FP&A and Risk Management: Different Roles for a Common Goal
Presentation objectives

1. Recent trends leading to the need for greater coordination between FP&A and RM functions

2. Common challenges of FP&A and RM processes

3. Opportunities for more 2-way communication and integration of key processes between the two groups

4. Model demonstration

5. Closing remarks and Q&A
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Principal, Oliver Wyman

- Over 10 years of management consulting experience, having worked on 80+ companies in 10+ countries
- Specializes in advising top executives and finance professionals on the risks and uncertainty associated with decision making
- Broad industry coverage, including finance and risk experience for asset intensive industries (manufacturing, transportation, energy and infrastructure)
The finance function is undergoing an industrialization that transforms the CFO organization into a lean, strategic thinking, profit center.

**Lower cost “factory” execution model**
- Organization wide pressure to reduce cost base
- Experts still required, but not for all finance activities
- Automation results in efficiency and lower costs

**Responsibility for P&L performance**
- Often requires proven track record for succession to CEO
- Margin improvement and financial discipline is key

**Influence in shaping business strategy**
- Balance sheet decides what company “can vs. can’t do”
- FP&A capabilities are central to faster decision making
- Sensitivity to investors relations, credit ratings, and dividend policy
There is a need for greater coordination between FP&A and RM functions.

Balancing growth & stability

“Big data”

Business transformation

Quicker & smarter decision-making
Common challenges facing FP&A and risk management

**Lack of resources**
- Time pressure from management
- Reactionary
- Understanding/balancing ability
- Willingness to take risks

**Too much information**
- Too much information

**Engagement with the business**
- Better forecasting
- Delegation of responsibilities
- Challenging questions from BoD & investors

**Manual processes**
- Efficiency
- Juggling priorities
- Static risk & financial models
- Cost center mentality

**Quantification of risks**
- Top 10 risks account for 80% of financial impact

**Engagement with the business**
- Top 10 risks account for 80% of financial impact

**Willingness to take risks**

**Association for Financial Professionals**
Opportunities exist for more “two way” communication and improved integration of internal processes between FP&A and RM

Opportunities

1. Improve the quality of finance and risk inputs from across business units
2. Communicate risk-adjusted financial plans to the Board and key stakeholders
3. Develop and apply more advanced and dynamic analytical capabilities
4. Contribute and influence C-suite level decision-making

FP&A
- Financial forecasts
- Variance analysis
- Performance measurement

RM
- Identification and quantification of risks
- Risk controls
- Risk mitigation strategies
1. Improve the quality of finance and risk inputs from across business units

Current situation: FP&A and RM are on separate processes which are sometimes burdensome to the organization and the information being requested are overlapping in many ways.

Ideas for implementation: Joint efforts in the collection process of key finance and risk inputs.

Potential benefits:
• Greater efficiency achieved in data collection and storage.
• Improved quality and consistency of data used for analytical purposes within the two functions.
2. Communicate risk-adjusted financial plans to the Board and key stakeholders

Current situation: FP&A conducts forecasts with less attention paid to drivers of potential variation while RM practitioners often assess key risks without linking them to the most relevant financial metrics.

Ideas for implementation: FP&A and RM collaborate to undertake integrative analyses and jointly present results to the Board and stakeholders.

Potential benefits:
- Allow for more dynamic responses to changes in the business environment.
- Tell a more clear story to the Board by incorporating key risk information in financial forecasts.

Risk assessment heat map and FP&A scenarios are illustrated to visually represent the impact and likelihood of various risk scenarios.
3. Develop and apply more advanced and dynamic analytical capabilities

Current situation: Data and analysis processes are tedious while an overabundance of data conceals key messages for the business

Ideas for implementation: Consult with experts to develop more advanced and dynamic analytical tools that can be shared between the two functions

Potential benefits:
• Improved efficiency of data analyses
• Ability to do more with human capital, particularly on the interpretation of analytical results
4. Contribute to and influence C-suite level decision-making

Current situation: Current FP&A and RM functions have little impact on C-suite level decision-making

Ideas for implementation: Ensure that key financial figures and drivers being analyzed and forecasted are relevant to C-suite level decisions and actionable insights can be drawn from the analysis

Potential benefits:
- FP&A inputs become indispensable in the decision-making process
- Elevate the presence and significance of FP&A and RM groups in the organization
# Simple model demonstration

<table>
<thead>
<tr>
<th>FP&amp;A</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity prices</td>
<td>Relatively constant</td>
</tr>
<tr>
<td>GDP</td>
<td>Moderate growth</td>
</tr>
<tr>
<td>Non-core business expansion</td>
<td>No</td>
</tr>
</tbody>
</table>

## Risk management

<table>
<thead>
<tr>
<th>Implement financial hedges</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter into fixed-price contracts</td>
<td>No</td>
</tr>
<tr>
<td>Purchase additional insurance</td>
<td>No</td>
</tr>
</tbody>
</table>

**BREACH!**

![Graph showing financial data trends](image)

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Bottom-line results from more coordination

- **Improve quality and consistency of key inputs from across business units**
- **Alignment of risk-return profiles required to achieve target performance**
- **Quicker responses to external changes through more dynamic analytical capabilities**
- **Elevated presence of FP&A and RM functions within the organization**