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# Survey: It's a Riskier World

**Finance chiefs worldwide say that risks are increasing, and they are using a variety of strategies to manage them.**

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Interest-rate risk tops finance executives' list of concerns in a new global survey of risk-management practices, followed by foreign-exchange risk and credit risk. Threats from all of these areas, as well as geopolitical, commodity, and energy risks, have increased in recent years, say finance chiefs.

The vast majority (over 75%) of the more than 1,100 finance executives surveyed worldwide say they are actively managing these risks and other material risks, using a variety of operational and financial techniques to reduce their companies' exposure. Among those who opt not to address a perceived risk, the top reason is lack of sufficient exposure to the threat.

The survey was conducted in the spring by four finance professors: Gordon Bodnar of Johns Hopkins's School of Advanced International Studies, John Graham and Campbell Harvey of Duke University's Fuqua School of Business, and Richard Marston of the Wharton School at the University of Pennsylvania. The survey has not been published yet, but initial results were disclosed last week in a *CFO* Webcast.

Not surprisingly, the top goal of corporate risk-management programs is to avoid a large loss, say CFOs, followed by the desire to fulfill shareholder expectations. The third and fourth most important goals are to increase expected future cash flows and increase the firm's value, respectively, indicating that finance executives think of risk management not only as a cost center but also as a positive contributor to the business.

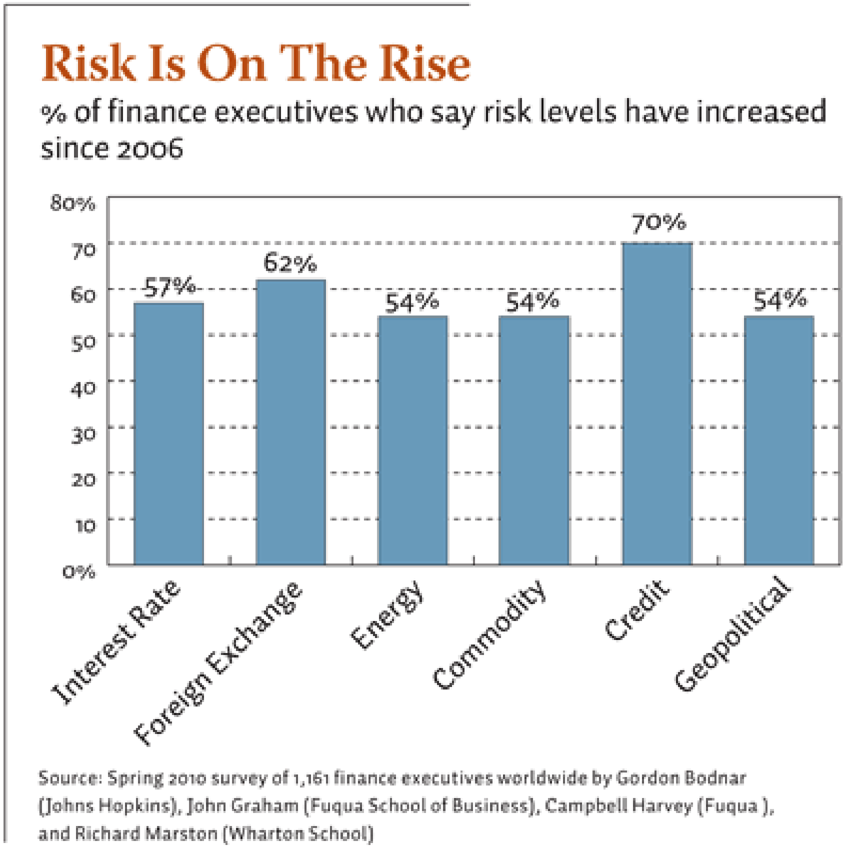
Most respondents report having a formal, written risk-management policy, and nearly three-quarters follow a regular schedule for reviewing and reporting on risk-management strategy.

While almost two-thirds of companies use financial derivatives to hedge risk, most stick to basic types, relying on forward contracts or interest-rate swaps. Market risk is finance chiefs' top concern related to derivatives usage, while accounting treatment, disclosure requirements, and the reaction of analysts or investors are the least important worries. The ranking of the latter three is a marked change from the 1990s, when such concerns were much more significant, says Bodnar of Johns Hopkins.

Still, while some worries about derivatives usage may have waned, an operational approach to risk management is generally more common than a hedging strategy that relies on financial instruments. For example, in addressing credit risk, which 56% of respondents call a top priority, the most popular approaches are all operational in nature. Sixty-five percent of respondents who say they face material credit risk require a minimum credit rating for counterparties, 61% place strict caps on exposure to any single party, 56% require collateral, and nearly 30% rely on loan guarantees.

In contrast, fewer than 20% of respondents use credit-default swaps, credit insurance, or total-return swaps to hedge their credit risk. Even among finance executives at financial companies, few report employing credit-default swaps or total-return swaps.

While there are some significant differences in risk-management approaches across different industry sectors — financial firms are more likely to use financial derivatives, for example — differences between the geographic regions are relatively minor, says Bodnar. "In surveys we did like this in the 1990s, one saw notable differences between the United States, Europe, and Asia," he says. "Now, it appears that risk-management practices are converging."


Risk Is On The Rise
% of finance executives who say risk levels have increased since 2006
80%
70
60
50
40
30
20
10
0%
57%
62%
54%
54%
70%
54%
Interest Rate
Foreign Exchange
Energy
Commodity
Credit
Geopolitical
Source: Spring 2010 survey of 1,161 finance executives worldwide by Gordon Bodnar (Johns Hopkins), John Graham (Fuqua School of Business), Campbell Harvey (Fuqua ), and Richard Marston (Wharton School)