



General ERM & Operational Risk Management

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Recap of Operational Risk Module



- Defined and categorized operational risk
- Evaluated the 5 steps of operational risk management
- Discussed ways to improve operational risk

Today's Objectives

- Discuss the differences between Enterprise Risk Management (ERM) and Operational risk management
- Develop a ERM risk assessment for a business unit
- Develop a detailed risk assessment for a process within a business unit
- Establish how to tie the two together and determine next steps

Operational Risk: Two Views

Enterprise Risk Assessment &
Prioritization (“Top Down”)

Detailed Process Level Risk Analysis
 (“Deep Dives”)

Scope	Scrutiny
Wide	Low
Narrow	High

5 Steps of Operational Risk Management



- Identify business processes and functions
- Identify and assess risks
- Make risk decisions/responses
- Implement controls and mitigation
- Supervise, monitor, watch for change

ERM Risk Assessment Payments



Primary Functions

- Share draft processing
- ACH
- Wires
- Online Banking

Vice President has 10+ years experience in Payment's area, 20+ with Credit Union

All other staff has turned over within the past 2 years

Enhancing/increasing penetration of electronic payments is a strategic objective

Vendor management program is in its beginning stages

60% of membership is enrolled in OLB

Process \$1.5M share drafts daily and \$2+M in ACH transactions daily

Net income annually \$11M, Expenses annually \$42M

Payments employees do not have the ability to work from home

We will use the risk appetite statement for Risky Business Credit Union

ERM Risk Assessment Payments



- Define our Impact and Likelihood Measures
- Walk through 4 risks in our Payments risk assessment
 - Identify/define the risks
 - Determine impact, likelihood of risk occurring
 - What risk mitigation is in place and the level of mitigation
 - Determine the residual risk to the organization
- Do the risks align with the risk appetite statement?
- What action items are needed?
- What key risk measures could be used to monitor?
- What needs communicated and how would you do that?

ERM Risk Assessment Payments



Impact Measures

High

- **Significant** impact to achieving **critical strategic** initiatives
- **Financial** impact over **10%** of annual net income
- **Entity-wide** impact to reputation

Moderate

- Some impact to lower strategic priorities
- Financial impact between **5%-10%** annual net income
- Reputational impact to portion or isolated part of the business

Low

- Minimal impact to strategic priorities (Business as usual, move on quickly)
- Financial impact less than 10%
- Minimal reputational impact – will be soon forgotten

ERM Risk Assessment Payments



Likelihood Measures

High

- Has occurred in the **past year** and/or is highly likely to occur in the **next year**
- **Internal control environment is complex**, manual controls, and/or **low confidence** in controls
- **Inexperienced** staff, high **turnover** of staff or management

Moderate

- Has occurred in past 2-3 years and/or could potentially occur in the next 3-5 years
- Internal control environment is moderately complex

Low

- Unlikely to occur in the next 5 years
- Internal control environment is **automated** and/or confidence controls are strong
- **Long term and experienced staff**

ERM Risk Assessment Payments



Payments ERM Risk Assessment

ERM Risk Assessment-Payments Group Work

- 30 minutes for each groups to come up with four additional risks for this area.
- Identify the risk, impact, likelihood and mitigation levels.
- Out of Pocket Loss or Opportunity Cost?
- Risk Mitigation Status – Accept, Planned, In Process, Transfer
- What action items are needed?
- What key risk measures could be used to monitor?
- Do the risks align with the risk appetite statement?
- What needs communicated to Executive Management Team and Board?

5 Steps of Operational Risk Management



- Identify business processes/product/service
- Identify and assess risks
- Make risk decisions/responses
- Implement controls and mitigation
- Supervise, monitor, watch for change

Operational Risk Assessment Business Process/Product/Service



- Comes from systems, processes, people or external risks
- Risk occurs wherever this is input /output in the process
- Narrow scope, high scrutiny
- “*Deep dive*” into the process

Operational Risk Assessment Business Process/Product/Service



- Walk through 4 risks in an Online Banking risk assessment
 - Identify/define the risks
 - Determine impact, likelihood of risk occurring
 - What risk mitigation is in place and the level of mitigation
 - Determine the residual risk to the organization
- What action items are needed?
- What needs communicated and how would you do that?
- Do any of the risks identified need to be considered in the ERM risk assessment for Payments ?
- Who has the authority to accept risks that are out of line with established parameters?

Operational Risk Assessment Online Banking



Online Banking Risk Assessment

Operational Risk Assessment Online

Banking

Group Work

- 30 minutes for each groups to come up with four additional risks for this area.
- Identify the risk, inherent risk score, impact, likelihood, mitigation, residual risk, direction of risk
- Risk Mitigation Status – Accept, Planned, In Process, Transfer
- What action items are needed?
- What needs communicated to Executive Management Team and Board?
- Who can accept the risk?

ERM & Operational Risk Assessments

Pulling it All Together



Compare risks in operational online banking risk assessment to risks established in Payments ERM risk assessment

Are there any risks that would have an impact on our ERM risk assessment? High residual risk or moderate with increasing level of risk?

How/what do we report to upper management and Board

Do we have insurance to offset some of this risk

Compare to risk appetite statement

Project Work

Risky Business Credit Union



1. Create an ERM risk assessment for consumer lending, identifying four risks (Use ERM template).
 - Identify the risk, impact, likelihood and mitigation levels.
 - Out of Pocket Loss or Opportunity Cost?
 - Risk Mitigation Status – Accept, Planned, In Process, Transfer
 - What action items are needed?
 - What key risk measures could be used to monitor?
 - Do the risks align with the risk appetite statement?
 - What needs communicated to Executive Management Team and Board

2. Create a process risk assessment for new loan product with the following features:
 - \$1000 loan amount, no credit report, must have direct deposit of \$1500/mo.
 - Identify risks, compare to risk appetite statement
 - Identify pros/cons of offering this product based on RBCU financials and risk appetite statement
 - Make recommendation as to whether to move forward with the product
 - Use Operational risk assessment template