

# Risk Management: Are Credit Unions Risk Sensitive Enough to Protect Members Interest?

## Risk Management

Are Credit Union Risk Sensitive Enough to Protect Members Interest?  
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## What is Risk?



- Risk is the **uncertainty** that surrounds future events and outcomes. It is the expression of the **probability** and **impact** of an event with the potential to influence objectives
- Taking risk is an integral part of any successful business strategy

## Members' interest



## Members' Interest

- Serving members' interest requires understanding and managing risk to enhance value while preserving safety and soundness

## Risk Management Process



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## Types of Risk

- Financial Risk
- Credit Risk
- Operational Risk
- Business Risk
- Human Resource Risk

## Proactive Risk Management

- Assesses risk before implementing a strategy or business opportunity
  - Avoidance
  - Mitigation
  - Share/transfer
  - accept

## Proactive Risk Assessment

Strategy: Introduce Re-advancable Mortgages				
Risk Factor	Indicator	Result	Impact/Probability	Mitigation Strategy
Insufficient underwriting skill	Poor or incomplete documentation Improper collateral margining	NPL's, inability to act on collateral Declining financial margins	Med/low	Documentation checklists Training, Recruit qualified staff

## Reactive Risk Management

- Assesses existing risks and develops strategies to
  - Mitigate
  - Transfer or share
  - Accept

## Reactive Risk Assessment

- Well established tools to measure risk – focus on financial and credit risk
  - ACCESS
  - PEARLS
  - PEARLS Based Risk Assessment Tool
  - CAMEL
  - Regulatory Standards
  - Basel II

## Human Resource Risk

Aging Board of Directors				
Risk Factors	Indicators	Results	Impact/probability	Mitigation
Leadership vacuum	Declining participation Loss of directors	Slow/poor decision making Loss of direction Declining membership, competitiveness	Medium/High	Limited terms for directors
Failure to keep up with trends	Outdated technology, products & services	Declining membership, Reduced operational efficiency, ROA	Medium/low	Director training, targeted directors recruitment

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## Operational Risk

Out dated technology				
Risk Factors	Indicators	Results	Impact/ probability	Mitigation
Loss of internal control	Financial statements not up to date, member records not up to date	Decreasing ROA, increasing NPL's	High/High	Update technology
Inability to offer new products	Stale product offerings	Loss of market share, inability to attract youth	Medium/medium	

## Roles and Responsibilities

- The Board is ultimately responsible for approving a strategic business plan that takes into account an identification of business opportunities and business risks. It should oversee management's systems for managing business risks.
- The board should review and challenge the identified risks and the plans to mitigate those risks

## Roles and Responsibilities

### Directors should:

- ask management to identify principal risks...
- ensure that management establishes risk management practices...
- review financial reports with risk in mind...
- be sensitive to the impact of risks on specific groups of stakeholders...
- provide oversight to help ensure processes are in place to ensure compliance...

## Roles and Responsibilities

### Management

- Identify Risks
- Establish risk limits and tolerances
- Establish policies
- Implements, controls and reports

## Risk Sensitivity

- Requires:
  - Awareness
  - Communication
  - Transparency
  - Reporting mechanisms

## Risk Management

- There is no one right answer
- Failure to acknowledge is the biggest risk of all

