

Exponential

Moody's CEO **ROB FAUBER** says that we're living in a new era of risk. By Brunswick's **CRAIG MULLANEY** and **BILL PENDERGAST**.

THE MARCH 2023 COLLAPSE OF SILICON Valley Bank and resulting stress across the banking sector signaled new vulnerabilities in global financial markets, ones that could potentially produce unforeseen challenges locally, nationally and internationally.

For Rob Fauber, President and CEO of global risk assessment firm Moody's Corporation, the failure of Silicon Valley Bank deepened his sense that a fundamental change in the nature of risk has occurred, creating what he calls "exponential risk."

"We oftentimes talk about these 'black swan' events," Fauber said. "But now it feels like we have a variety of black swan events happening all the time. So I'm not sure they're so much black swans anymore. I tend to think of this as a new era."

Understanding risk is Moody's business. As one of the world's leading ratings and analytics firms, it provides unique insights into risk for corporations, sovereigns and global leadership.

"At Moody's, we deal with thousands of enterprise customers," he said. "Virtually every major company, financial institution and government organization on the planet is our customer. And they are telling us that they are dealing with a much more complex operating environment than they have ever dealt with before."

For over 100 years, Moody's has provided credit ratings to market participants. Today, the company continues to provide ratings and research while also expanding its risk offerings across areas like banking, insurance, ESG, customer verification, cyber and more.



The ratings agency has consistently topped Institutional Investor's list of the world's best credit rating agencies. At the same time, Moody's growing analytics business continues to earn accolades, including back-to-back first-place finishes for 2023 and 2024 in the Chartis RiskTech100, an annual ranking of risk and compliance technology providers. The firm recently won the "Best 10-K Form Award" from the US Transparency Awards, a testament to the transparency and high quality of information that Moody's provides to its investors and other stakeholders. And the company is consistently ranked as a best place to work, appearing regularly on DiversityInc.'s Top 50 Companies list.

Recently, Fauber visited the United States Military Academy at West Point to talk about the new era of risk, speaking to and taking questions from an audience of scholars in fatigues—engineers and scientists with combat experience. "For the military, the supply chain is, and always has been, a matter of life and death," he told them. "Everybody in this room is a master of making complex logistics work. But only in recent years have many private companies realized just how important the supply chain has become."

This awareness is in part the result of mounting complexity: the pandemic, US-China relations, Russia-Ukraine. Fauber also mentioned Colonial Pipeline, a major pipeline for refined oil products in the eastern US that few had heard of until a 2021 ransomware attack shut it down and caused major headaches: fuel shortages that forced cities to draw up plans to reduce public transit, airlines to cut flights and heavy manufacturers to slow down production.

The risk created by this complexity is being met by an explosion in data, Fauber said. Moody's AI-powered solutions capture and harness massive datasets to help entities make sense of the data that is most relevant to them. For example, one product creates reports from Moody's vast database of 470 million companies and tens of millions of "risk-relevant" people. Companies and institutions, including the military, request reports to support compliance, to know their customers and suppliers, to understand risks in various situations and for many other uses.

"Over the last 13 years, customer queries to our databases have grown 53,000%," he told the West Point audience. "We get almost a billion hits a day onto our databases to monitor an organization's customers, suppliers, borrowers, you name it. This is an exponential increase in access to data as our customers deal with an exponential increase in the risks they are trying to manage."

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Building on that growth, Moody's recently announced a partnership with Microsoft, where it will leverage Microsoft's Azure OpenAI Service to provide Moody's customers with more powerful ways of looking at risk using generative AI technology. This growth in the demand for data also points to changes in business approaches. "The traditional, siloed way of thinking about risk—financial risk, market risk, supply risk—isn't good enough today," Fauber said.

His own management style centers on collaboration and breaking down silos. After he was promoted to president of the credit ratings agency arm of the company in 2016, Fauber eschewed an office on the executive floor for a seat on the floor with the firm's analysts. When Fauber talks about decision making, he talks about "my team and I." And during his remarks at West Point, he made a point of questioning his audience as well as giving answers: "I want to hear what you think," he told them.

During his West Point visit, Fauber sat down with Brunswick Partners Craig Mullaney, an alumnus of the military academy and combat veteran, and Bill Pendergast to discuss his changing view of risk and the demands of leadership.

We could start with that story about a sticky note on the door . . .

[Laughs.] I was just appointed president of the ratings agency, yet I had never been an analyst. I had been head of the commercial team. That was very unusual. A lot of people didn't even know who I was and here I was, running the company's largest business.

When I was promoted, I was offered an office up on the executive floor, but I said, "No, the last thing I want to do is sequester myself in an ivory tower." So I found an office with our ratings teams—an office just like everybody else's—and I put a sticky note on the door that said, "Hi. I'm the new guy on the floor. Stop in and say hi." And a lot of people did!

How do you extend that style to a firm of 14,000 people—particularly during a pandemic?

I took over as CEO on January 1, 2021. We had the whole firm on Zoom to make that announcement. After I did that—which was one of the biggest moments in my professional life—I went downstairs and made my son a peanut butter and jelly sandwich. It kept things real for me. It was a stark reminder that the way we work together had fundamentally changed: Building a sense of community was going to be different—and harder.



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One way I stay connected with the company is through my internal blog, Rob’s Corner. It’s been a really effective way to engage with employees. Early in the pandemic, I used the blog to record a live stream where 7,000 employees tuned in—more than half the firm at that point. I was down in my basement, like so many of us, and I said, “Hey, look, here’s what I’m doing: I’ve got a chair that I’ve realized is not comfortable enough to sit in all day. I’m wearing normal clothes and constantly trying to figure out which angle looks best on camera.” I just went through my setup, so hopefully people could

feel more connected and comfortable with wherever they were.

Among the pandemic’s many lessons was that you lead everything with concern for your employees—literally everything you say starts with, “The first and most important thing is the health and safety of all of our employees.” You say that for a year and a half and it leads to a different way of looking at the firm’s operations—you make decisions that truly are guided by that principle. And that focus on our people has helped the firm to achieve so much over the past few years.

You’ve had to deal with several other major crises, not just the pandemic.

They always seem to happen in March! In three of the last four Marches we’ve had the pandemic, Russia-Ukraine, and then stress with the regional banks. These are all unprecedented events.

Internally, we use the phrase “Our views matter.” To me, that thought captures the essence of the organization. What we do matters to the world, especially in times of uncertainty.

So, when Russia-Ukraine was unfolding, I had probably the most important dialogue I had with our employees in my two and a half years as CEO. There was such a demand from our employees for us to take a stand publicly, to come out and condemn Russia. About a week into the conflict, I said to the firm, “Look. What we do matters so much that we’ve got to give our people the space to do their jobs. In the case of ratings, that means they need to take in the facts and circumstances, to apply our methodologies, and come up with an independent judgment.”

Moody’s downgraded certain Russian entities to Caa [obligations rated Caa are of poor standing and are subject to very high credit risk]. To me—and to the market—we did our job: We assessed the significantly heightened credit risk as a result of events that were unfolding rapidly. That’s what people look to our ratings for.

At the same time, we had thousands of customers working to comply with a shifting patchwork of global sanctions. And we helped—and continue to help—they do just that.

Later, I told employees, “We should feel very proud about what the firm is doing. We are fulfilling our mission serving global markets, and we’re doing it in an independent and rigorous way.”

After that, the noise internally died down. Everyone understood that the work we were doing across the entire company was incredibly important, and that our objectivity was a strength.

Is it these more frequent black swan events that led you to proclaiming this “a new era of exponential risk”?

I think the nature of risk has fundamentally shifted. You do see it in those black swan events—as unusual events become more regular, risk grows exponentially. But it’s even bigger than that, and it’s something I hear in nearly every conversation I have with leaders. Risks no longer exist in isolation; they intersect, overlap and collide in new, unexpected ways and behave in a way where one risk can trigger other vulnerabilities far removed from the original point of origin. This makes risk assessment incredibly complex.

But the news isn’t all bad—with risk comes opportunity. And this new era of risk calls for a new mindset around it and approach to manage it.

Historically, companies approached risk in silos—supply chain teams focused on supply chain risks, for instance. But that’s not going to cut it anymore. You need a more comprehensive, multifaceted approach—what we call integrated risk assessment. It means looking not only at the risks themselves but also their potential and likelihood to interact with other risks.

This type of examination—of risk assessment—is possible thanks to the sophisticated engineering, data and analytics that our experts and analysts utilize on behalf of our customers. Organizations that recognize exponential risk and embrace new technology and tools to manage it, will ultimately build stronger resiliency and be better positioned to seize new growth opportunities.

Is AI—or more specifically Generative AI—one of those new technologies that can help companies deal with exponential risk?

Absolutely. Moody’s has long incorporated traditional AI into its products and services. But GenAI is a once-in-a-generation opportunity and a critical tool for companies as they confront the era of exponential risk.

Moody’s immediately recognized the potential of this new technology, and we became one of the first information services companies to embrace and demonstrate how GenAI can empower organizations to more effectively measure, manage and mitigate all types of risks.

When we announced our partnership with Microsoft this summer, we developed the slogan: “Powered by Microsoft, Anchored by Moody’s.” This reflects the union of industry-leading technology with best-in-class data and analytics. By combining

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Moody’s vast, proprietary data, insights and research with Microsoft’s remarkable GenAI technology, we are now able to create new offerings that provide deeper, richer insights into risk than ever before ... all in a safe and secure digital environment that preserves the same ethics and safeguards that Moody’s has always championed.

In fact, we’ve begun to deploy the first GenAI-powered risk assessment tool, something we call Moody’s Research Assistant. The Research Assistant is an interactive chat feature that can look across Moody’s vast data estate—firmographic data, credit indicators, economic forecasts, and risk and reputational profiles—and quickly generate custom, detailed analyses on companies, sector or risk exposures, all in an effort to provide customers with multifaceted, integrated perspectives of risk. We’ve begun previewing the Research Assistant with customers and the feedback has surpassed even my very high expectations. We’re very excited about this!

It sounds like an exciting moment in Moody’s evolution. As we close, is there a leadership lesson or anecdote that helps keep you grounded through all of these events and all of this change?

Through taking over during a pandemic, addressing black swan events and leading the company to embrace GenAI, I’ve learned that with great challenges come great opportunities. But one does not automatically follow another; you have to have the courage of your convictions to drive toward the goals you believe in, and impeccable people by your side to make the most of every opportunity.

A few months ago, I had the honor of hosting Dr. Albert Bourla, Pfizer’s Chairman and CEO, for a fire-side chat at Moody’s. During our conversation, we discussed how companies can “make the impossible possible.” In Pfizer’s case, this meant creating, testing and manufacturing a COVID-19 vaccine in just nine months. Dr. Bourla credited this unprecedented accomplishment to two factors: having an amazing team and getting them pulling in the same direction.

I see these same principles embodied by my Moody’s colleagues each and every day. They bring a unique sense of passion and purpose to everything they do. And because of these ingredients, I know Moody’s will remain the preeminent company of choice to help our customers navigate some of the biggest risks in the world. ♦

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