V05
Basics of Risk Assessment for Volunteers

Robin J Wybenga, CFO, TBA Credit Union
robinw@tbacu.com
231.946.7090

Introduction

- Objectives

1. Explain the fundamental concepts involved in the risk assessment process;
2. Describe the legal obligations faced by volunteers in fulfilling their oversight role;
3. List the traditional and newly emerging threats that affect credit union operations;
4. Explain the concept of ERM, the categories or risk, and the techniques;
5. Enumerate the steps involved in the risk mapping;

Introduction

- Objectives

6. Discuss the benefits of ERM;
7. Describe the asset/liability management and the volunteer's role in the process;
8. Prepare policy guidelines to protect the credit union from employment law risks;
9. Oversee the implementation of internal controls designed to reduce the risk of employee dishonesty;
10. Create an organizational defense against risks relating to disasters.

Risk Assessment Basics

- Duty of Care – requires volunteers to act with due care in fulfilling their policymaking tasks and monitoring credit union operations.

1. Volunteers must exercise the same degree of care and prudence that persons prompted by self-interest would exercise in their own affairs.
2. Because they direct a financial institution, volunteers are head to higher standard than individuals in similar positions with other corporations.
3. One of the fundamental duties of the board is to hire competent people.
4. The board must assess the level of risk faced by the credit union and oversee the management of risk by the CEO and staff.

Risk Assessment Basics

- Risk – a concept that suggests a potential negative impact to an asset, or some characteristic that may arise from a present or future events.

  * It's a fact of life.
  * Risk tolerance - The board defines its risk tolerance through strategic planning and by setting goals and policies for the credit union.
  * The key is in being able to identify risks and to control them to an acceptable level for the overall health of the credit union.

- The concepts of risk management includes the identification, measurement, and control of risks.

Risk Assessment Basics

- Basic classes of risk control methods are:

1. Avoid the risk by installing security measures that will deter wrongdoers;
2. Reduce the risk by adopting procedures that make it difficult to invade systems;
3. Spread the risk by measures such as maintain duplicate sets of records off-site;
4. Transfer the risk by purchasing appropriate insurance coverage;
5. Assume the risk by absorbing certain types of losses as a cost of doing business.

Risk Assessment Basics

- Types of Risks

Risk	Definition
Credit risk	The potential for loss resulting from the failure of a borrower or counterparty to perform on an obligation.
Compliance risk	The potential for loss arising from violations of laws or regulations or nonconformance with internal policies or ethical standards.
Concentration risk	The risk arising from excessive exposure to certain markets, industries, or groups.
Interest rate risk	A type of market risk that involves the potential for loss due to adverse movements in interest rates.
Liquidity risk	The risk that a credit union will be unable to meet its obligations when they become due, because of an inability to liquidate assets or obtain adequate funding.
Market risk	The potential for loss resulting from movements in market prices, including interest rates, commodity prices, stock prices, and foreign exchange rates.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.
Reputation risk	The potential for loss arising from negative publicity regarding an institutions business practices.
Strategic risk	The potential for loss arising from adverse business decisions or improper implementation of decisions.

Risk Management & Insurance

Types of Risks

Risk	Definition
Credit risk	The potential for loss resulting from the failure of a borrower or counterparty to perform on an obligation.
Compliance risk	The potential for loss arising from violations of laws or regulations or nonconformance with internal policies or ethical standards.
Concentration risk	The risk arising from excessive exposure to certain markets, industries, or groups.
Interest rate risk	A type of market risk that involves the potential for loss due to adverse movements in interest rates.
Liquidity risk	The risk that a credit union will be unable to meet its obligations when they become due, because of an inability to liquidate assets or obtain adequate funding.
Market risk	The potential for loss resulting from movements in market prices, including interest rates, commodity prices, stock prices, and foreign exchange rates.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.
Reputation risk	The potential for loss arising from negative publicity regarding an institutions business practices.
Strategic risk	The potential for loss arising from adverse business decisions or improper implementation of decisions.

It’s the Law

- Today’s volunteers are challenged by exponentially greater expectations regarding corporate governance and oversight.

- Boards and committees are expected to protect eh assets of the credit union and its members against a backdrop of increasing scrutiny from lawmakers, regulators, and the general public.

- If an item appears on the examiner’s report several years running, it becomes apparent that the board is not addressing the issue effectively.

It’s the Law

- Financial Institutions Reform, Recovery and Enforcement Act (FIRREA)

  * Anyone who violates a law or regulations while serving the interest of the credit union is subject to substantial penalties.

  * NCUA does have the authority to approve new board members and senior executives in credit unions that meet certain criteria.

  * FIRREA sets standards by which volunteers may be personally liable for monetary damages in a civil action.

  * Sarbanes-Oxley Act addressed the independence of accounting firms.

It’s the Law

- Bottom Line:

  These rules have grown out of decades of experience with the risks and liabilities faced by credit unions in an increasingly complex technological and legal framework.

  The ultimate goal of law and regulation is to provide a safe and sound environment in which credit union members can conduct their financial affairs.

The Changing Nature of Risk

- What is Internal Controls?

  1. Safeguards the credit union's assets

  2. Checks the accuracy and reliability of the credit union's accounting data

  3. Promotes operational efficiency

  4. Encourages adherence to the prescribed managerial policies

  Internal control minimizes the possibility that intentional or unintentional errors will go undetected.

The Changing Nature of Risk

- New concepts of risk assessment and management

  * Identity theft

  * Threats from terrorism

  * Plastic card fraud

  * Data breaches

  * Electronic commerce – mobile technology

Enterprise Risk Management

- Enterprise risk management is an ongoing process that involves people at all levels of the organization.

  The difference between ERM and traditional risk management processes is that ERM uses an integrated perspective of the risk, and opportunities the organization confronts.

  Instead of just looking at one area and evaluating the risk within that function, ERM includes all departments and all people within the credit union.

  ERM examines how the risk associated with a new service, product, or location impacts all other areas of the credit union.

Enterprise Risk Management

- Categories of Risk

  1. Strategic – external influences that can impact the ability of the credit union to meet its goals and objectives.

  2. Operational – associate with systems the credit union uses, the processes used to distribute products and services to members, technology, and employees involved in providing services to members.

  3. Financial – manages the financial aspects of the credit union.

  4. Hazard – includes external risks that the credit union has little or no control.

Enterprise Risk Management

- Risk Identification Techniques

  1. Interview credit union employees at all levels. Does the volunteer use the services of the credit union?

  2. Brainstorming – develop a list of perceived risks.

  3. SWOT analysis – strengths, weaknesses, opportunities, and threats.

  4. Networking with other credit unions and volunteers to discover what issues are on their agenda.

Risk Mapping

- Risk mapping is a simple tool that is helpful in analyzing and assessing risk.

  Looks at likelihood that a loss will occur.

  Measures the potential impact of a given exposure.

- Are risks being controlled?
  * Avoid the risk?
  * Reduce the risk?
  * Share the risk?
  * Risk is assumed.

Benefits of ERM

- The underlying premise of enterprise risk management is that every credit union exists to provide value for ist stakeholders.
- ERM enables credit union leadership to effectively deal with uncertainty and associated risk and opportunity.
- EMR helps the credit union get to where it wants to go and avoid pitfalls and surprises along the way.

Asset-Liability Management

- Interest-rate risk – is the potential impact of interest rate movements on the credit union's net interest income and capital level. Focuses on repricing speed of assets relative to liabilities.
- Credit risk – is the danger that a borrower will fail to meet interest payments or repay a debt.
- Liquidity risk – is concerned with maintaining an adequate availability of funds for loan demand, deposit outflows, and expense payments in changing rate environments.

Employment Risk

- Volunteer leadership sets the tone for the workplace environment in formulating policies that direct the actions of management.
- When a credit union suffers a loss as a result of poorly designed personnel policies, the board is ultimately responsible for the resulting damages.
- Effective Safeguards:
  1. policies and procedures
  2. professional advice
  3. training and fairness
  4. Insurance

Internal Controls

- Rotations of duties
- Segregation of duties
- Compulsory vacations

Disaster Risk

- A disaster is any event that jeopardizes the existence of the organization.
- Primary responsibility for creating a disaster recovery plan lies with the board.