insights on risks and opportunities.
Shifting Risks
How Have Industry Risks Changed Over the Past Year?

While most finance leaders rated many industry threats as staying the same or decreasing in threat level, less than 10% thought that key industry risks had decreased. The top four industry risk shifts over the past year included: geopolitical risks, technological disruption, NAFTA renegotiations, and the pace of innovation. Finance leaders believed that although they were not primary industry concerns, that these risks had increased over the past year.

These findings could indicate that while finance leaders largely felt that these risks stayed the same, that they’re aware that external forces are not decreasing in risk, and in some cases, that the threats are increasing. Ultimately, these four risks may ultimately hamper customer and supplier viability, which were rated in the top two industry risks by finance leaders.

Over 90% of finance leaders believe that geopolitical risks, technological disruption risks, risks stemming from NAFTA renegotiations and risks stemming from the pace of innovation have either stayed the same or increased over the past year.
CHAPTER 2

Uncertain Times
Tomorrow’s Risk Management is Hampered by Today’s Data Practices

“In the Finance 2020 organization, humans and machines will join forces to rapidly multiply finance’s clout with the business.”

– Accenture, From Reporting the Past to Architecting the Future
Most Enterprises Use Data in Silos to Drive Enterprise Risk Strategies

Effective risk management starts with an effective data management strategy for many organizations. Data woes are common among finance leaders, most of whom claim that data and insights are still collected in silos and not shared fully. When asked, “How does your company use data and insight to manage risk?”, over half of finance leaders report difficulty sharing, linking and using data to drive their risk strategies. Only 20% of finance leaders reported that their data is fully integrated and leveraged across the company. Over 60% of finance leaders report that their data currently exists in silos.

It’s clear that modern data management practices haven’t yet reached full adoption, and that investments in resources and strategic direction are necessary to ensure organizational risk is managed effectively with data and insight as strategic guides.

HOW ARE FINANCE LEADERS USING DATA AND INSIGHTS WITHIN THEIR COMPANIES TO MANAGE RISK?

“For businesses, the opportunities are clear. Leaders should embrace the transformation and performance opportunities already available to them (and their competitors) from data, analytics, and digitization, as well as the rapidly evolving opportunities in AI, robotics, and automation. To harness these benefits, business leaders will not only have to invest in technology, but also in transforming their organizations.”

– McKinsey Future of Finance Report

Over 60% of data used in risk management is siloed.

Only 20% of finance leaders report the ability to share data in an integrated fashion to manage enterprise risk.
Modern Tool Adoption in Finance
Managing the Modern Risk Landscape

Although finance leaders are grappling with the implications of the emerging risk landscape, most of them are currently using data in some fashion to navigate risk. Surprisingly, and perhaps worryingly, of those that are using one of the below tools to manage risk, over half of finance leaders aren’t capitalizing at all on the use of 3rd party analytics, master data, automated risk decisions, machine learning, AI, or blockchain today. Self-created analytics and created reports ranked as the tools that were being used with the most sophistication to manage risk by the most respondents. There could be several reasons for the gap in sophistication in tools usage. Risk management may be outsourced or managed by other areas of the business beyond finance, companies may lack capabilities or staff to effectively use these tools, or respondents might not be fully aware of all the ways that these tools are leveraged within the company.

WHICH TOOLS ARE COMPANIES USING TO MANAGE RISK TODAY?

- **58%** Self-created analytics
- **51%** Credit reports
- **32%** 3rd party data
- **32%** Creation of customer master file
- **31%** Economic data
- **23%** 3rd party analytics
- **19%** Creation of supplier master file
- **18%** Automated risk decisions
- **7%** Machine learning
- **7%** Artificial intelligence
- **2%** Blockchain

Machine learning, automation, artificial intelligence, and blockchain are being used today to manage risk by less than 20% of finance teams.

Nearly 60% of finance leaders are using analytics for informing risk management decisions.
“Finance leaders will need to capitalize on their unique position in the company to pursue a data and analytics agenda closely tailored to their companies’ needs—or risk the finance function’s relevance as a strategic and business partner.”

— HBR, Advanced Analytics and the CFO
Trends in Adoption
The Use of Modern Risk Management Tools

Of the finance leaders who said that they are using one or more of the below tools to manage risk, self-created analytics, credit reports, economic data, third-party data and customer master files ranked as the top tools used today. Most organizations do not describe themselves as “sophisticated” in the use of these tools. Tools such as blockchain, artificial intelligence, machine learning and automation are not being leveraged by most of the respondents today. While some of these tools are being heavily leveraged within specific industries and business sizes, it’s clear there is much opportunity for organizations to take advantage of these modern tools to manage risk.

Of companies that used one or more of these tools to manage risk, self-created analytics and credit reports ranked as the most common tools finance leaders use to manage risk. Less than 20% of finance leaders indicated that their company is “advanced” in the sophistication of their teams’ use of modern risk management tools.
The Path Forward
3 Ways to Smooth the Finance Transition to Modern Risk Management
Calculated Risks
A World of Change Demands a (R)evolution in Risk Management

“We live in a world filled with lots of information that’s changing. And there’s somebody who just wants the answer, but the world is changing while we’re trying to produce the answer.”

– Anthony Scirfignano, Chief Data Scientist
Dun & Bradstreet

How can finance, credit, and risk leaders make their best decisions in 2018 and beyond, given the economic turbulence that exists in the world today? Given the disruption that is occurring within the broader business world and the economy, the way that decisions are made must also be ever-evolving. Modern corporations are looking to finance teams to make sense of this data and drive growth and innovation through intrapreneurship. Being a modern finance leader isn’t for the faint of heart.

The opportunities that economic change and technological advancement are bringing to the field of finance—from automation to machine learning, to AI to digital finance—are ever-evolving and unfolding before our eyes. “We live in a world filled with lots of information that’s changing. And there’s somebody who just wants the answer, but the world is changing while we’re trying to produce the answer,” remarks Dun & Bradstreet’s Chief Data Scientist, Anthony Scirfignano. Finance leaders have an opportunity to be present and lead in the space of the ever-evolving search for these answers.

The advancements occurring in technology and data dissemination now give us the power to have a cutting-edge understanding of our customers, suppliers, and partners. Legacy scores, ratings, and analytics are evolving to include new sources of data that can paint a clearer picture of how businesses are actually operating. Many companies now have the ability to build detailed, predictive models that show them which customers are the most likely to make a purchase and when—and which business relationships pose the greatest risk. Smart segmenting, using this information, has the potential to help cross-functional teams predict cross-selling and upselling opportunities within their current customer portfolio. By embracing the state of constant change, finance leaders can bring their organizations toward a greater source of truth by leveraging data-driven insights to find paths toward sustainable growth.

By taking steps to rethink and reimagine approaches to risk management, consider automation, and empower teams from within, finance leaders can begin to lay the foundation for data-inspired risk management.
Reimagine Your Approach to Risk Management

It doesn’t pay to invest in technology, tools, or talent without first imagining what the future should look like. The finance team has the ability to lead the charge on both the front and the back ends of the business, guiding their organizations toward profitable growth. Because many of the functions and processes within finance are highly complex and require nuanced approaches to manage, it can be tempting to address modernizing them in piecemeal ways rather than holistically. A short-term focus on individual processes or quick fixes to broken systems won’t necessarily prepare the organization for future growth or effective risk management.

In order to succeed, finance leaders must lead the charge to fully gauge the current state of the business, opportunity areas for improvement, and what investing in a truly modern finance team might look like. This means sitting down with business partners, aligning with internal stakeholders, and conducting outside research to identify pivotal areas to address.

The days of relying on an industry playbook for defining risk are over. Globalization and digitization have created an enormous amount of variability in finance. While there are certainly industry-wide patterns that risk managers can look to, the most valuable data that the customer-centric organization has for defining risk is within their own customer, supplier, and partner portfolios. By combining global and industry data with customer portfolio data, for example, finance leaders can begin to tailor a sustainable risk strategy that’s designed to meet to their business goals.

“Despite the potential benefits, disruptive technologies also pose significant challenges. From process integration and system compatibility issues to data protection and privacy concerns, risks must be proactively managed and continuously monitored.”

– KPMG, Finance Disrupted
Relying too heavily on manual processes can easily lead to a stagnation in growth—especially in today’s rapidly shifting environment. If those processes are not driven and informed by insights from data, the implications are manifold. Automation, fueled by insight, can not only reduce operational costs, it can help open new avenues of growth for finance teams by scaling and pulling in data from multiple sources at once.

As entire industries and businesses—large and small—go digital, there is more data available today than ever before. Plus, the addition of the Internet of Things has redefined where and how data insights can now be collected. This has created new segments of business insights that span from the supply chain to the retail floor and in some cases to devices in the customer’s home. Without automating some of the processes to gather and understand this data for decision-making, the ability to harness insights and act on them becomes nearly impossible. Humans alone can’t act quickly enough to make the most of the data available.

Automating often isn’t cheap or easy, despite the increase in results that many finance teams have seen. Investing in tools and resources to automate key processes to free up resources for other tasks is among the most important decisions a finance leader can make. KPMG remarks that approximately 60 percent of all occupations have at least 30 percent of activities that are technically automatable and that “intelligent automation is a prerequisite for AI.” Automation is often also a prerequisite to strategic transformation. And, although there has been much uncertainty surrounding the notion of automation and AI in the creation of jobs, Gartner estimates that by 2020, AI will become a positive net job motivator, creating 2.3 million jobs while eliminating only 1.8 million jobs. Embracing the opportunities that automation creates can give the finance team more bandwidth and resources to focus on the art of finance instead of the science alone.

“Popular culture is fueling a dystopian view of what machine learning can do. But while research and technology continue to improve, machine learning is rapidly becoming a valuable supplement for the analyst. In fact, machine learning is the ultimate assistant to the analyst.”

– KPMG, *Finance of the Future*
Empower Your Team from Within

“A recent report by the consulting firm McKinsey estimated that about 50% of staff today are dedicated to risk-related operational processes such as credit administration while 15% focus on analytics. The firm suggests that by 2025 – thanks to the rise in technological advances – the numbers will shift closer to 25% on operational processes and 40% on analytics.”

– Bloomberg Business, Artificial Intelligence is a game changer for risk management in finance

The influx of data has put finance leaders at the center of their organizations in a new role as corporate intrapreneurs. Finance leaders now play a part in pioneering technological innovations that have an impact company-wide—from marketing to IT, revenue generation and more. The visibility that finance and risk data can bring to the organization uniquely positions them to lead cross-departmental collaboration and strategic decision-making. Finance leaders who take advantage of this opportunity can implement a cross-functional data strategy to help their organizations better navigate changes in the market. The challenge for finance teams is to make data insights readily available across teams.

The simplest way to find the straightest path from your vision A and your outcome—goal B, is to look at your entire organization from an outside-in perspective, emerging from the needs of the market. Thanks to the evolution of digital, finance leaders have a new ability to drive revenue within their organizations. Real-time data, third-party information providers, and the fintech innovation world give finance departments new areas of leadership.

But modernization doesn’t mean adopting expensive systems, working extra hours to do a job on top of your job, or taking team members away from their core jobs. It means making small adjustments to the way you make decisions, in-the-moment. This is not a change that will happen overnight, as team leaders may need to reimagine and re-architect their organizations’ information flows. Focus on the lowest-hanging areas of opportunity for your business, but have a long-term plan in place.

In developing data-driven cultures, finance leaders need to be hyper-aware of what’s happening in the world—and bring that awareness to what is happening within their companies to enable true transformation.
Conclusion

The Time is Now to Find Opportunity in a Universe of Risk

Perhaps the greatest risk that finance leaders face—and indeed all business leaders—is that their time, their energy, and their creativity are invested so heavily in their todays and not their tomorrows. Indeed, managing through today has become such an arduous task that it is often all we can do to keep pace. Today, finance leaders are being asked to think about alternative approaches to everything from how their operations are run to which investments to make. Many are conducting due diligence to understand how their organizations might adopt modern technologies and tools.

Because many of the functions and processes within finance are highly complex and require nuanced approaches to manage, it can be tempting to address modernizing them in piecemeal ways rather than holistically. A short-term focus on individual processes or quick fixes to broken systems won’t necessarily prepare the organization for future growth or effective risk management.

The time to make time for the future is now. The finance team has the ability to lead the charge on both the front and the back ends of the business, guiding their organizations toward profitable growth. Tomorrow is when the decisions that are made today will help steer the organization toward greater heights or put the organization at increased risk. It doesn’t pay to invest in technology, tools, or talent without first imagining what the future should look like.

There’s never been a better day than today to change how the future looks tomorrow.
Contact us to learn more about data-inspired risk management.

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