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Your presenter

- Karen Mitchell
- *Senior Manager*
- *Strategic Advisory Services*
- *kmitchell@wipfli.com*
- *630.368.7035*

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What is ERM?

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What is Enterprise Risk Management (ERM)

Enterprise Risk Management is defined as:

*The culture, capabilities, and practices, **integrated with strategy-setting** and performance, that organizations rely on to manage risk in creating, preserving, and realizing value.*

- ▶ *It is an ongoing and continuous process*
- ▶ *Includes all risk management practices of the organization*
- ▶ *Applies to any size organization*
- ▶ *Makes for better decision making*

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What is ERM?

All definitions of ERM discuss the same general themes:

- Value creation for stakeholders
- Less focus on tactical issues and compliance
- Strategic focus
- Better performance

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What is the Purpose of ERM

ERM is meant to help management identify, prioritize, and focus on those risks that prevent value from being created, preserved, or realized



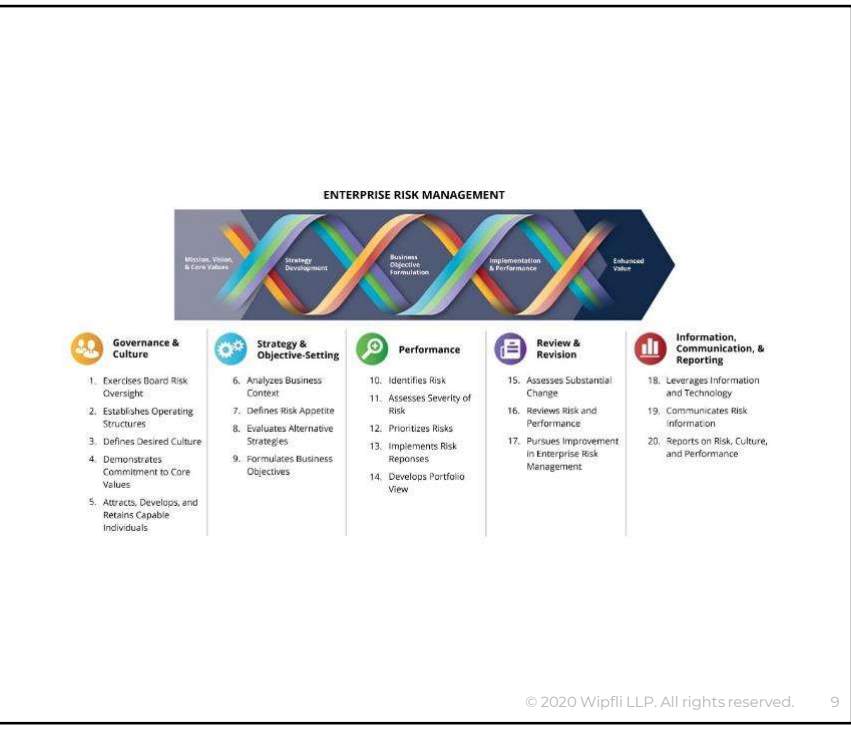
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ERM Frameworks

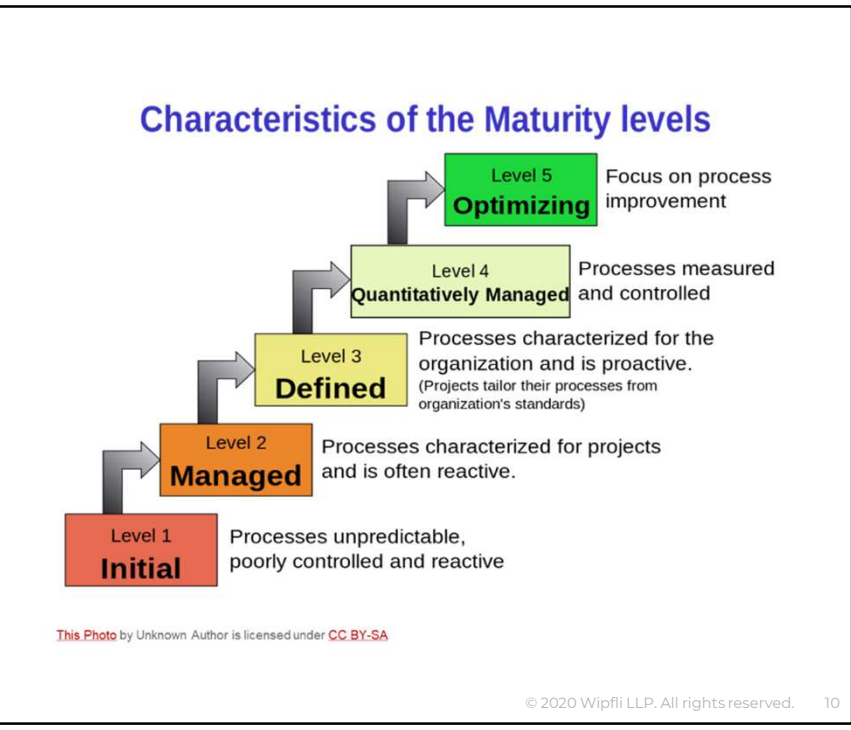
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COSO Enterprise Risk Management Framework



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ERM Maturity

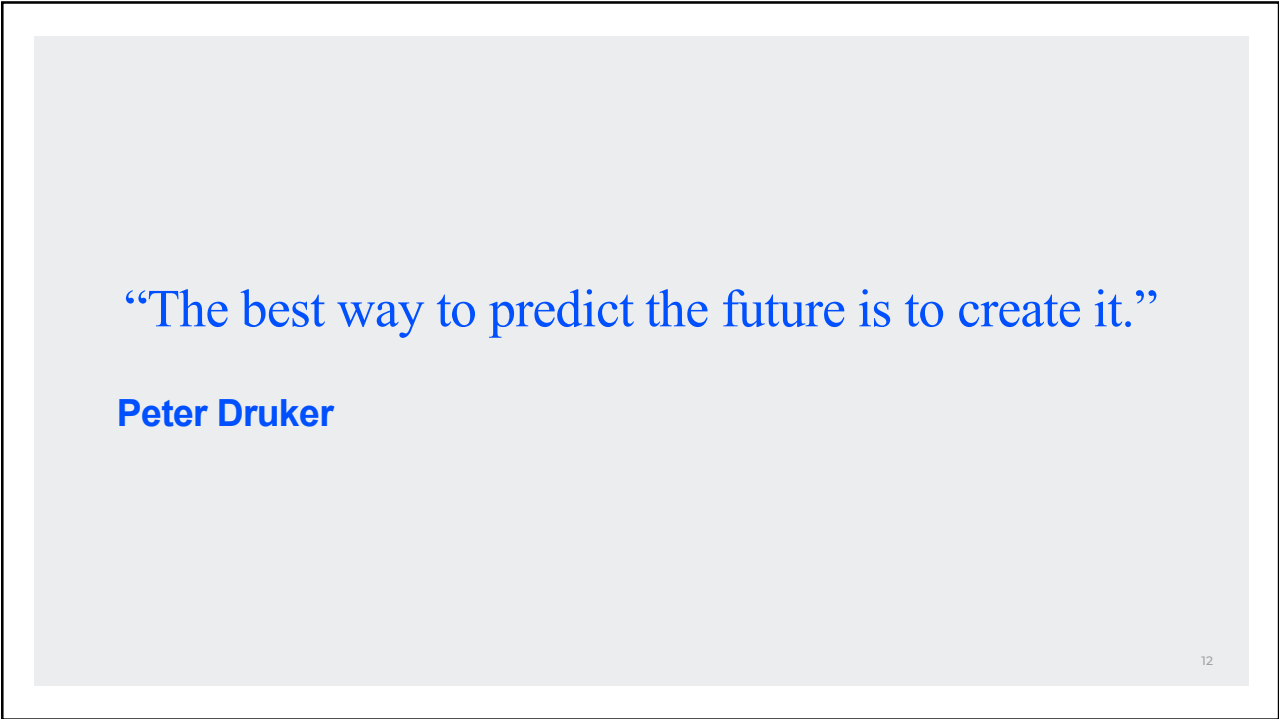


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ERM and Strategy

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“The best way to predict the future is to create it.”

Peter Druker

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ERM is a Transformative Journey

- Most smaller financial institutions are at the beginning stages of ERM excellence
- The focus starts with compliance but evolves toward strategic risk management

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Integration with Strategy and Risk Management

- ERM should be considered when addressing all areas of business strategy
- The strategy of a business should communicate how risk considerations affect the business and stakeholders
- By incorporating into risk management practices, a business can build awareness of the risks across the enterprise
- It also addresses stakeholder's, especially investor's, concerns about the emerging risks and current industry trends

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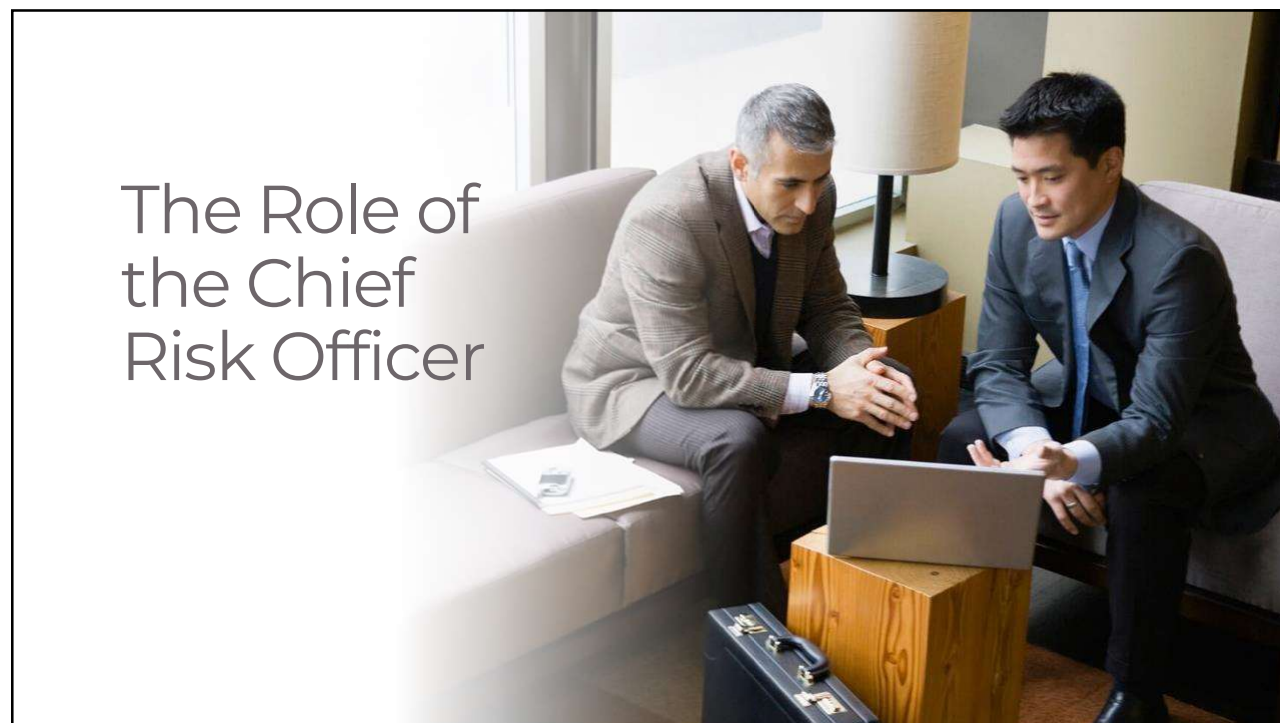
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ERM and Business Practice

- Integrating ERM with business practices results in better information that supports improved decision making and leads to enhanced performance
- It helps organizations to:
 - Anticipate risks earlier to open up more options for managing risks
 - Identify and pursue existing and new opportunities
 - Respond to deviations in performance more quickly and consistently
 - Develop and report a more comprehensive and consistent portfolio view of risk
 - Improve collaboration, trust, and information sharing

COSO

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Chief Risk Officer

- The position of the Chief Risk Officer (CRO) is a pivotal role in financial institutions. It is one that oversees risk management and ensures the organization's stability.

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Key Functions of the CRO

Risk Identification and Analysis	Risk Mitigation Strategies	Compliance and Regulatory Oversight	Risk Culture and Governance
Risk Reporting and Communication	Stress Testing Scenario Analysis	Risk Appetite Framework	Emerging Risks
	Board Oversight	Nonfinancial Risks	

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Regulatory Requirement to have a CRO?

- The regulatory requirements vary between size and type of financial institution
 - ▶ Large Banks (\$50 Billion and over in assets)
 - Pending legislation to require all banks over \$50B to have a CRO
 - If the position becomes vacant, must notify regulators within 24 hours
 - Within 7 days of vacancy, must submit a plan outlining how they will search for a CRO
 - If unfilled after 60 days, automatic cap on growth until the vacancy is filled



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Regulatory Requirements cont...

- Smaller Banks (below \$50 Billion in assets) and Credit Unions
 - ▶ Not technically required to have a CRO but many voluntarily appoint one to manage risk
- Bank Holding Companies (with total consolidated assets of \$50 Billion)
 - ▶ Must appoint a CRO with experience in identifying, assessing, and managing risk exposures of large, complex financial firms

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Understanding Risk — Risk vs Audit Professionals

▪ Purpose and Focus

- ▶ **Risk Professionals:** Focus on identifying, assessing, and managing risks
- ▶ **Audit Professionals:** Focus on assessing compliance, internal controls, and financial reporting accuracy

▪ Approach

- ▶ **Risk Professionals:** Risk-based approach that considers the likelihood and impact of risks when making decisions
- ▶ **Audit Professionals:** Follow a compliance-based approach which assesses adherence to rules, regulations, and internal policies

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Understanding Risk – Risk vs Audit Professionals

▪ Scope

- ▶ **Risk Professionals:** Broad scope addressing wide range of risk, including strategic, operational, financial, and reputational
- ▶ **Audit Professionals:** Narrower scope which focuses on specific areas, including, financial statements, IT controls, and compliance processes

▪ Skills and Qualifications

- ▶ **Risk Professionals:** Strong analytical skills, strategic thinking, and good communication of risk
- ▶ **Audit Professionals:** Expertise in auditing standards, accounting principles, and regulatory frameworks

▪ Interactions with Stakeholders

- ▶ **Risk Professionals:** Collaborate with senior management, the board, and subject matters experts
- ▶ **Audit Professionals:** Interact with external auditors, internal teams, and regulatory bodies

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ERM Trends

- Simplification of Risk Modeling — shifting from building complex, custom risk models
- Efficiency and Effectiveness — streamlining processes and using technology to focus on efficiency and effectiveness
- Risk Culture and Governance — establishing a robust risk culture and effective governance mechanisms
- Scenario Planning and Preparedness — simulating various scenarios to anticipate risks and enhance preparedness, i.e., stress testing
- Collaboration and Advocacy — engaging with industry peers, regulators, and policy makers to shape strategies

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Questions?

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