




Risk Management

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Exercise 1

What are your expectations of this module?

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Objective of this module:

This module provides CEOs with knowledge and skills enabling them to work with the Board of Directors in establishing an updated risk management infrastructure and processes.


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 **Specific Objectives of this module:**

- Understand the clear and concise definitions as well as sources of risk;
- Become aware of CEOs role in risk management;
- Develop skills in designing risk management approaches
- Create a risk management program for the credit union

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 **Exercise 2**

Can you define Risk Management?




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 **Risk Management**


- Involves managing to achieve an appropriate balance between realizing opportunities for gains while minimizing losses.

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 **Risk management is a set of methods for answering a few, common sense questions:**

- *What could go wrong?*
- *How wrong could it get?*
- *What can we do about it?*

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 **Exercise 3**

What is the role of CEOs in Risk Management based on these statements . . .


Statement distributed in separate hand out.

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 **CEOs Role**

To implement, monitor and report risk management policy that establishes organizational expectations, for defining a risk management strategy and identifying, analyzing, and mitigating risk.

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 Exercise 4

What are the Areas of Risk?
What could go wrong?

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 **Areas of Risk**

- Governance
- Employees
- Strategic Direction
- Physical – properties and equipment
- Financial
- Operations
- Environment

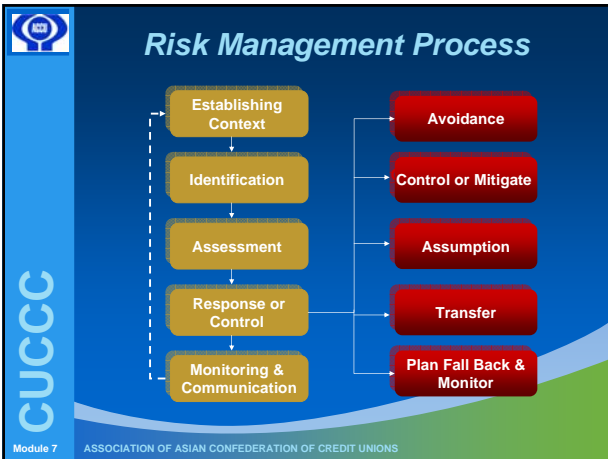
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 **Risk Management Processes and Procedures**

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Risk Response or Control

Avoidance

- Avoiding the risk entirely by changing the way the activity or service is performed or
- Entirely removing the portion of the service or activity that contains the risk element.

Can you give examples . . .

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Risk Response or Control

Control or Mitigate

- development of a risk reduction plan and then tracking to the plan.
- This might involve policy, internal controls, audit committee etc.

Can you give examples . . .

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Risk Response or Control

Assumption

- Simply accepting the risk and proceeding.
- After trying to avoid, transfer or mitigate the risk, the credit union will be left with lingering risk that cannot be reduced further.

Can you give examples . . .

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Risk Response or Control

Transfer

- Transfer involves moving the responsibility for a threat to another party usually by payment of a fee (outsourcing to a skilled expert) or a premium (insurance).

Can you give examples . . .

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Risk Response or Control

Plan Fall Back & Monitor

- Sometimes it is too costly to mitigate or transfer a risk but you still want to keep an eye on it.
- In this case design a fall-back plan to put in effect if the event actually becomes a problem.

Can you give examples . . .

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In developing a risk management process some of the useful tools include:

- Likelihood scale
- Consequences scale
- Risk matrix

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- Likelihood scale

Level	Likelihood	Description
A	Almost certain	e.g.. will occur at least once a year or more often
B	Likely	
C	Possible	
D	Unlikely	
E	Rare	
F	Very rare	
G	Almost incredible	e.g.. once in 100,000 years

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Consequences

Level	Regulatory Requirement
1.	No legal action
2.	Reprimand
3.	Minor legal action filed
4.	Major Legal action filed
5.	Major Legal action and penalties levied
6.	Suspension of legal personality
7.	Cancellation of legal personality

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Matrix

Consequence (small to large)	Likelihood (Certain to very rare)						
	A	B	C	D	E	F	G
1	Low	Low	Low	Low	Low	Very Low	Negligible
2	Medium	Medium	Medium	Low	Low	Very Low	Very Low
3	High	Medium	Medium	Medium	Low	Low	Very Low
4	High	High	Medium	Medium	Medium	Low	Very Low
5	Very high	High	High	Medium	Medium	Medium	Low
6	Very high	Very high	High	High	Medium	Medium	Medium
7	Very high	Very high	Very high	High	High	Medium	Medium

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Examples of Risk

Credit Risk	Loss due to poor quality of loans-delinquency
Investment Risk	Loss in value of fixed income assets
Liquidity Risk	The demand for cash exceeds the supply
Operating Risk	Insufficient revenue to cover all expenses
Fraud Risk	Risk of losses due to fraud

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Examples of Risk

Fiduciary Risk	Improper discharge of trust
Interest Rate Risk	The effect on income due to the change of interest rates
Development Risk	The costs of new products & services

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Examples of Risk

Technology Risk	keeping it updated
Human Resource Risk	Ensuring you have the competent staff & committed Board
Governmental Risk	Legislative changes that impact the ability to conduct business.

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So Far.....We Have


- Defined Risk
- Identified and determined the Impact of the Risk
- Evaluated the Risk
- Decided how to Manage the risk.....
The next step is to.....

... MONITOR RISK

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Monitoring Risk

- The results of plans must be monitored to evaluate the wisdom of your decisions
- Monitoring determines whether changing conditions require different procedures or solutions....



Exercise 6

- What are the risk monitoring tools for credit unions?

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How the Board Can Monitor Risk

- Planning
 - ▣ Assess the Risk to the Long Term Plan
- Budgeting
 - ▣ Set Guideline for Risk Assumptions
- Financial Analysis
 - ▣ Comparatives
- Management Reporting
 - ▣ "Grab what the Financials Miss"
- Policy Development
- Committees
- Audit
- Board / Member Communication


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Monitoring Risk through REPORTS

<ul style="list-style-type: none"> • Monthly <ul style="list-style-type: none"> ▣ Balance Sheet ▣ Statement of Operations ▣ Statistical Summaries ▣ Memberships Open/Closed ▣ Loan Approvals/Declines ▣ Overdrafts 	<ul style="list-style-type: none"> • Quarterly Reports <ul style="list-style-type: none"> ▣ Matching and Spread Analysis ▣ Breakeven Analysis ▣ Liquidity Analysis ▣ Margin Analysis ▣ Peer Group Comparatives ▣ Budget Variances ▣ Investment Reports
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 **Monitoring Risk through NON FINANCIAL Disclosures**

- Risk can be controlled but not easily financially quantified
 - mainstream corporate governance issues (board structure / auditor independence / voting rights)
 - social issues (labour policies / human rights)
 - ethical issues (bribery and corruption / money laundering / codes of conduct)
 - environmental issues (global warming / GMO's / contaminated land)
- trend is towards fuller coverage of above issues

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 **Monitoring Risk through COMMITTEES**
Audit Committee

- Review the Audited Financial Statement
- Review the scope of the Audit
- Review Auditor recommendations with management
- Recommend Policies to safeguard the assets of the credit union




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 **Monitoring Risk through COMMITTEES**
Credit Committee

- Establish Credit Policy that incorporates;
 - Approval Limits (including Aggregate volume)
 - Pricing
 - Loan Mix
 - Delinquency and the Collection of Problem Accounts
 - Concentration of Credit
- Ensure management puts the appropriate procedures in place to support the policy
- Use regular reporting to monitor policy compliance

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Monitoring Risk through COMMITTEES

Conduct Review Committee

- 📄 Establish policy for the review of transactions with related parties of the credit union
- 📄 Review related party transactions
- 📄 Review practices of the credit union to ensure related party transactions will not have a material impact on the credit union


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Monitoring Risk through AUDITS

External Audits <ul style="list-style-type: none"> 📄 Done Annually 📄 Result is an Audited Financial Stmt 📄 Provides an Opinion on the financial statements 📄 Includes a Management Letter 	Internal Audits <ul style="list-style-type: none"> 📄 Reviews Procedures <ul style="list-style-type: none"> 📄 Policy Compliance 📄 Controls 📄 Security 📄 Operational and Functional Focus 	Regulator <ul style="list-style-type: none"> 📄 Protect Member Deposits 📄 Preventative Agency 📄 Maintain and Operate the Guarantee Fund
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In this module:

Provided CEOs with knowledge and skills enabling them to work with the Board of Directors in establishing an updated risk management infrastructure and processes.

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 **We ...**

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 **Credit Union Project**

- Half Day workshop for Board and senior staff
- Truthful assessment of risk management policy and practices
- Preparation of Risk Management Plan

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 **Thank you!**

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