

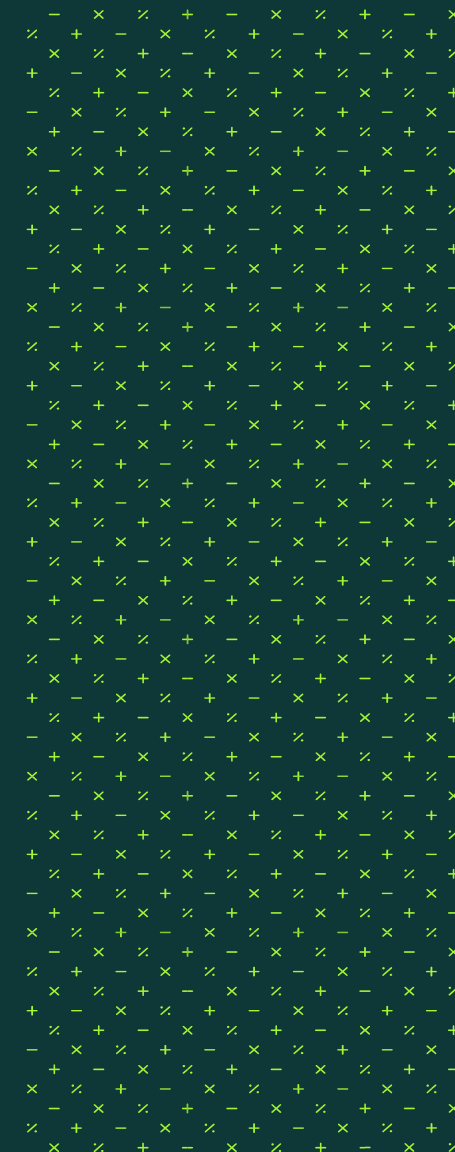


MOSSADAMS

# Enterprise Risk Management

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# Session Objectives

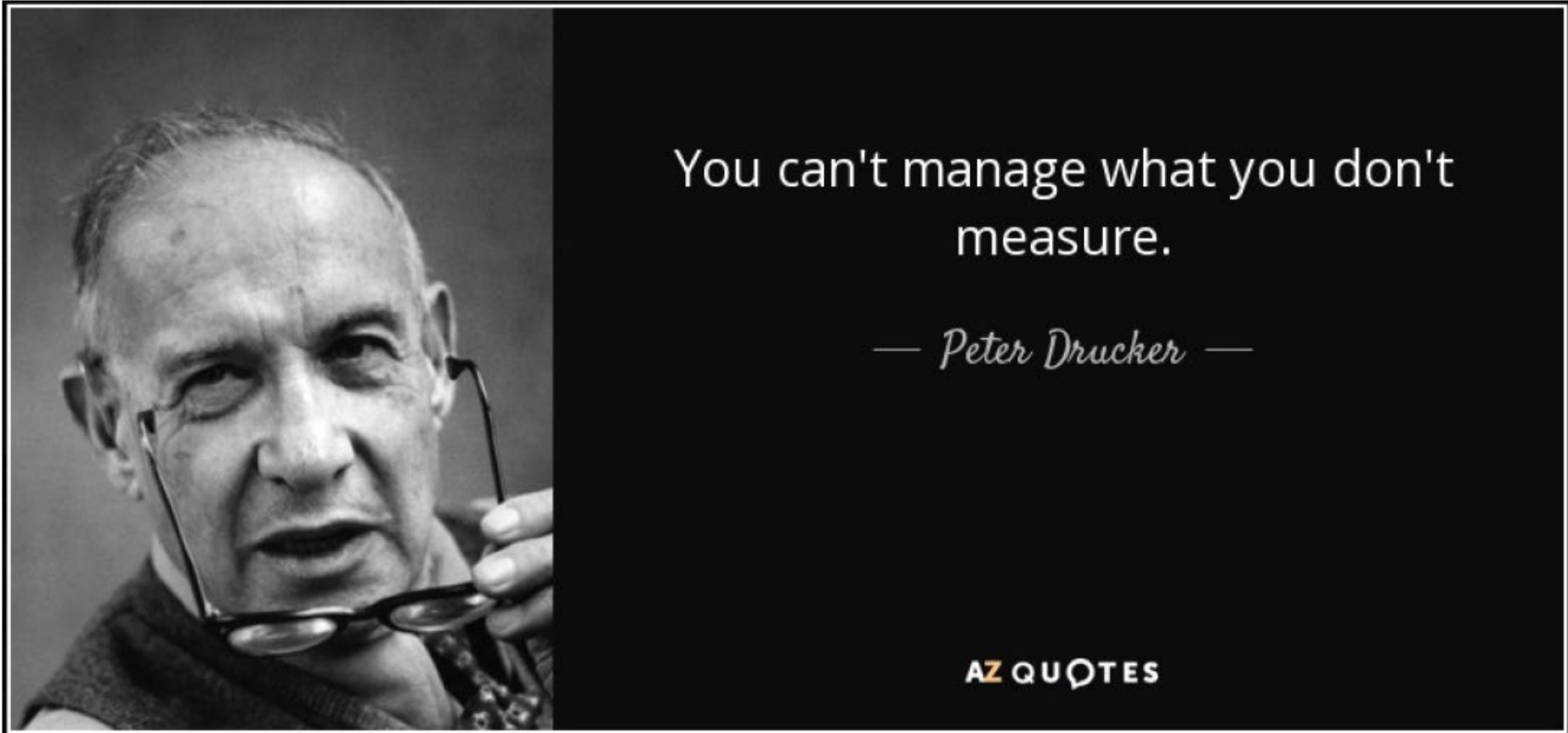
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- Define Risk Appetite vs Risk Tolerance
- “Should I accept this risk?” and what that entails
- Various types of Key Risk Indicators and thresholds, how to establish them
- Keys to developing a risk-aware environment



# Measuring Risk

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# Risk & Control Self-Assessment (RCSA)

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# Risk Appetite VS Risk Tolerance

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- Risk Appetite
  - The amount of risk (in total/aggregate) an institution is willing to accept in pursuit of its desired financial performance or in meeting its business goals
  - Typically set by the board of directors with guidance from management
- Risk Tolerance
  - Defines the amount of risk that an organization can accept per individual risk / acceptable variation in outcomes related to specific performance measures
  - May be categorized “high”, “moderate”, “low”
  - Provides thresholds for management to stay within
  - Must be well-defined and documented
  - Should have a mechanism for when products, processes, or services exceed the established threshold



# Risk Appetite Statement

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- A risk appetite statement should state the high-level guiding principles of the institution, how and why the statement was developed, and how it will be used
- Give consideration to various risk types (e.g., operational risk, financial risk, strategic risk)
- Also consider quantitative and qualitative data that can be used to support and further articulate the risk appetite statement or risk tolerance



# Risk Tolerance

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- “What should my risk tolerance level be?”
  - It depends...
- Risk tolerance thresholds should be well thought out and at a minimum consider the following:
  - Institution Size, Complexity, Resources, and Characteristics
  - Products and Services
  - Customers Served
  - External Factors
- There should be a final, supported determination



# Is it Okay to Accept Risk?

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# Types of Risks

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# Is it Okay to Accept Risk?

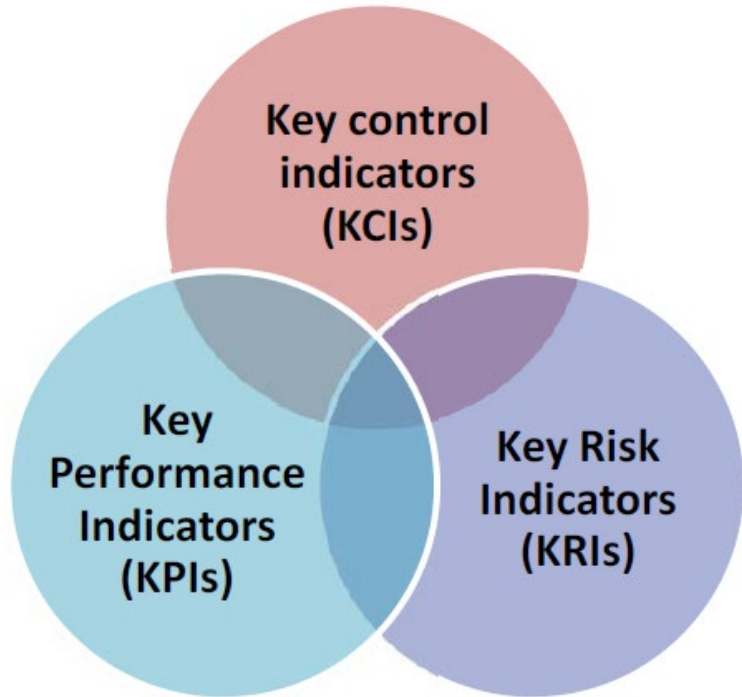
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- It depends...but probably
- Consider if the risk should be accepted at all, or if your plans should be reconsidered
- Determine who can approve what
  - Individuals vs. Committees
- **Document how the acceptance is justified**
  - Formally and in writing vs. less formal
- Be sure to track aberrations
- Report back to the Board

*If you are making a lot of exceptions, your risk tolerance settings should be reviewed!*



# The Basics: Types of Indicators



- Critical predictors of events that might increase an organization's risk exposure
- Early warning signs of potential problems on the horizon
- Enable risk officers to make smarter decisions and effectively manage enterprise risk



# Desirable Characteristics of Risk Indicators

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- Relevant
- Measurable
- Predictive
- Easy to Monitor
- Auditable
- Comparability



# Determining Thresholds and Limits

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- Establish guidelines for interpreting KIs and what actions are required
- Define thresholds where the Audit Committee needs to be notified
- Re-establish thresholds or limits after a period of data collection
- Periodically assess; change as needed



# Sample Metrics Tracking

No.	KRI Name	Definition	Attribute (select all that apply)					KRI Reporting Level (select all that apply)				Assessment Frequency	If Quantitative	
			Lagging	Current	Leading	Quantitative	Qualitative	BL	CRC	ERC	Board		Limit/Threshold	Calculation Formula/Detail
1	Actionable federal regulatory changes	Total number of federal domestic regulatory changes that resulted in required action	X		X	X		X	X			Quarterly	N/A	120% of the last 4 qtrs moving average
2	Unresolved customer complaints	Total number of unresolved customer complaints	X	X	X	X		X			?	Monthly	Variable	≥100 - business unit mgmt notified ≥120 - BU, BL mgmt notified ≥150 - BU, BL mgmt, risk oversight notified
3	Compliance training completion (new hires)	Percentage of new hires that have completed required compliance training within 90 days of their hire date.	X			X			X	X	X	Quarterly	≤95%	Includes only active employees (excludes contract/temp employees and employees on LOA)

Complaints related to issues that have already occurred (lagging)

Still warrant a response (current)

Could give rise to litigation, bad publicity, decreased sales (leading)

Leading aspect may be worthy of Executive or Board-level reporting



# Finding Needles in Haystacks

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What about exceptions below threshold or that do not exceed limits?

- Regulatory and audit pressure to detect and report potential violations, customer/consumer harm
- Collaboration between first, second and third lines of defense and across risk disciplines is critical



# Developing a SOLID Risk Conscious Environment!

- Culture
- Coverage
- Communication (Reporting)
- Competencies





# Risk Culture

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# Key Competencies for your Risk Officer

- Knowledge of the business
- Understanding the goals and objectives of the Bank
- Solid judgement
- Strategic thinker (consideration for past and future)
- Understanding of performance management
- Communication skills
- Multi-risk discipline awareness



# Key Consideration Factors

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- **Policy** - Who is accountable for “Enterprise Risk”?
- **Risk Sources** - Do you know all your regulatory sources of risk?
- **Delegation** - Has the Risk Officer delegated risk management of any regulatory sources to other Risk Pillars?
- **Aggregation** - How do you ensure delegated risk management is considered in bank’s roll-up of Enterprise Risk?
- **Documentation** - Is the Bank’s assessment of enterprise risk formally documented?



# Example Risk Assessment

	A- Previous Audit:	B- Changes in Processes and Systems	C- Changes in Products	D- Changes in Personnel and Management	E- Size and Complexity of the Dept. or Function	F- Experience And Training	Total
<b>I. LENDING</b>							
Loan Quality and Documentation	1	2	2	1	3	2	<b>1.83</b>
Note Department (Servicing and Operations)	1	2	2	1	2	2	<b>1.67</b>

AUDIT SUBJECT	Credit	Market	Liquidity	Transactional / Operational	Legal (Compliance)	Reputation Strategic	Risk Totals	Relative Risk Factor	Total Risk
<b>I. LENDING</b>									
Loan Quality and Documentation	3	3	3	2	3	3	17	1.83	31
Note Department (Servicing and Operations)	1	2	2	2	2	2	11	1.67	18

AUDIT SUBJECT	Date of Last Internal Audit	Minimum Audit Frequency	2019	2020	2021
<b>I. CREDIT ADMINISTRATION</b>					
Loan Quality and Documentation	Q1 2018	Annual	MA	MA	MA
Note Department (Servicing and Operations)	Q3 2018	Bi-Annual		MA	



# Takeaways

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1. You can't manage what you don't measure!
2. Define your risk appetite and risk tolerances.
3. It's likely okay to accept risk...if you're doing it correctly. Make sure to follow necessary steps and document your process (Enterprise Risk Assessment).
4. Take stock of your Key Indicator (KPI, KRI, KCI) inventory; refresh periodically to ensure risk monitoring keeps pace with an ever-changing risk landscape.
5. Review your policies, roll-up and reporting to ensure all Enterprise Risk is accounted for in your Enterprise Risk Profile.
6. Identify critical "Risk Officer" competencies and provide learning activities to practice and reinforce.





Questions?

