

THE BOEHLY CENTER

FOR EXCELLENCE IN FINANCE

CAREERS IN FINANCE PODCAST

EPISODE 17: FINANCIAL RISK MANAGEMENT

Jeffrey Rich

Welcome to Careers in Finance, presented by the Boehly Center for Excellence and Finance at William & Mary's Raymond A. Mason School of Business. This podcast will explore various areas of the financial services industry, career paths in finance, and other practical insights that will help students better understand and prepare for professional success in the field of finance. Be sure to subscribe to the podcast and catch future episodes as we explore the field of finance. And now your host, Morgan Hutter.

Morgan Hutter

Welcome to the Boehly Center for Excellence and Finance Career in Finance podcast. We are excited today as our industry in focus podcasts will be on financial risk management. We're happy to welcome our guest, Tony Nobili, who graduated from the Tribe in 1992 with a BBA in finance, where he also was an RA on campus. That must have been a pretty fun experience. He received his MBA from the University of Louisville two years later and is currently and has been in client credit strategies at Bank of America, where he spent the last 20 years down in Charlotte, North Carolina. So, Tony, welcome.

Tony Nobili

Morgan, good morning. Thank you for the welcome. Go, Tribe. And I'm very excited to be here with you this morning.

Morgan Hutter

We're thrilled you're here. Thank you for taking the time, Tony, to get us started. Why don't you walk us through your career and what led you into risk management?

Tony Nobili

Okay. Absolutely. So I did graduate in 92, which was during actually recession. So I came out during an economic recession. There weren't a lot of jobs to be really available to folks. But what I did is I ended up going into credit. So I started my career with Sears Credit and actually started in operations in Louisville, Kentucky, and parallel to that, started a part-time MBA program at University of Louisville. And I learned a lot during that time. I especially learned what I enjoy doing, and that was to use data to make good decisions. And that's basically become my career for really since then the last 30 years. I did spend some time in Chicago. So I've done a lot of different roles over time. So with Sears, I was there about five years. I was moved to Chicago, eventually came to Charlotte with the company called First Union. So I got into banking at that point.

Morgan Hutter

Right.

Tony Nobili

Was there five years and really been a Bank of America for the last 20 years. I've lived a lot of places. I've lived in Seattle. I've lived in San Francisco, I've lived in Delaware. I call Charlotte home. I really like Charlotte and really like Bank of America.

Morgan Hutter

That's great. Charlotte's such a special place. I lived down there for a couple of years. It's a special city, and it's fun to see how much it's grown from just being a commuter city to now. It's really a full-blown city.

Tony Nobili

Much smaller when I got here back in 96 no doubt.

Morgan Hutter

Sure, I believe that. I believe that. I love how you said using data to make good decisions, especially with how the world is going now with AI and using data. And we have our Data Science and Business Analytics programs now at William & Mary. So it's exciting to hear that you're using that you know on a regular basis. And that is such a valid thing for our students to continue to be exploring. So we're talking about risk management. We hear risk management. We're hearing financial risk management. You know, what does that mean? And what is risk management and the types of risk exposures and things of that nature?

Tony Nobili

So when you think about risk management, particularly financial risk management, it's really simple anywhere that you have financial uncertainty. That's what it is anywhere that risk exists. So now think about any decision that you'd make in business on any given day. You would have that type of risk. Now what they do in the framework is they categorize them to help us understand different approaches to the types of risk. Normally, the type of risk that I manage. So I manage a credit portfolio, about 300 billion in credit outstanding, and that is credit risk. So the risk that you have there is you've made a loan to a customer. The question is, will that customer pay you back or not? And sometimes they do not pay you back. The accounts receivable. So it becomes a defaulted loan, which ultimately becomes a loss. So think of credit risk as or a credit risk type from financial management is where you take a loss because someone doesn't pay it back. That's where I spend a lot of my time. Another type would be operational risk, where you would have a process that you're operating, and it doesn't work as designed, and you take some type of financial loss or operating loss related to that process failure. Reputational is another type of risk that we typically put in this category. It's where you may go public with a statement and have unintended consequences where you may have negative press. You may see your stock price go down. So it's another slightly nuanced but a different flavor. Reputational risk is basically everywhere in today's world. Another type, I'd say, would be market risk, where you have a financial instrument in market, and you could see volatility. Could be related to interest rates, and you could see the value of your assets changing. That's typically where we tried to hedge that type of risk, and I'll probably mention

exchange risk. I don't deal with it as much now. I used to when I had international businesses, but you have to be able to account for the differences in currency exchanges because if you create some volatility in earnings, but those are all just examples. When we say financial risk, any decision, you could have that kind of uncertainty. And then we put them into categories. And we have very particular ways that we manage each one of those type of risks over time?

Morgan Hutter

Are you managing these risks for clients and companies? Or are you managing the risk on the Bank of America side or a little bit of both?

Tony Nobili

Both. So in my current role, I manage consumers. So think about a mortgage, home equity, credit card, any type of consumer loan that's in scope also cover small businesses. That's how we pick up the companies typically, they're smaller companies, but we work hard every day to serve the needs of those clients. Try to make their financial lives better.

Morgan Hutter

Right. Well, thank you so much for sharing that. I hope that's helpful for the listeners to know the different avenues. Even for our students that are listening, they could explore going into. So what types of organizations obviously you're with Bank of America. You've been with this for a little bit of your career. What types of organizations have teams that manage risk?

Tony Nobili

Sure. Remember the definition. It's uncertainty, financial risk uncertainty. These roles are everywhere. Absolutely everywhere. I was trained in finance. My undergrad is a finance degree. But what I learned is you learn the tools of how to manage financial management, the cash flows, how to do the discounts. But when you bring them into real-life decision-making, that's when you're managing financial risk management. You'll see it clearly in banking and many different aspects of banking. I happen to focus more on the credit side. But you'll see it on the trading desks. You'll see it in insurance industries, anywhere that you're trying to manage actuarial science. So many different industries have this need to be able to manage the uncertainty and a decision. So they're everywhere. In my role, I've done chief operating officer roles, Chief risk officer roles, I've done chief financial officer roles over the years, and every single one of those roles in some way, shape, or form. I was managing financial risk proactively to try to manage think of it as a trade-off. You have a risk-reward trade-off you're trying to manage. And when you're making these decisions, the most important thing to think of in the beginning is not just what the opportunity is. It's what are the downside risks? And you want to consider all those risks upfront, and then you can look at what are the risks, what's the rewards? And in understanding that risk-reward trade-off. That's at the heart of financial risk management.

Morgan Hutter

That's great. And I like that you mentioned some of the titles you've had that obviously have been a little bit more senior. But if there are students that are listening or even alumni that are listening that are interested in maybe getting into risk, what are some of those job titles? And how do students look or alumni that are listening to get into the industry?

Tony Nobili

Sure. Absolutely. So typically, you'll find analysts. You'll see the word analyst in these roles, so you may see them posted or available at different companies as a financial analyst. You may see it called a risk analyst. You could also have manager associated with it like a risk manager, a financial type manager. And all of those roles are viable. Sometimes if you get in the insurance industry, it may be more actuarial. Typically in these roles, especially introductory roles. The type of skill sets that we'd be looking for are going to be do you understand the core foundations of financial management, just the uncertainty of cash flows? We also look for somewhat technical skill sets as well. Python is very popular nowadays as well as like R just different software packages. SaaS occasionally. We want to see a skill set of folks that can get into the data, understand the data, and have really good insights around what the volatility of the potential outcomes could be of that data. But typically, you'd see those roles out there as analysts, and you'll see them in many different industries, across many different types of decisions that are being made. It is the emerging area in I think if you are really good at this aspect of it and it shows up more, you're going to have a great career. It shows up more and more during crisis time periods. If you go back to 2007, eight, nine, the Great Recession, the price is different than what we're seeing today. That risk is manifesting itself as a pandemic, and we're having to learn how to manage. No one expected what has happened. I remember the day we were talking here in Charlotte right before it all really unfolded. And if you remember my conversation, I think my guidance was get back to Williamsburg as quick as you can.

Morgan Hutter

That's right.

Tony Nobili

So those type of risks that you have, some risks are known, and you can manage some risks are unknown. Pandemics a good example of we never thought it could happen the way it has. And we were well on our way to recovery, but that was a bit of an unexpected type of financial risk that we had to manage.

Morgan Hutter

Right, yeah. It could be a really good timing for the students that are graduating and getting into this to utilize some of the tools that we're offering. We just launched a Python Data Science and Sequel training program. You mentioned some of those tools that could be helpful, so we hope our students will take advantage of that. I loved how earlier you had said that the tools you had learned in school ultimately did help it prepared you. But it was that experiential process of learning that really fed into what you're doing now. And that's always something we're trying to offer our students. Right, you know, let them get the actual experience or internships or through the Python trainings or whatever it might be. So it's fun to hear that you say maybe we're doing the right thing. So thank you for confirming.

Tony Nobili

I think so. I think learning by doing the most effective way to learn the practical skillset. You can learn that you can learn the technical piece, but it's applied. And I tell you that probably the biggest thing I'm grateful for of being a graduate of William & Mary was the fact that it was a

Liberal arts organization that taught you how to learn. At the same time, they taught you the business school. And I was very fortunate to have those two come together. That's the skill set that's going to matter. You've got to have really a curious skill set. You've got to be willing to try to figure things out, to dig into certain problems and solve problems. That's the skill set we're really looking for in the industry.

Morgan Hutter

Teach you how to think.

Tony Nobili

Absolutely.

Morgan Hutter

Yeah. So you mentioned Python and SaaS, and R. I know those are probably tools to manage financial risk, but how do you assess it, and how do you monitor it? How do you actually go about managing the financial risk?

Tony Nobili

Step one is to realize it exists. It's kind of a basic thought that you identify. You want to any decision you're making, any new product you're launching, anything that you're doing, you want to identify all the risks and consider them upfront. You want to think about the materiality of these risks. How big could they be? You want to think about the likelihood as well. What's the probability that this risk happen? So step one is identification. Then from there, once you know the risk, you need to understand it. And typically, we would do risk assessment. We would go very deep into that risk, understand all aspects of it, understand can we mitigate those risks, so identify risk assessment? You would then try to set up metrics to monitor because once you understand it and you've gone deep, you need to understand the key metrics. What are the drivers? Is that risk changing over time? Is it increasing? Is it decreasing? Are we effectively managing it? And finally, it comes down to testing it. Now testing it can be done a couple of different ways. If it's operational risk, you literally you test the process. You see, your process is operating. Did you get what you thought you were going to get? And we monitor in the industry at a very granular level, and you need a very analytical skill set to be able to do that. The other thing we use a lot are models. You mentioned AI earlier models are very important in the assessment of financial risk management because once you understand the dynamics of a risk and the core metrics, and the trends. Models can help you understand what the potential trajectory of that risk could be in certain scenarios. So when we talk about stress testing, we will do different scenarios. If it's a credit risk stress test, we'll do like macroeconomic scenarios. Like, what if the economy is good? What if the economy gets worse? What could the impact be to our credit risk? But that model aspect is very important. I use, probably in my current role today, almost 200 different types of models that I'm the owner for that I use to proactively manage and try to identify the risks change, and do I need to make adjustments to our core strategies for clients?

Morgan Hutter

That's very helpful, thank you. So I'm sure the answer is it varies, but two kind of follow-up questions. What's the frequency of how often you're doing this process? And then how long might that process take to consider one portfolio or one issue?

Tony Nobili

Sure. So it's daily. So the cadence is quite rapid. Some process you have to manage daily if you're on a trading desk, which I'm not doing currently. But our traders monitor minute by minute. It's that rapid. The risk could change. Typically, my items I monitor on a monthly basis, a weekly basis, a daily basis depending on the type of metric. General rule of thumb, I monitor the portfolios monthly. You want to have a full month of data to understand the credit portfolios, the losses, delinquency. We do monitor weekly progress on processes, things like approval rates, things like just outcomes we're seeing. But on a daily basis, like almost hourly, we do manage operational risk. If I have a process, especially an online type process where a client experience is negative, we want to know that immediately because we want to be there for our clients. Imagine if you sign into any bank, any institution, and the websites down. Remember, we mentioned reputational risk.

Morgan Hutter

Hmm-mmm.

Tony Nobili

It doesn't take long for that to hit the front page that this company is not serving the clients needs. So that gives you an example of just of our cadence of how closely we manage. I think about this every day. Every time I make a decision, I'm using financial risk management. It's core to our culture. It's core to how we operate. The better data we have, the better we manage financial risk management, the better decisions we're going to make. Both for our client and for the company it's very important.

Morgan Hutter

Sounds like it's ever-changing. Very exciting, and don't blink.

Tony Nobili

Exactly right.

Morgan Hutter

So talk to us a little bit about what you see as some of the emerging risks that you see on the horizon.

Tony Nobili

So if you asked me about 18 months ago, I would have said a pandemic. It's here. It's emerged. We won't talk about that one. Hopefully, we're coming on the other side. I think there's two I want to call out in particular. And this is big, not just for our industry I'm in, it's for the broad. Its global type topics first is artificial intelligence, and artificial intelligence represents one of the greatest opportunities in our history. If you think about through time, you have different evolutions the irony you have the industrial revolution. You have kind of the computer

revolution. AI is the next generation of that data is finally in a situation where it's better structured. It's better quality. We can store it much easier. And that means that we can now use that data to model and help support decisions. There's a really good book I would recommend. It's a book called Prediction Machines, and it explores it's a little more of a business view into AI, and it talks about how you solve problems using artificial intelligence. One of the examples the book gives is if you imagine when you used to take a picture years ago, and what would you do? You'd go develop it in a dark room. That was a chemistry problem you were solving at that moment. Now digital cameras is basically it's a math problem. And that math problem is now enabling things like autonomous cars, so I think we're just barely scratching the surface of what artificial intelligence can do for us. Now, you may say, where's the risk? It sounds like a lot of opportunity. The risk is that how do you explain it? Do you understand it? So one of the features of artificial intelligence or machine learning is non-linearity. So anytime you have something that's non-linear, it's a little bit harder to explain. That's something we're figuring out across all the industries, but there is risk. So with the opportunity comes the potential risks. If we don't do it correctly, take the time and understand how to do it responsibly. So that's a big area focus, not just for us, but for the industry. I think another one I call out would be climate change. It's out there. We talked a lot about it. We're starting now from a regulatory standpoint. We have to do more 30-year type outcomes of what does the world look like 30 years from now when you consider climate change? It's kind of a new emerging topic for us. It's interesting if you think there's a moon wobble. NASA came out with that a couple of weeks ago. And basically, it's the orbit. So if you take a moon wobble and you couple it with glaciers that are melting, more gravitational pull coupled with more water in the oceans, we're going to see more flooding potentially over the next 30 years. That's another emerging risk. And so when you think about financial risk management, you have to consider that risk to see well how would you manage it. What happens if water rises on the coastal shores? What impact would that have to our clients, to our companies? Asset values, if we own assets there. But I'd say those are probably two of the biggest emerging topics that I think as an industry we're focusing on at the current time.

Morgan Hutter

Yeah, that's terrific. Thank you for sharing that. I know climate change and flooding it's huge down Hampton Roads, where we all are here in Williamsburg.

Tony Nobili

Yeah, no doubt.

Morgan Hutter

In fact, my husband and I lost a car once in Norfolk, thanks to some flooding. So it definitely seems to be very present. So how can you mentioned prediction machines, you know, a book? But are there some other areas or topics listeners can learn more about risk management?

Tony Nobili

Absolutely. So if you're really interested in this field, this type of risk. There's really three areas I would recommend. One would be there are certifications in the market. One would be it's called an FRM financial risk manager that's a good source. Garp.org is the organization that has that, and it explores and actually has certification exams that you can take. But it goes deep in the

math because the math is very important to understand the volatility of the uncertainty. But it also provides kind of what I was walking through the framework of the different types of risk. A very similar certification would be the CFA. It's a Chartered financial analyst, and that's the cfainstitute.org, another great source. Again, it explains the frameworks. There's certifications available. Oh, one that I like is a professional risk manager PRM. It tilts more to the risk management aspect of it holistically and provides a similar type certification that's prima.org P-R-I-M-A .org, and those are just three good sources. If someone wants to go deep and I would recommend, if you want to be a good manager, a great leader, be a great risk manager, understand how to manage financial risk, and that's going to serve you very well in any career that you go into. And these are three really good sources, so the FRM, the CFA, and the PRM are good sources of just general information about this topic.

Morgan Hutter

That's great, thank you. CFA, we're very familiar with. Our students compete and the CFA challenge every year and have always done very well. So it's nice to see that could align well with this career path. We're getting close to our time here, Tony. So thank you again for being with us today. And one final question if you have the time, but would you mind, do you have any career advice that you'd like to share with our listeners? Always helpful to know from the pros. So anything.

Tony Nobili

Thank you. Yeah, thanks for this opportunity. So, look, I come to work every day to make decisions and develop talent. Talent development is critical to me. So I spend a lot of time with our teams make sure we have development plans. Typically, the questions I'll ask. It's about considering certain types of questions – one of the questions that I think is critical. I'm going to put them in a couple of different categories. First of all, is when you think about your career, no matter what point you are in your career, there's three questions you have to be able to answer or decisions you'd make, I would say. Number one is you choose your company and choosing your company is very important. The values just who that company is, what do they represent? Does it match who you are? So choose your company. You choose your location, and that may change over time. It wasn't as important from you early my career. Charlotte is very important to me now. So my answers are Bank of America, my company. Charlotte is my home, right that's where I have my family. And then finally, you choose the type of work you do. And that's what we're talking about here, financial risk manager. It's a field. It's a type of work. So if you're really good at making those three decisions, you'll do very well in your career. Choose your company, choose your location, choose the type of work you get. Now, as you get into your career, these are the other questions I would recommend. It would get into things like, where are you going to take the company? You individually, even as an analyst. What do you bring to the table? Second thing is where do you want to go in the company and making a very deliberate decision there. And that could be different types of experience or learning. And finally, very important is how do you define success? I find that's a question that folks typically don't think a lot about. I think it's very important to choose that both personally and in your professional career. Now, a little more career-related. Now, what I would say is this is just three general things I would say as we wrap up. Number one is in any situation, if you know the answer or if you're thinking about your career, you have to speak up. If you don't tell someone what's important to do or what you believe, no one's going to know. I always encourage folks. Speak up. Number two is be curious. We like curiosity. If you want to be a really good financial

risk manager, you got to be curious. You got to think about things and understand them. And the final thing I would say is know your strengths, know what you're good at. There's a really good assessment that's done. It's called strengths finders, and I do that. I'm a futurist. I'm a learner. I'm analytical restorative responsible. And that's important because I stay true to that. And if you do that, you'll love what you do, and you have a great career. But that'd be my advice, so 30 years worth there it is. Hopefully, that's helpful.

Morgan Hutter

It's incredibly helpful. And I think what's wonderful about that advice is no matter who's listening and wherever anybody is in their process of their career exploration or personal exploration, that advice rings true. Thank you for sharing that, and that concludes our podcast for today. Tony, again, I want to thank you so much for being with us and returning to the Tribe to help us with this podcast today. So thank you for joining.

Tony Nobili

Absolutely. Thank you, Morgan and I have enjoyed it, and I really appreciate the opportunity, so thank you.

Morgan Hutter

You're welcome. Well, we look forward to hearing having our listeners hear us as we return for our next Careers in Finance podcast in the future. Thank you for listening today.

Jeffrey Rich

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