

The Dark Arts Of Risk Management

A LIST OF

**PEOPLE WHO UNDERSTAND RISK
MANAGEMENT**

Approach for today

- ▶ GRC - Three Lines of Defence
- ▶ Risk Terminology
- ▶ Operational Risk Framework
- ▶ Risk Appetite, Tolerance & Capacity
- ▶ Risk appetite setting
- ▶ Risk monitoring & reporting
- ▶ Regulators View
- ▶ Operational Considerations
- ▶ Risk Maturity Model
- ▶ Risk Management Systems



Question: Where are we on our Risk Management Journey?



red flare
GOVERNANCE RISK COMPLIANCE

Question: Do You Know What Good vs. Bad Risk Management Looks Like?

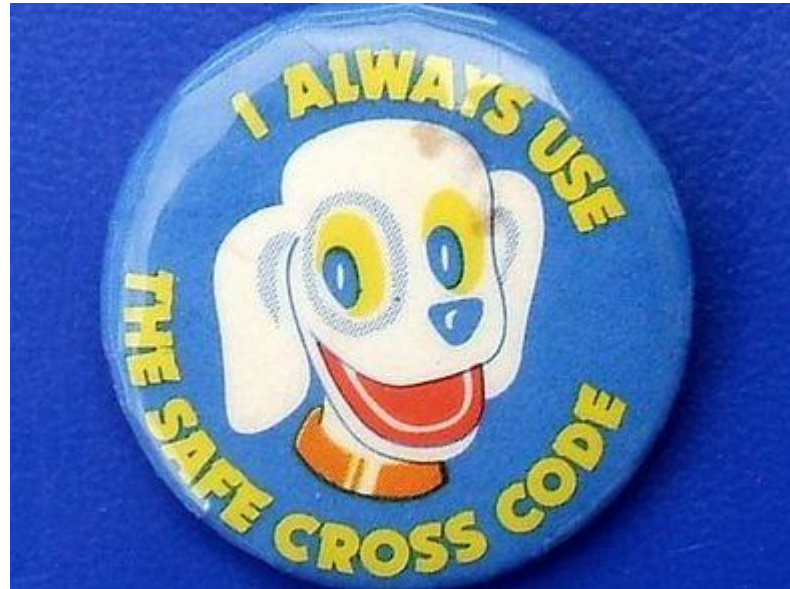


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GOVERNANCE RISK COMPLIANCE

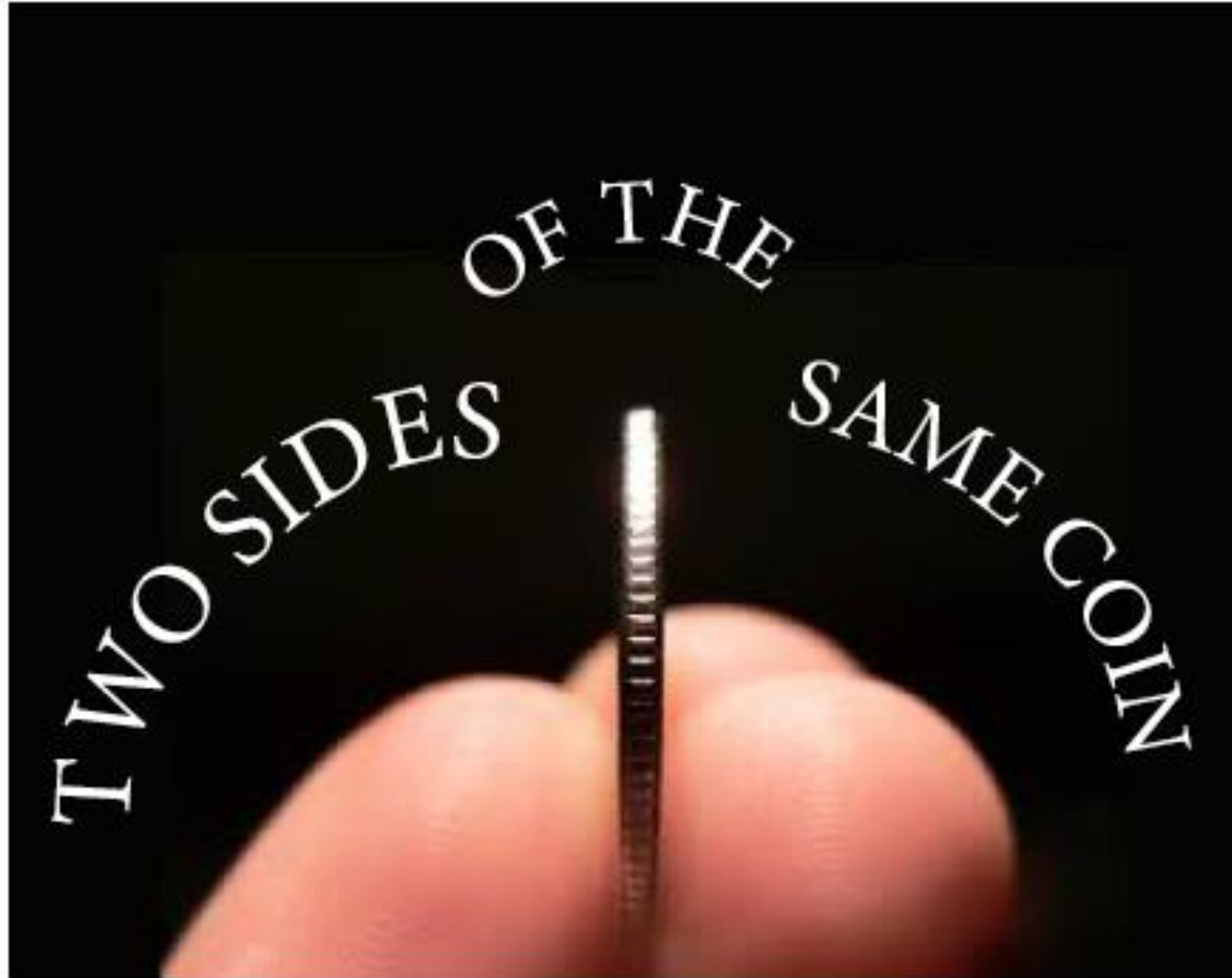
Risk Terminology

- ▶ Risk framework
- ▶ Risk appetite
- ▶ Risk tolerance
- ▶ Risk capacity
- ▶ Risk universe
- ▶ Risk indicators / Key Risk Indicator's
- ▶ Loss events / incidents
- ▶ Risk reporting and documentation
- ▶ Quantitative and Qualitative risk analysis
- ▶ Risk causes
- ▶ Risk consequences
- ▶ Risk mitigation
- ▶ Risk controls
- ▶ Risk assessment
- ▶ Risk root cause analysis
- ▶ Inherent Risk & Residual Risk
- ▶ Impact & Probability - Matrix
- ▶ Emerging risks

We are all Risk Officers

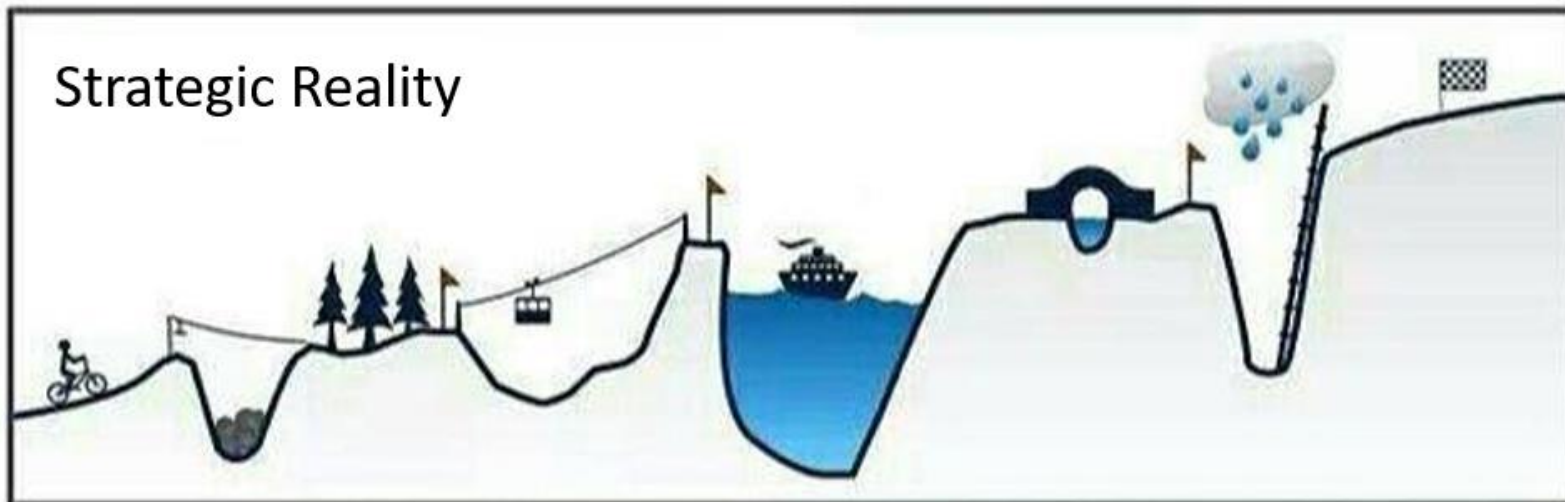


Risk Management and Strategic Planning

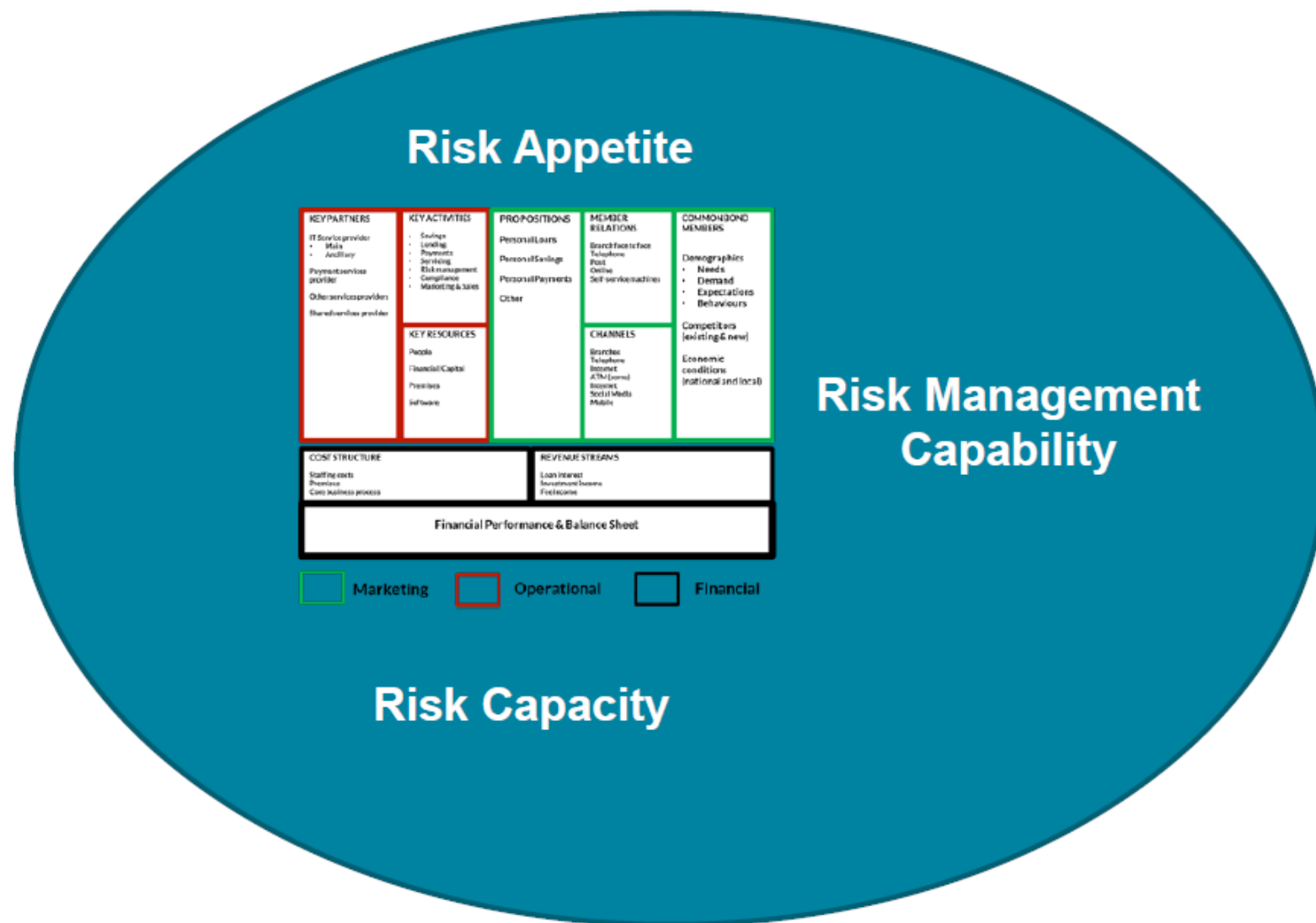


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GOVERNANCE RISK COMPLIANCE

Strategic Plan and Risk Management



Strategic Plan & Risk Management



Risk Is A Balancing Act



How Much Risk Are You Prepared to Take?



CALCULATED RISKS



RISK VS. REWARD

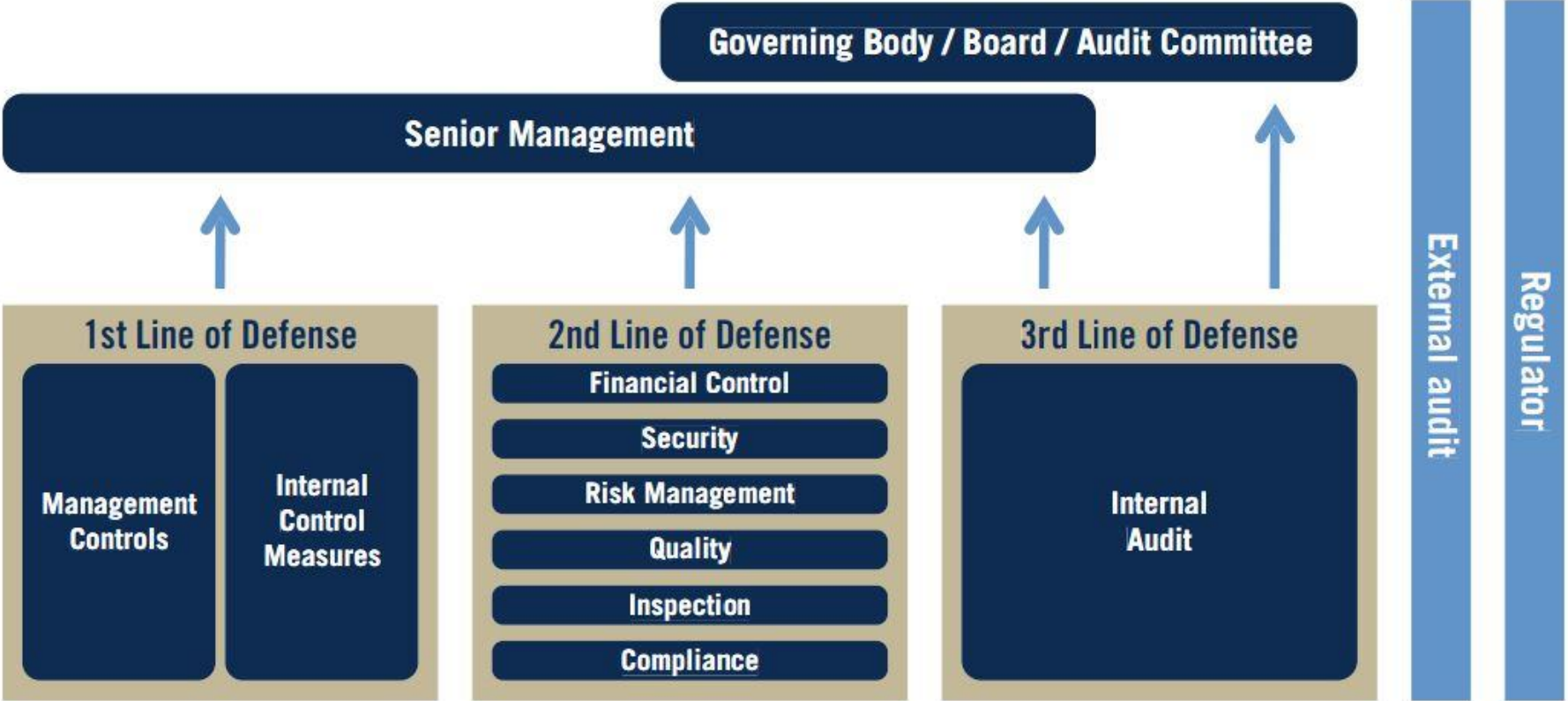


RISK VS. REWARD

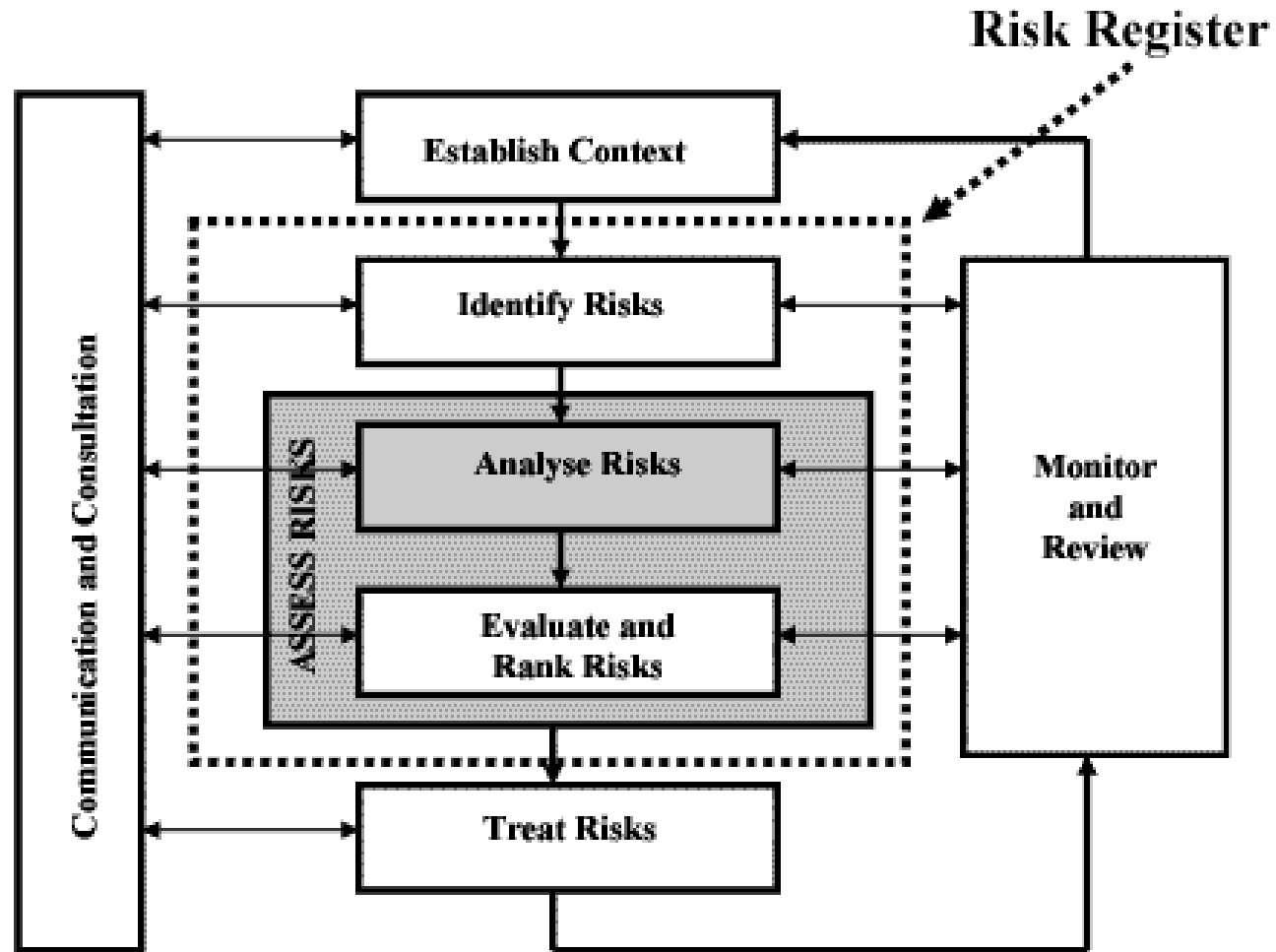


GRC Framework

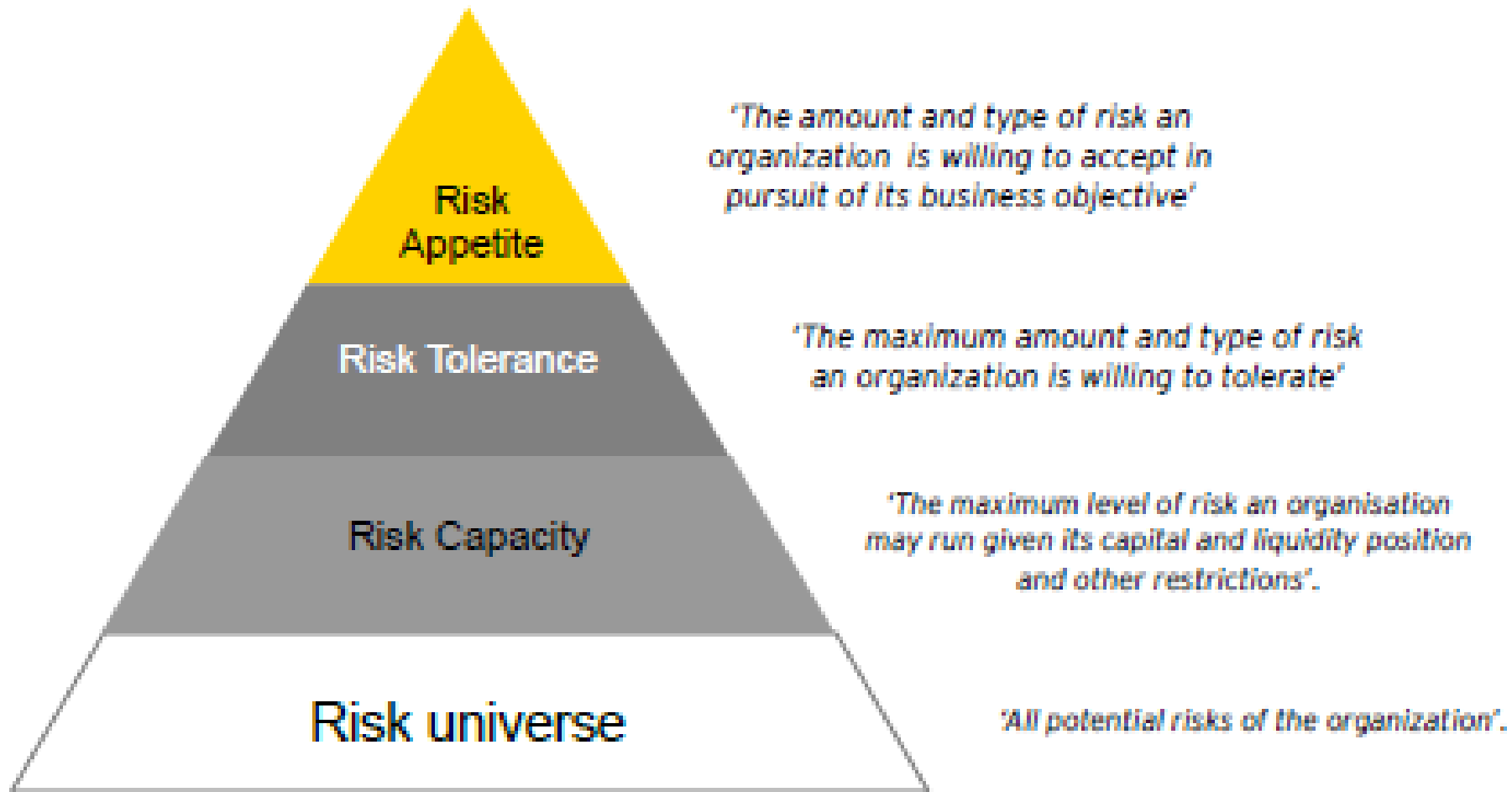
The Three Lines of Defense Model



Risk Framework



Risk Framework - Bottom-Up vs Top Down

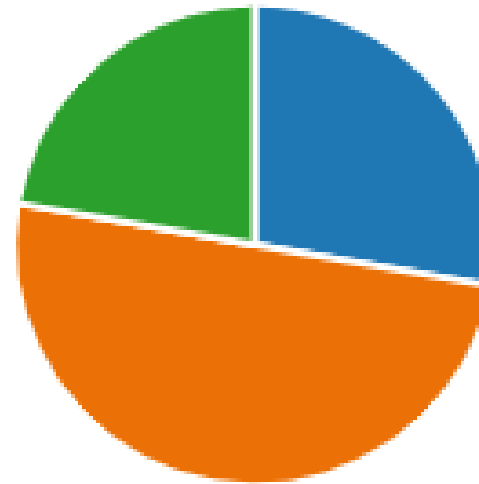


Risk Appetite Statement - Survey Results

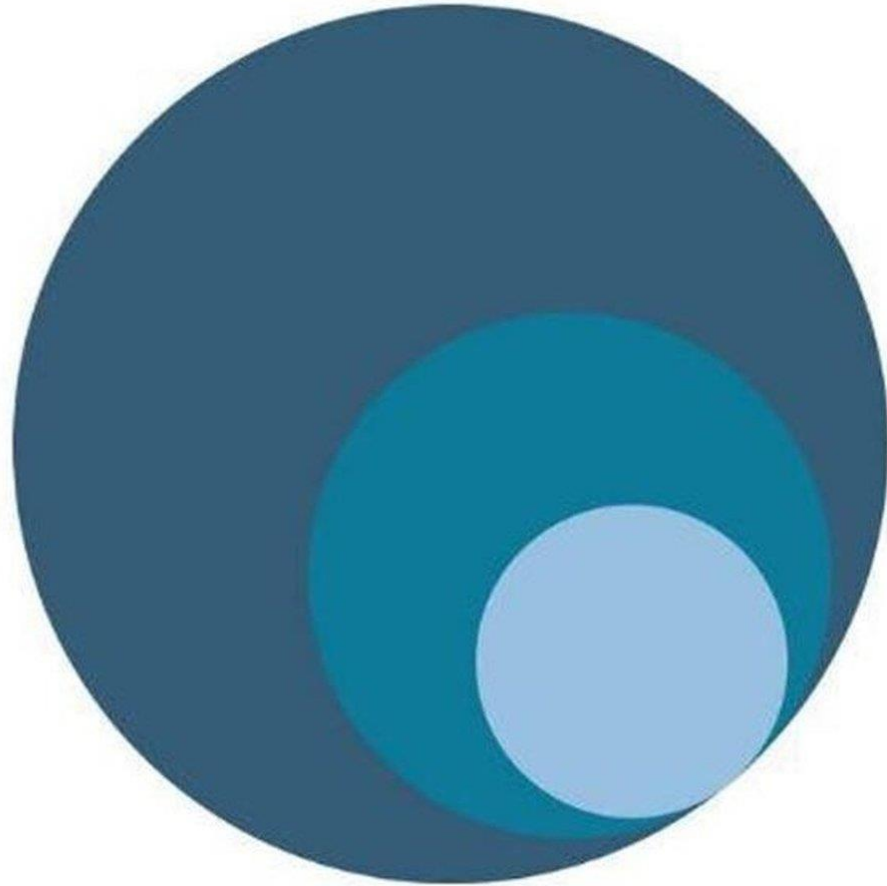
9. Does your organisation have a Risk Appetite Statement?

[More Details](#)

● Yes	5
● No	9
● Don't know what this is, need m...	4



What Does the Regulator Think?



**An Rialálaí
Carthanas**

**Charities
Regulator**

Regulator Guidance on Risk



Review of Guidance & Sample Risk Register

- ▶ 7 pages of which 2 are filler (cover pages)
- ▶ No mention of Risk Appetite Statement
- ▶ No mention of Risk Capacity, Tolerance or Limits
- ▶ Limited guidance on reporting
- ▶ No sample Risks or worked risk scoring example
- ▶ Provides some guidance on 7 risk categories
- ▶ No discussion of risk events, leading indicators, near misses, loss events, etc
- ▶ No mention Internal Controls and Effectiveness Review
- ▶ No discussion of the alignment of Risk and Strategy

Risk Categories - Provides Limited Guidance

- ▶ Governance
- ▶ Strategy
- ▶ Compliance (Legal & Regulatory)
- ▶ Operational
- ▶ Financial
- ▶ Environmental
- ▶ Reputational

Regulator Sample Risk Register

Risk Register - [Insert Charity Name here]									
Risk No	Description of Potential Risk	Description of Potential Impact	Risk Owner	Steps to Mitigate	Monitoring Frequency	Likelihood (1-5)	Impact (1-5)	Controls (1-3)	Risk Rating
Risk Category: Governance									
1	[Insert description of risk]	[Insert description]	[Insert text]	[Insert text]	[Insert text]	[Insert rating]	[Insert rating]	[Insert rating]	
2	[Insert description of risk]	[Insert description]	[Insert text]	[Insert text]	[Insert text]	[Insert rating]	[Insert rating]	[Insert rating]	
Risk Category: Strategic									
1	[Insert description of risk]	[Insert description]	[Insert text]	[Insert text]	[Insert text]	[Insert rating]	[Insert rating]	[Insert rating]	
2	[Insert description of risk]	[Insert description]	[Insert text]	[Insert text]	[Insert text]	[Insert rating]	[Insert rating]	[Insert rating]	
Risk Category: Compliance (Legal or Regulatory)									
1	[Insert description of risk]	[Insert description]	[Insert text]	[Insert text]	[Insert text]	[Insert rating]	[Insert rating]	[Insert rating]	
2	[Insert description of risk]	[Insert description]	[Insert text]	[Insert text]	[Insert text]	[Insert rating]	[Insert rating]	[Insert rating]	

In Word Document instead of Excel

Regulator Sample Risk Register

The Matrix for assessing impact, likelihood and effectiveness of existing controls

Each risk is scored in terms of:

- * **likelihood** i.e. the probability of future occurrence, how likely the risk it is that the risk will occur and how frequently it has occurred in the past.
- * **impact** i.e. the impact on the organisation and external stakeholders if the risk occurs.
- * **effectiveness of existing controls** i.e. given the controls which are currently in place, how effective are they at mitigating the risk.

A scale of **1 to 5** is used for **Likelihood** and **Impact**, and **1 to 3** is used for the effectiveness of existing **Controls**, according to the following matrix:

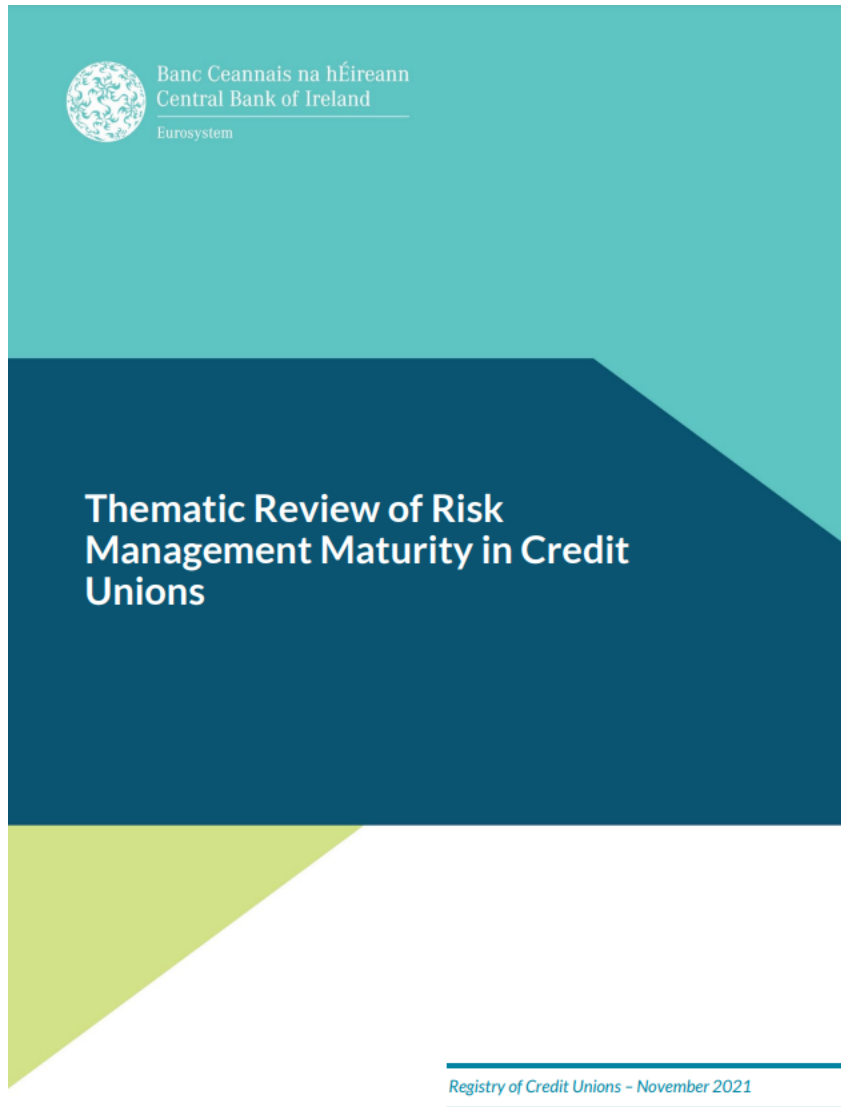
Likelihood Scale of 1 - 5	Impact Scale of 1 - 5	Controls Scale of 1 - 3
1 = Rarely, if ever	1 = No significant impact	1 = Controls highly effective
2 = Possible	2 = Minor impact	2 = Controls effective, but could be improved
3 = Likely	3 = Significant but containable impact	3 = No controls / controls are ineffective
4 = Very Likely	4 = High impact	
5 = Unavoidable / already occurring	5 = Extremely detrimental impact	

The risk score is determined **by multiplying the risk impact by the risk likelihood by the effectiveness of the controls.**

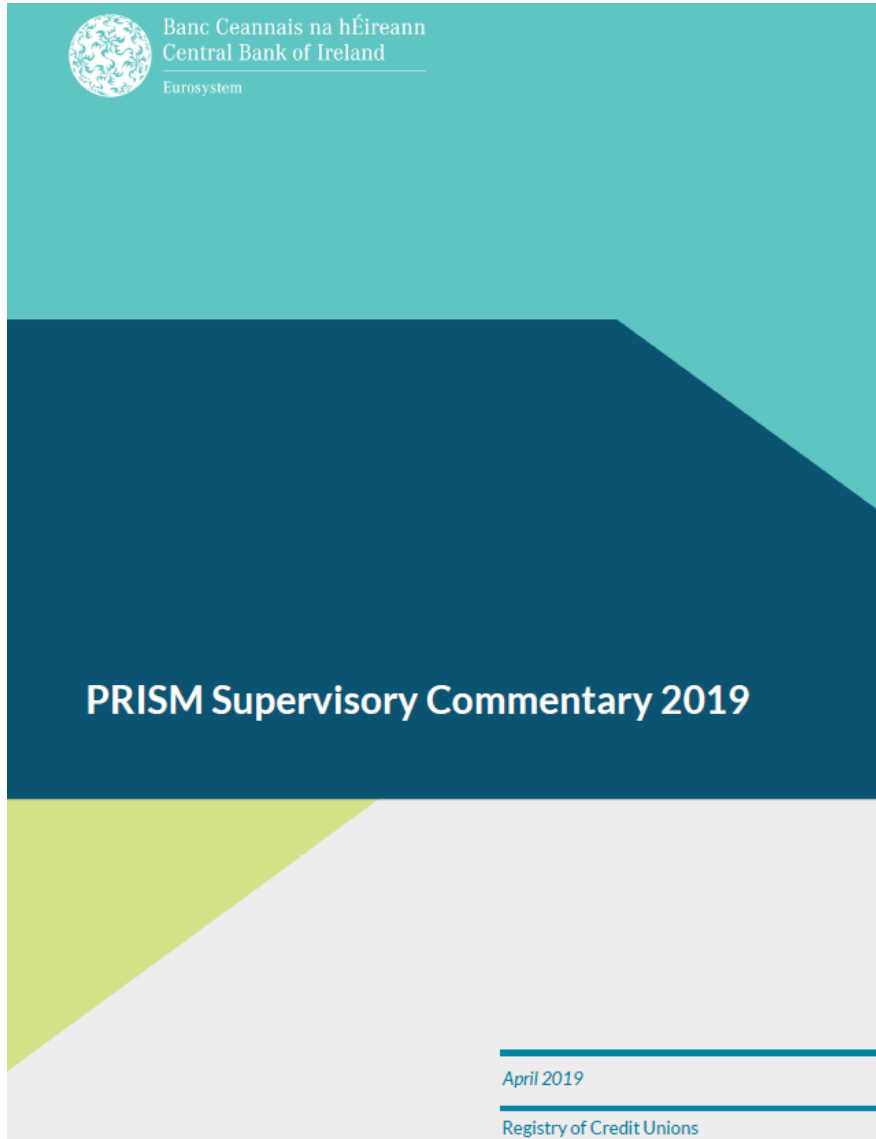
The following traffic light system can be used on a risk register to highlight / prioritise risk:

Risk Level	Risk Score	Action / Response
High	25+	[Insert text here regarding the action your charity will take for risks rated High]
Medium	13 - 24	[Insert text here regarding the action your charity will take for risks rated Medium]
Low	0 - 12	[Insert text here regarding the action your charity will take for risks rated Low]

What Does the Regulator Think?



What Does the Regulator Think?



What Does the Regulator Think?

Areas for Improvement

Board of Directors*

Board Ownership & Oversight



- Board Discussion: Lack of evidence of robust discussion of issues arising from Risk Management Reports or relating to risk management in general, at Board/Committee meetings;
- Risk Committee: Over-dependency leading to lack of ownership or oversight by the Board of Directors;
- RMO Attendance: Infrequent attendance of RMO at Board meetings to discuss risk management issues arising;
- Ownership of Risk Mitigating Actions: Lack of ownership and communication of actions from Board to mitigate risk identified by RMO;
- Policies, Procedures and Documentation: Documentation relating to Risk Management not subject to regular review by the Board;
- Strategy: Limited involvement of RMO in reviewing the credit union's strategic plan.

RMF: Structure and Framework



- Policies, Procedures and Documentation: Documentation not consistent with what the credit union is doing in practice;
- Risk Register: Impractical Risk Register, not reflective of the risks facing the credit union;
- Front Line Staff: Limited front line staff interaction with RMF; Limited involvement of front line staff in risk identification;
- Independence of the RME: RMO with no direct reporting line to the Board or Risk Committee. Raises concerns regarding the independence of the RMF;
- Potential Conflict of Interest: Instances where the RMO has an additional important operational role.

Risk Reporting



- Timing of Risk Reporting: Infrequent presentation of risk reports to the Board;
- Quality of Risk Reporting:
 - Reports not clear and concise;
 - Identification of risk for the risk register – large number of risks on the risk register – risks identified, not in line with main risks facing the credit unions.

Training & Culture



- Training: Lack of a dedicated training plan for Board of Directors or front line staff, specific to the credit union's Risk Management Framework to ensure clarity on all roles and responsibilities in relation to risk management.
- Culture: Poor engagement and communication between the Board and the three lines of defence on risk management



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

*Overarching responsibility rests with the Board of Directors

Governance Code Review 2022

4.3 The Charities Governance Code sets out the minimum standards that charity trustees should meet to effectively manage and control their charity. The following Charities Governance Code standards were identified as the standards with which registered charities making Charities Governance Code declarations were least compliant overall:

Charities Regulator

6

- Standard 4.5 - Identify any risks your charity might face and how to manage these;
- Standard 5.5 - Consider introducing term limits for your charity trustees, with a suggested maximum of nine years in total;
- Standard 5.9 - From time to time, review how your board operates and make any necessary improvements.

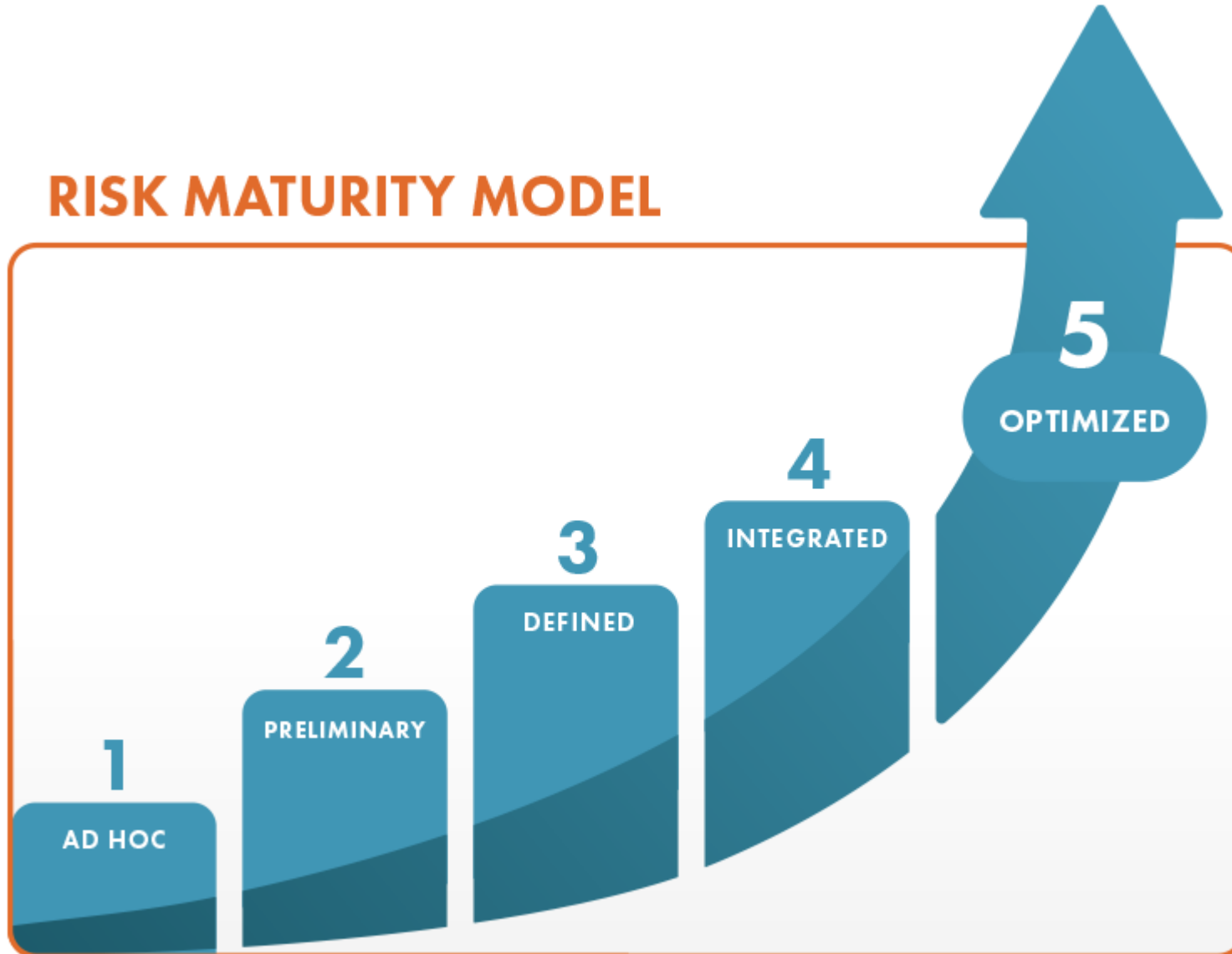


Charities Governance Code 2022 Review

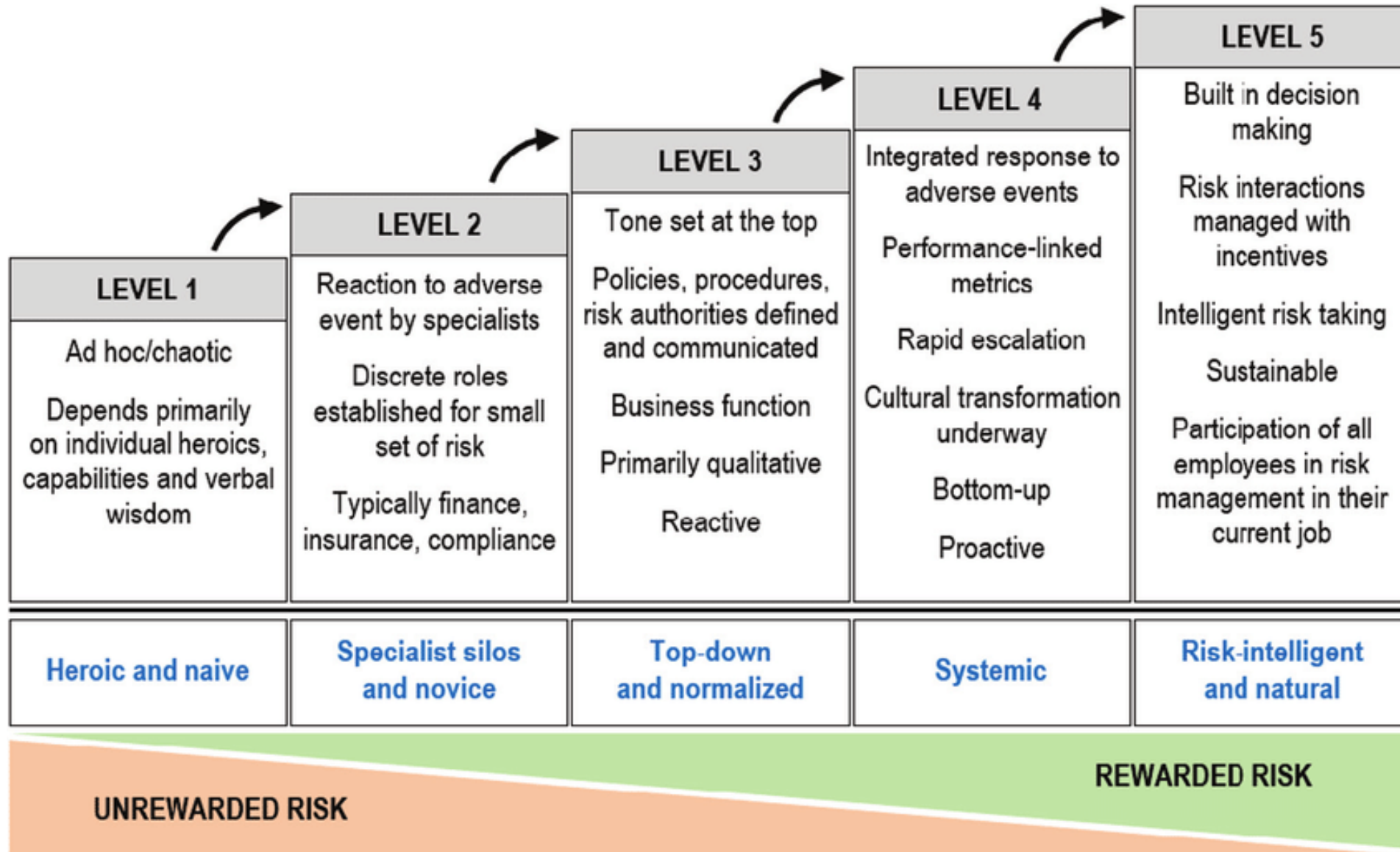


Risk Maturity Model

RISK MATURITY MODEL



Risk Maturity Model

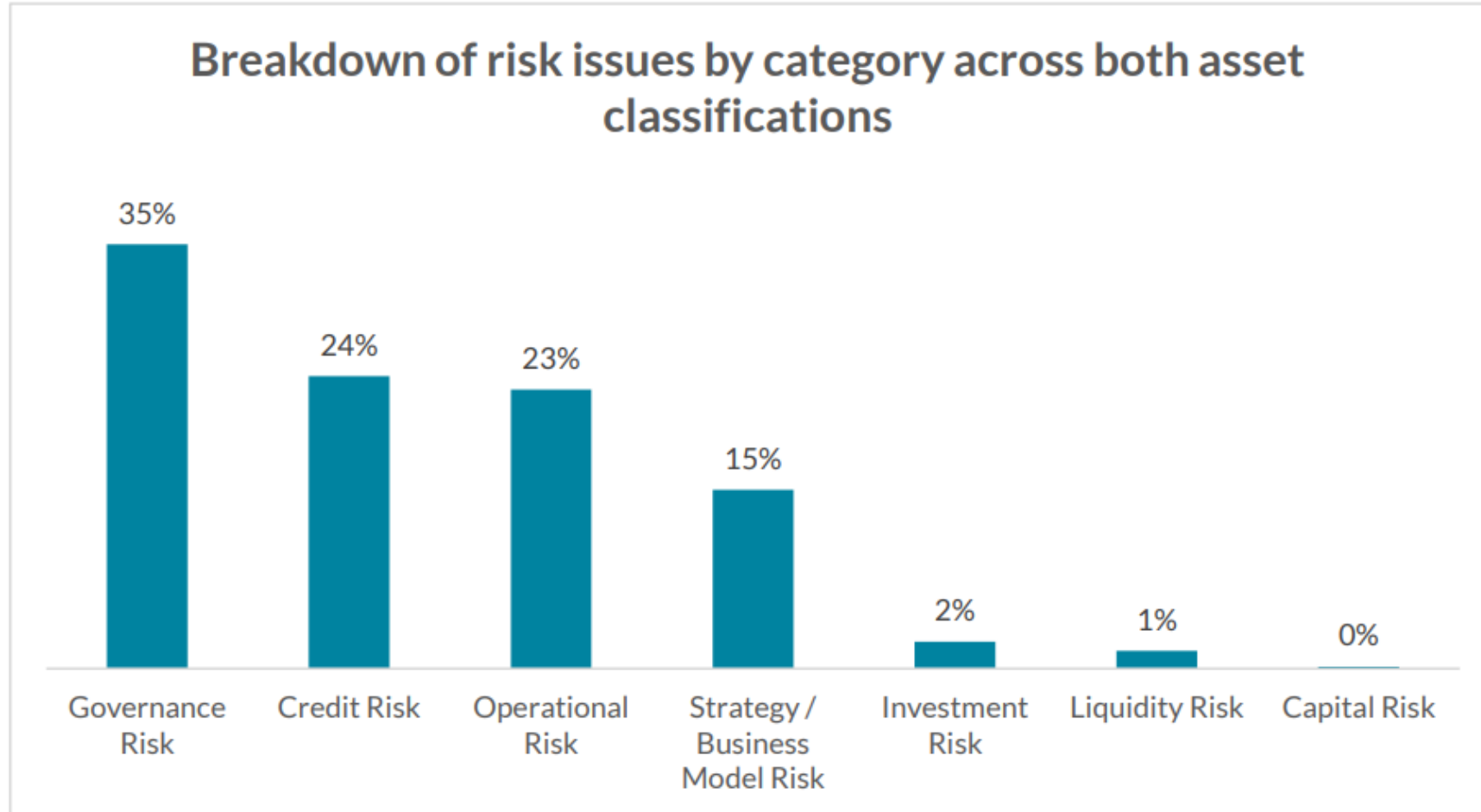


Risk Maturity Assessment

		RISK MANAGEMENT ADOPTION MATURITY				
		Learner	Developer	Performer	Contender	World Class
PARAMETERS OF IMPLEMENTATION	Process Use of Standards tools and techniques	No Use of Standards tools and techniques 1	Aware of techniques but no formal application of Standards 2	Use of Standards and risk management tools 3	Regular use of Standards and risk management tools 4	Sound understanding of standards, good use of tools to support process 5
	Adoption Knowledge of risk management discipline	Little knowledge of risk management discipline 1	Aware of risk management, not clear on how it may benefit the organisation 2	Understanding of risk management across some parts of the organisation 3	Sound knowledge of risk management and its value to the organisation 4	High degree of organisational awareness and knowledge of risk management 5
	Culture Risk management activities undertaken	No formal risk management activities undertaken 1	Conduct some risk management activities (ad hoc). Insufficient resources 2	Have risk management framework and carry out risk management when time permits 3	Formal risk management programme in place 4	Risk management embedded in the organisation and decision making 5
	Visibility & Control Awareness of benefits and value	Unsure how risk management may benefit the organisation 1	Aware of needs to conduct formalised risk management, not clear on broader organisational benefits 2	Aware of benefits of risk management with brings to the organisation 3	Aware of benefits of risk management with deployment across the organisation 4	Risk management incorporated into business planning and strategic thinking 5

508 x 380

CBI - % of risk issues identified by risk category 2020



CRA Compliance Report Concerns 2022

Category	No. of Concerns 2021	% 2021	No. of Concerns 2022	% 2022	2021 - 2022 % comparison
Governance Issues	209	37%	232	36%	-1%
Legitimacy of Charity	196	35%	226	35%	0%
Financial Control and Transparency	107	19%	106	17%	-2%
Misdirected Concerns - issues outside Charities Regulator's remit	28	5%	43	7%	+2%
Harm to Beneficiaries	14	2%	13	2%	0%
Private Benefit	13	2%	13	2%	0%
Inappropriate Political Campaigning	1	0%	9	1%	+1%

Governance Risks - CBI Findings

Risk & Compliance

- ▶ Weaknesses in the risk management and compliance functions
- ▶ Weaknesses in risk and compliance reports
- ▶ Inconsistencies between documented Risk Appetite and policies
- ▶ The top risks, as documented by the credit union, not being reflective of the risk profile of the credit union

Board Procedures and Performance Management

- ▶ Failure by the board to formally respond to issues raised in the Risk Management, Internal Audit and Compliance reports
- ▶ Lack of dedicated resources focused on key challenges facing the credit union
- ▶ Poor attendance at board of directors meetings

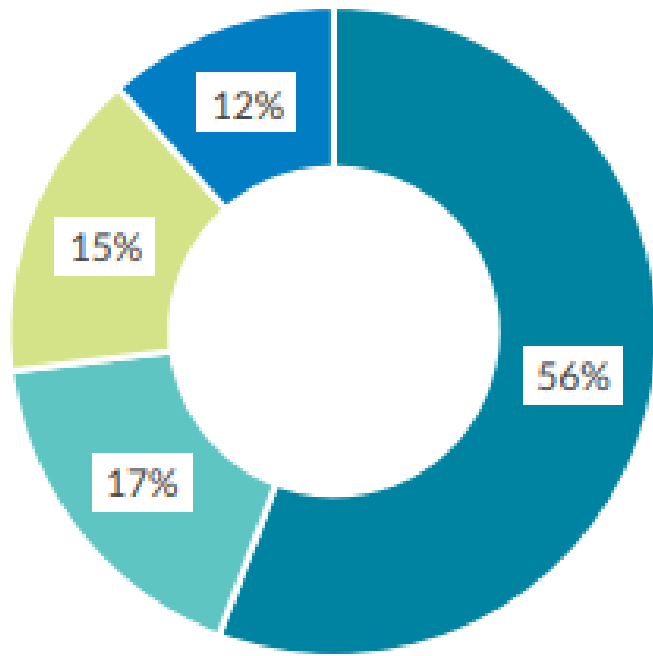
Internal Audit

- ▶ Weaknesses in Internal Audit reports being presented to boards



Operational Risks 2020

Of the 57 credit unions with assets less than €100m that received an RMP during the review period, 52 credit unions (91%) were found to have operational risk issues a high proportion of issues identified related to 'Internal Processes & Systems and Controls' reflecting the focus of our desk based engagements.



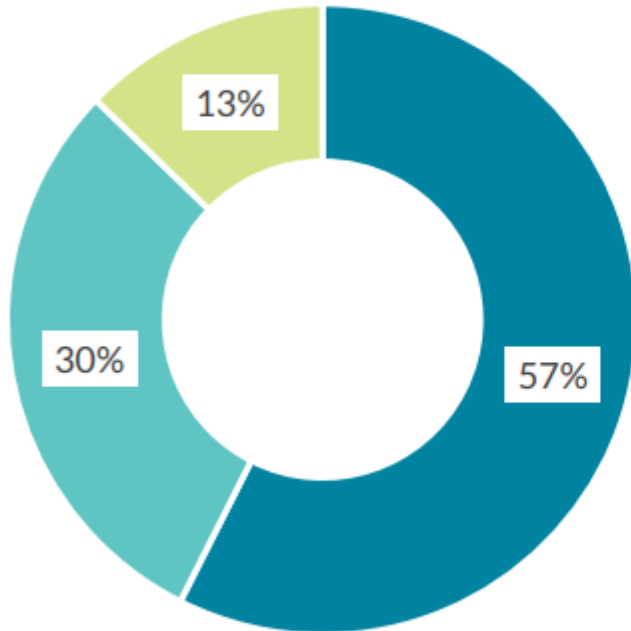
Operational Risk Issues -
Credit Unions with Assets
of less than €100m

- Internal Processes & Systems and Controls
- Information Technology
- Bank and Cash Control Framework
- Anti Money Laundering



Strategy Risks 2020

Of the 57 credit unions with assets of less than €100m issued an RMP during the review period, 40 (70%) were found to have strategy/business model risk issues.



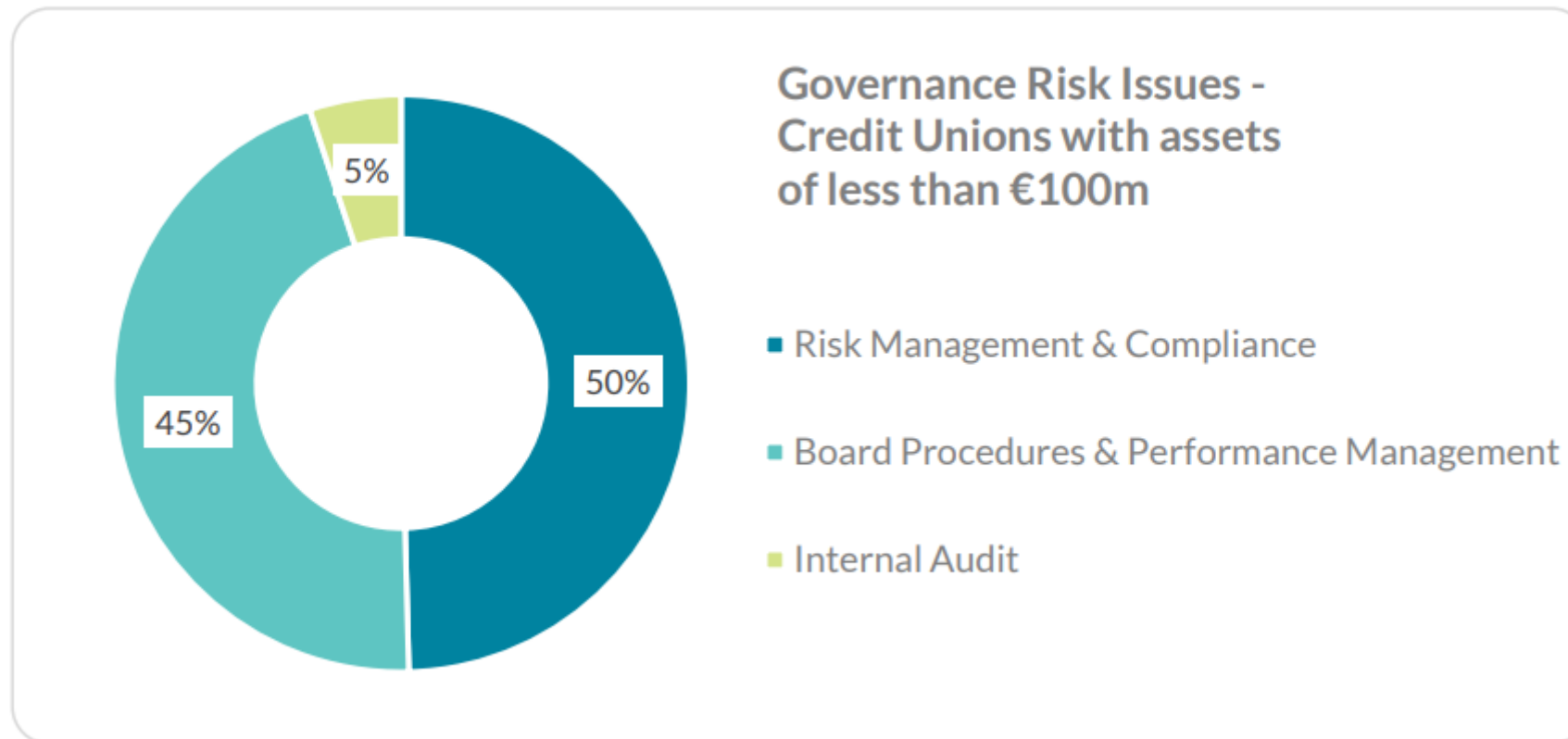
Strategy/Business Model Risk Issues -
Credit Unions with assets
of less than €100m

- Strategic Planning - Quality
- Strategic Planning - Monitoring & Review
- Business Model



Governance Risks 2020

Of the 57 credit unions with assets of less than €100m that received an RMP during the review period, 42 (74%) were found to have governance risk issues.



**Risk Appetite &
Capacity is Set
By the Board!!**



Risk Culture - Tone For The Top



What is Risk Appetite Statement?

A Risk Appetite Statement (RAS) is a clear and concise statement that outlines what our Charity (CLG) is willing to do in pursuit of its strategic and business objectives. It is an articulation of the type and degree of risk that the CLG is prepared to accept in pursuit of its strategic and business objectives. The setting of our RAS is not about the elimination of all risk; rather it is about embracing risk in areas in which the Management/Board has the appropriate skills, knowledge and experience to take advantage of the opportunities presented, whilst limiting risk in other areas. When considered with our strategy this explains what we **'do'** and what we **'don't or shouldn't!'**

The strategy and risk appetite of the Charity are interlinked. "Risk appetite is as much about enabling an organisation to take on calculated risks in pursuit of long-term strategy as it is about placing constraints on activities." In that sense the RAS allows the CLG to demonstrate to stakeholders that achievement of results stem from deliberate strategy and risk allocation as opposed to happenstance. It is the view of the Board of Directors that Charity should view a risk appetite statement as a positive and dynamic document.

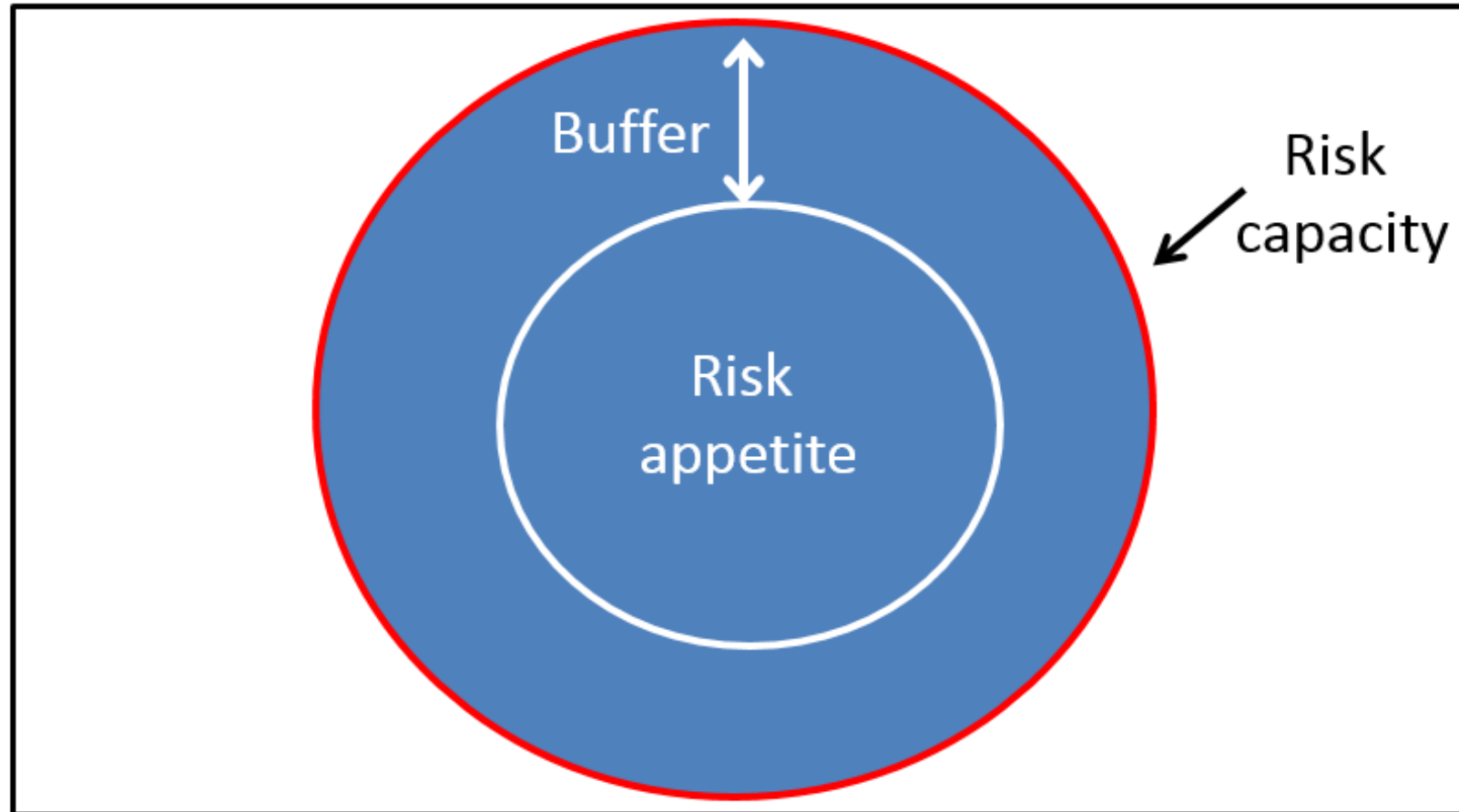
What is Risk Appetite Statement?

- ▶ Clear & Concise Statement
- ▶ Accepted risk in pursuit of business & strategic objectives
- ▶ Articulation of type & degree of risk
- ▶ Embracing risk in areas of skills, experience, knowledge
- ▶ Limiting areas of risk, skill shortage, experience, knowledge
- ▶ What we do, what we don't do and shouldn't do
- ▶ Calculated risks in pursuit of long-term strategy
- ▶ Places constraints on activities
- ▶ RAS is a positive and dynamic document



Understanding Risk Capacity

Contextualising risk capacity and appetite



Central Bank, Risk Appetite: A discussion paper 2014



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GOVERNANCE RISK COMPLIANCE

Risk Appetite - Rules of Play

IF YOU PLAY THE GAME



YOU MUST FOLLOW THE RULES

Top of the Pyramid

- Risk Appetite

- ▶ The UK's Financial Services Authority (FSA) states:
 - “Risk appetite is the amount of risk that one is prepared to accept, tolerate, or be exposed to at any point in time.”



Understanding Risk Capacity

- ▶ Risk Capacity - The maximum amount of risk an entity is able to support within its available financial resources
- ❖ Versus
- ▶ Risk Tolerance - The maximum amount or type of risk the entity is prepared to tolerate above risk appetite.

Top of the Pyramid - Risk Appetite

- ▶ Would you ever take up hang gliding? What about base jumping?
- ▶ Would you drive a car if the seat belt was broken? To get to an important meeting or catch a flight ... maybe?
- ▶ If you were down to your last €100, would you bet €10 on a horse after a hot tip? €20? Your whole €100?
- ▶ Would to break COVID19 restrictions / advice, for a pint, to travel to visit a friend? Spanish Holiday vrs Staycation?
- ▶ Would you cross in the middle of a busy main road to save a minute, instead walking to the pedestrian crossing?



Top of the Pyramid - Risk Appetite



Risk Framework - Appetite Is At The Top!



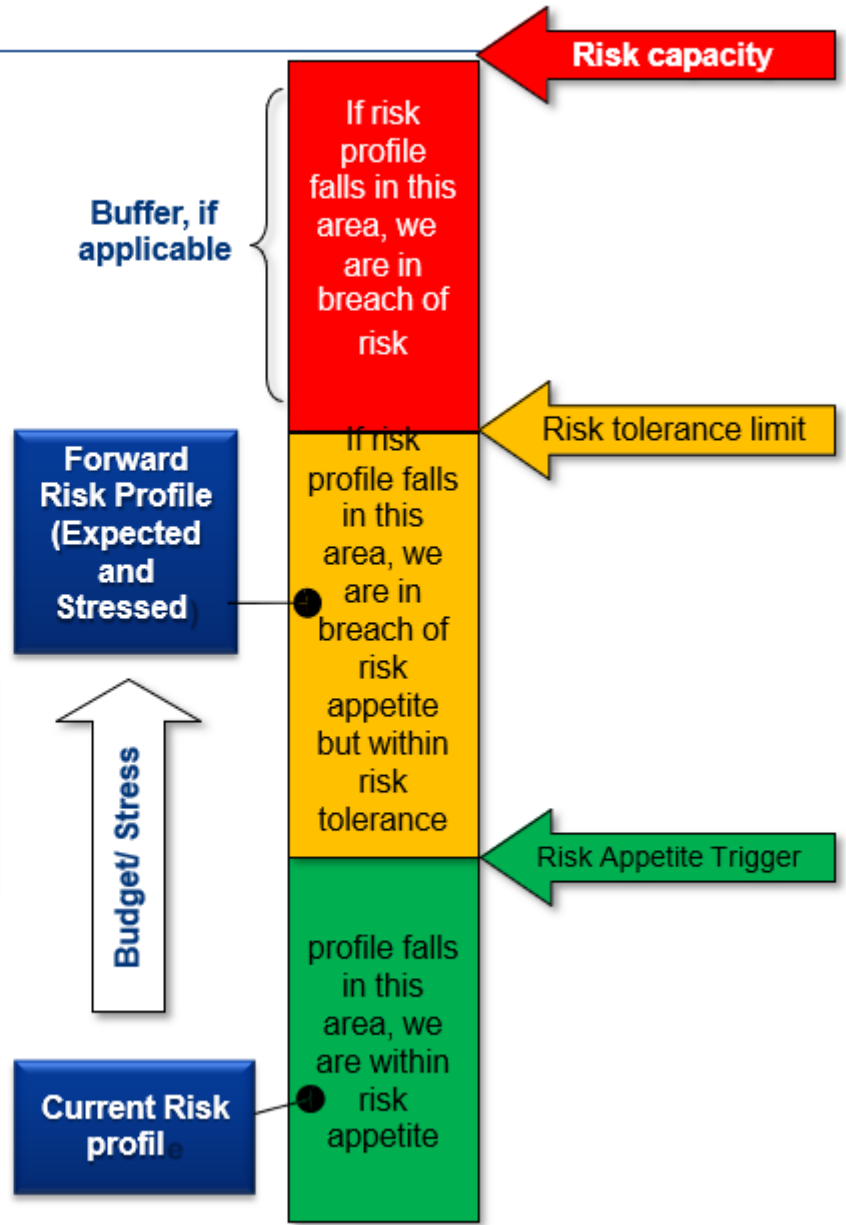
2. Risk Terminology

Risk Capacity The maximum amount of risk an entity is **able to support** within its available financial resources .

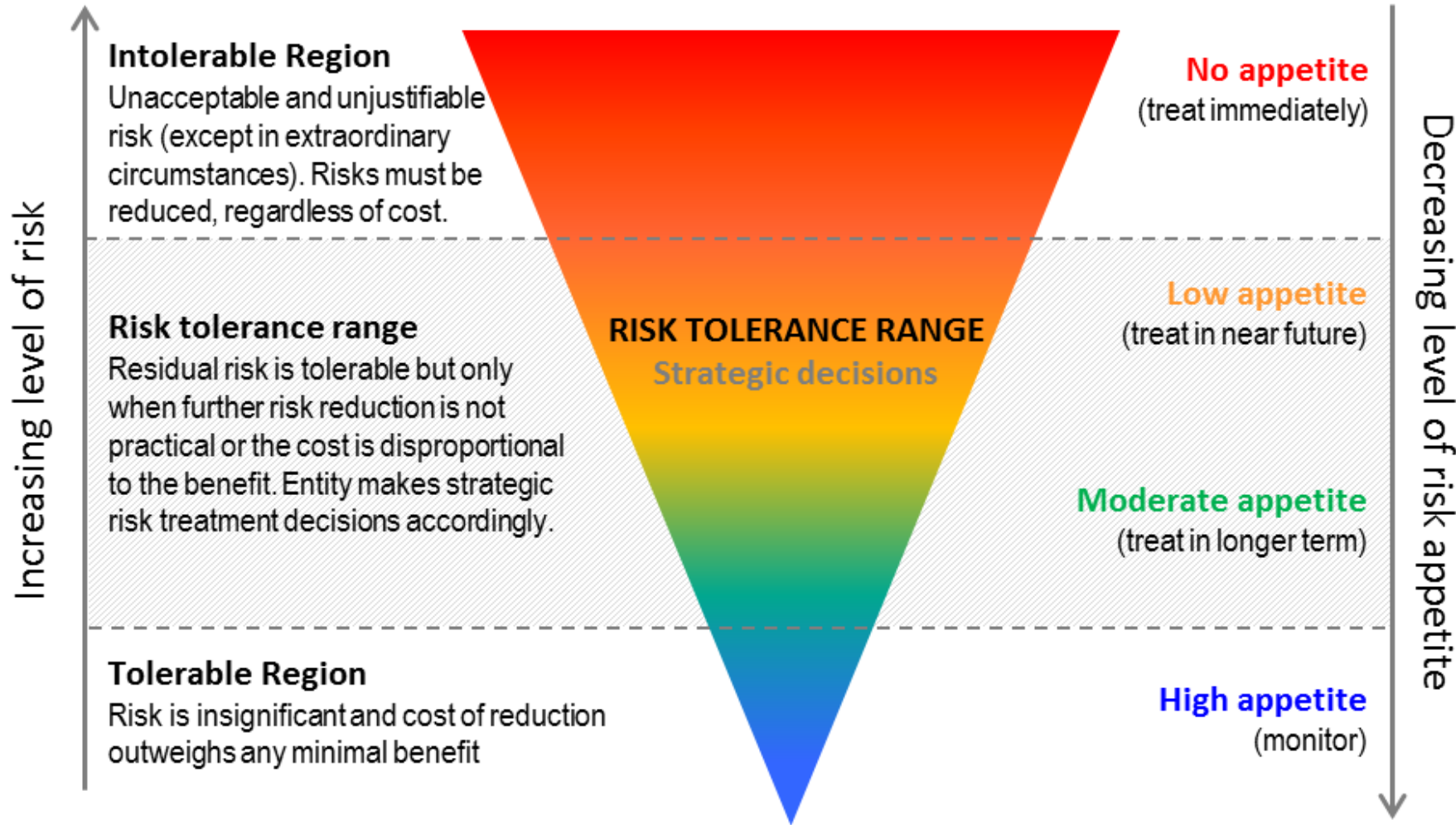
Risk tolerance The maximum amount or type of risk the entity is prepared to tolerate above risk appetite.

Risk appetite How much and what type of risk the bank is generally prepared to accept to achieve its financial and strategic objectives.

Risk profile **Current** risk profile is the amount or type of risk the entity is currently exposed to
Forward risk Profile is forward looking view of how the entity's risk profile may change under both expected and stressed economic conditions



Understanding Risk Tolerance



Mapping Risk Appetite to Scoring Matrix

Magic Number

There is no one metric that captures risk appetite

Embedding

Difficult to drive risk appetite down

Qualitative statements

Focus has been on quantitative statements thus far

Matching Score to Appetite

Probability	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
			Impact			

We All Understand Risk Appetite & Capacity



red flare
GOVERNANCE RISK COMPLIANCE

How Hungry are you on a scale of 1 - 25 ?

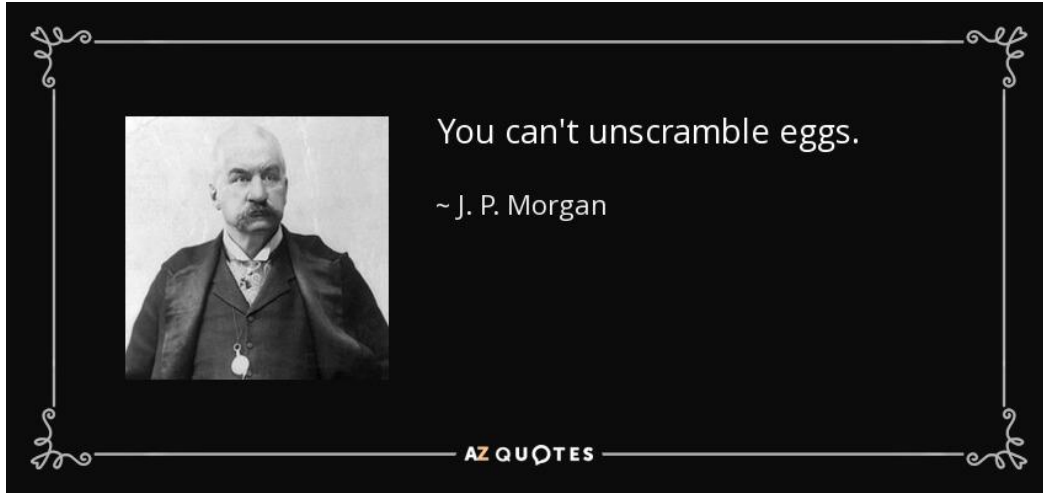
Colour Code	Risk Appetite	Description – Philosophy & Tolerance
Zero	Stuffed – 0.1 – 5	Stuffed: You have just eaten a large meal and feel full
Low	Peckish – 5.1 – 10	Peckish: You are starting to feel hungry and could use a snack.
Medium	Hungry – 10.1 – 15	Hungry: You are feeling a moderate amount of hunger and need to eat something soon.
High	Starving – 15.1 – 20	Starving: You are feeling a strong amount of hunger and are starting to get lightheaded or irritable.
Extreme	Famished – 20.1 – 25	Famished - You are feeling extreme hunger and are desperate for food.



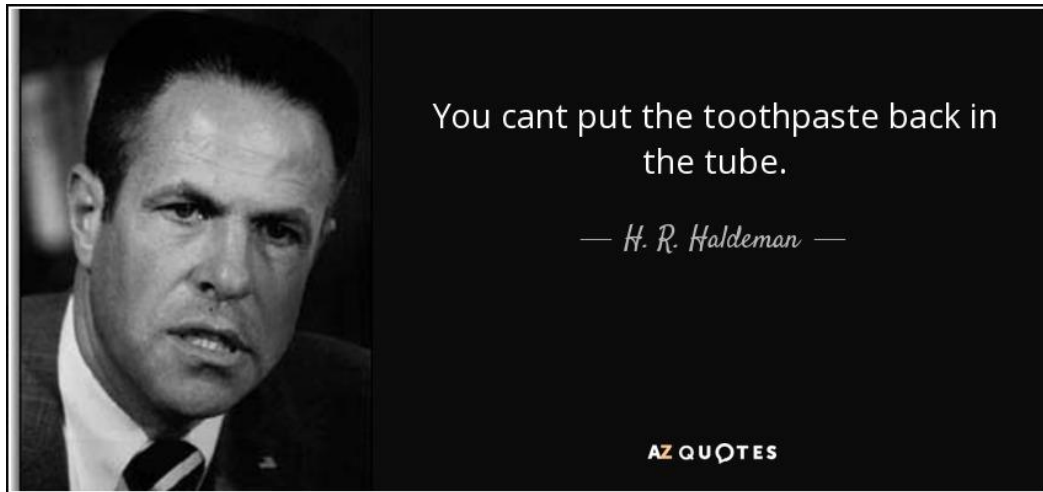
Risk Appetite Calculation Table

Colour Code	Risk Appetite	Description – Philosophy & Tolerance
Zero	Averse – 0.1 – 5	Averse - Avoidance of risk is the core objective, unwilling to accept any extremely low amount of uncertainty
Low	Minimalist – 5.1 – 10	Minimalist - Extremely conservative, willing to accept a low amount of uncertainty
Medium	Cautious – 10.1 – 15	Cautious - Preference for safe delivery, willing to accept a certain amount of uncertainty
High	Flexible – 15.1 – 20	Flexible - Will take strongly justified risks and expect some uncertainty
Extreme	Open – 20.1 - 25	Open - Will take justified risks and fully expect and accept uncertainty





Breaching Your Risk Capacity



Risk Examples - Category Event Appetite Capacity

SECTOR / CATEGORY / EVENT / APPETITE / CAPACITY

School - Insurance - Accidents - Zero (2)- Medium (13)

Nursing Home - Conduct - HIQA - Zero (2)- Low (7)

Rugby / Football Club - Liquidity - Relegation - Low(2) - Medium (13)

Airline - Environmental - Terrorism - Zero - Low

Cruise Line - Operational - COVID19 - Zero - Low

Farming - Insurance - Weather - Low - Medium

Construction - Capital - Cashflow - Medium (13) - High (17)

Semi State Transport - Strategy - Strike - Low - High

High Street Retailer - Market - Online Retail - Medium - Medium

Xmas Tree Sales - Business Model - Seasonal - Low - Medium

Funeral Home - Market - Cure Cancer - High (17) - Extreme (22)



Mapping Risk Appetite to Scoring Matrix

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Embedding

Difficult to drive risk appetite down

Qualitative statements

Focus has been on quantitative statements thus far



Risk Categories

- ▶ Governance
- ▶ Strategy
- ▶ Compliance (Legal & Regulatory)
- ▶ Operational
- ▶ Financial
- ▶ Environmental
- ▶ Reputational

Risk Appetite Calculation Table

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Extreme	Open – 20.1 - 25	Open - Will take justified risks and fully expect and accept uncertainty



Worked Example Risk Appetite Table - Aligned to Strategic Plan

Category	Description	Green (Appetite)	Amber (Tolerance)	Red (Capacity)	Internal Monitoring (Key Risk Indicators)	Owner / Frequency	Green (Appetite)	Amber (Tolerance)	Red (Capacity)	Basis
Financial	Projections vs. Actual	2.5% of budget or €xxx	Between 2.5% and 5% of budget or €xxx - €xxx	>5% of budget or >€xxx	Track total or individual %'s	Fin Con / Monthly / CEO report	7.5	Range 5	12.5	
	Expenditure as a % of Income	50%	60%	70%	Track total or individual %'s	Fin Con / Monthly / CEO report	7.5	Range 5	12.5	
	Arrears - A1 ratio from pearls	5%	7%	10%	Track KRI of A1 % Pearls ratios	Fin Con / Qtrly / CEO report	7.5	Range 5	12.5	
	Loans to Asset Ratio	70%	80%	90%	Track KRI of % of total reserves	Fin Con / Qtrly / CEO report	17.5	Range 5	22.5	
	Total Reserves / Total Asset Ratio	15%	14%	13%	Track KRI of % of total reserves	Fin Con / Qtrly / CEO report	7.5	Range 5	12.5	
	Return on Capital Employed	2% of total assets	< 1.5% of total assets	< 1.5% of total assets	Track KRI of ROCE	Fin Con / Qtrly / CEO report	12.5	Range 5	17.5	
Strategic	Strategic Objectives	All Objectives on track	80% Objectives on Track	<80% Objectives on Track	Track KRI of Strategic Objectives	CEO / Qtrly / CEO report	7.5	Range 5	12.5	
	Strategic Tasks	All tasks on track	80% tasks on Track	<80% Objectives on Track	Track KRI of Strategic Tasks	CEO / Qtrly / CEO report	7.5	Range 5	12.5	
Regulatory	Adverse PRISM Inspection findings and receipt of RMP	Compliance No Adverse Findings	Minor non-compliance (procedural / updates)	Adverse findings	Track Open RMPs and Supervisory Expectations Register	CO / Qtrly / CO Report & Breach Register	7.5	Range 5	12.5	
	Fines / Penalties	No appetite	Fine €5,000	Fines > €5,000	Regulatory Correspondence Review	CO / Qtrly / CO Report & Breach Register	2.5	Range 5	7.5	

Failures In Governance & Risk Management can Lead To ...



Board of Directors



**Thou Shalt Obey
Your Prescribed
Legislation**

**Not Maybe or
Might!!**



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GOVERNANCE RISK COMPLIANCE

Risk Structure for Directors Meetings

What proportion of our time is spent, looking where we want to go ...

... or where we have been?



75%

Where we are going to?

*Strategic plan
Risk report*

15%

Where have we been?

*Management accounts
Management update*

10%

What others are doing?

*Competitive analysis
Upstream risk*

Directors Risk Responsibilities

S.55.1.E. The appointment of a manager, risk management officer and compliance officer and the approval of the appointment of any other member of their management team

S.55.1.I. Reviewing and approving all elements of the risk management system on a regular basis, but at least annually.

(i) assessing the appropriateness of the risk management system,

(ii) taking account of any changes to the strategic plan including the credit union's resources

or the external environment, and

(iii) taking measures necessary to address any deficiencies identified in the risk management system;

(o) approving, reviewing, and updating, where necessary, but at least annually, all plans, policies and procedures of the credit union, including the following:

(xv) risk management policy;

'3. The Board of directors shall implement a risk management process, that's ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.



Risk Agena Topic For BOD

▶ Have questions ready to ask CEO or RMO

- ▶ What new risks have been added in the period ?
- ▶ What risks are growing residually and why?
- ▶ What Risks Controls are deemed ineffective or partially effective and what are we doing to fix them ?
- ▶ What Risks are outside of appetite and why ?
- ▶ What Risks are nearing or outside of capacity and why? What are we doing to mitigate them?
- ▶ What are the new Risk Officer Recommendations?
- ▶ What is the status of the existing Risk Officer Recommendations?

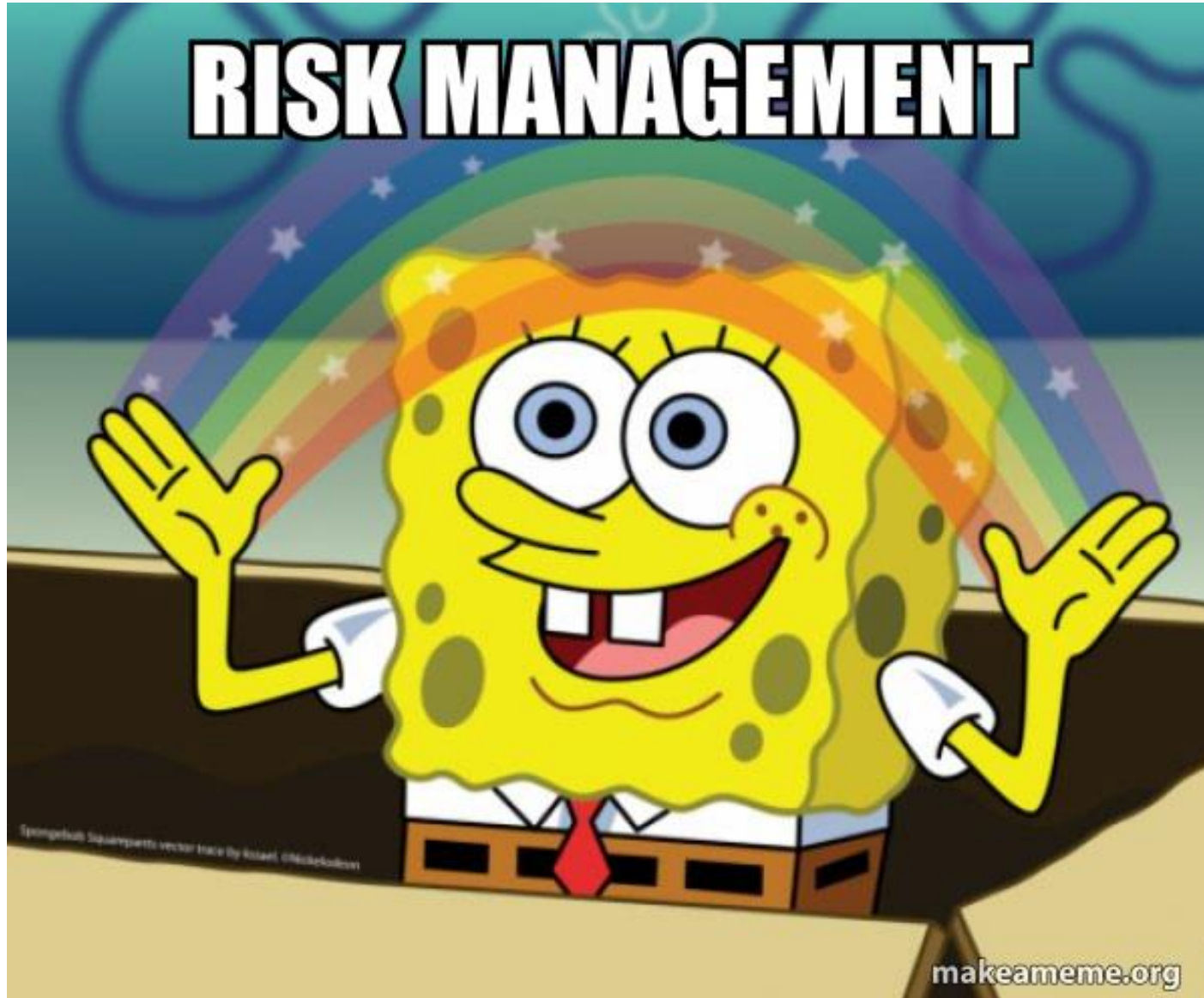
Develop Risk Management Plan and Checklist



Risk Management Plan - Suggested Sections

- ▶ Risk Identification
- ▶ Risk Assessment
- ▶ Risk Controls
- ▶ Risk Reporting
- ▶ Risk Recommendation
- ▶ Risk Management Policy
- ▶ Risk Appetite Statement
- ▶ Risk Maturity Assessment
- ▶ Risk Management System
- ▶ Risk Reserve
- ▶ Risk Culture
- ▶ Risk Management Officer
- ▶ Risk Events / Loss Events
- ▶ Risk Governance
- ▶ Risk Training

Risk Management Officer (RMO)



Role of the Risk Management Officer

- ▶ Ensuring each internal/external risk of the credit union is identified, assessed, reported and monitored and assisting the manager with managing and mitigating those risks
- ▶ Advising the board of directors on the risk management policy and process and any deviations from the risk management policy
- ▶ Reporting on any significant risk event to the board of directors in a timely manner
- ▶ Implementing the risk management system approved by the board of directors
- ▶ Maintaining the risk register
- ▶ Making monthly reports to the board of directors
- ▶ Communicating the risk management policy, process and roles and responsibilities relating to officers of the credit union
- ▶ Providing training and support in the area of risk management to officers of the credit union
- ▶ Making the necessary information available to the internal audit function to facilitate independent review of the risk management system
- ▶ Supporting the board of directors in promoting a culture of risk awareness, identification and management at every level within the credit union



Risk Reporting



Risk Reporting

- ▶ Reports should cover the following at a minimum on 2 - 3 pages:
- ▶ significant risks and the effectiveness of systems and controls;
- ▶ any risk events that have occurred and the actions taken or proposed to mitigate the risk;
- ▶ likely or actual deviations from risk tolerance levels or established systems and controls and should include the timeframe and status of any activities that are proposed to address these;
- ▶ any negative trends in higher risk areas and any recommended changes to risk management activities;
- ▶ any new risks including their risk assessment, risk rating and systems and controls;
- ▶ any material emerging risks and recommended course of action;
- ▶ updates on risk management recommendations / actions arising from previous reports



Risk Reporting - Top 10 Residual Risks

Risk Name	Residual	Residual	Trend	Control Effectiveness	Appetite	Capacity	Tolerance	Last Review	Next Review	Status	Open Recommendations
	Jan	Feb									
Data Protection	17	17	↔	Weak	7.5	12.5	Treat	04/10/2019	29/02/2020	Due	2
Business Continuity Plan	5	5	↔	Reasonable	2.5	7.5	Accept	30/06/2019	30/06/2020	Reviewed	1
Cyber Security	2	11.5	↑	Weak	2.5	5	Treat	19/01/2020	28/02/2020	Due	1
Governance Effectiveness	7	7	↔	Reasonable	5	7.5	Accept	05/01/2020	30/06/2020	Reviewed	0
Strategic Performance	14	14	↔	Reasonable	12.5	17.5	Treat	26/08/2019	31/12/2019	Overdue	1
Interest on loans	7	7	↔	Strong	7.5	12.5	Tolerate	22/12/2019	31/01/2020	Overdue	0
Employment Concerns	2.5	2.5	↔	Robust	2.5	5	Tolerate	11/11/2019	31/03/2020	Reviewed	0
Brexit	14	12	↓	Strong	12.5	17.5	Tolerate	31/01/2020	31/12/2020	Reviewed	0
Competition	5	6	↑	Robust	7.5	12.5	Tolerate	22/06/2019	31/03/2020	Reviewed	0
Bad Debts	7	5	↓	Reasonable	2.5	7.5	Accept	31/12/2019	31/03/2020	Reviewed	1

Risk Reporting -Key Risk Indicators

Key Risk Indicator	Associated Risk	Score	Score	Score	Trend	Trigger >=	Risk Review Triggered	Review Cycle
		Jan	Feb	Change				
SAR's & Data Incidents	Data Protection	1	0	-1	↑	3 SAR's or 3 Data Incidents	N	Mthly
BCP Testing Results	Business Continuity Plan	0	0	0	↔	1 Element of BCP Fails	N	Mthly
Continuous Vulnerability Testing	Cyber Security	4	15	11	↑	5 Hacks Monitored	Y	Weekly
Compliance Breach Register	Governance Effectiveness	3	2	-1	↓	Increase in Material Breaches	N	Mthly
Strategic MI Reports	Strategic Performance	0	2	2	↑	1 Strategic Objectives Failing	Y	Mthly
Monthly Interest on loans €	Interest on loans	3%	-4%	-7%	↑	5% Reduction on Projection	Y	Mthly
Staff Movement / Complaints	Employment Concerns	0	0	0	↔	2 Staff Complaints PM	N	Mthly
Brexit Sentiment Index	Brexit	51%	50%	-1%	↓	10% Reduction on Projection	N	Qtrly
Growth in Loans	Competition	2%	-6%	-8%	↑	5% Reduction on Projection	Y	Mthly
Bad Debt Provisioning	Bad Debts	1%	1%	0%	↔	5% Increase on Projection	N	Mthly

Risk Reporting

Risk	Sub-Risk	Risk Appetite Level (i.e. Willingness to tolerate risk)
Strategic Risk	Short-term strategic risk	Green
	Long-term strategic risk	Red
	Reputational risk	Red
	Capital Risk	Green
Liquidity Risk	Short-term liquidity risk	Green
	Long-term liquidity risk	Yellow
Credit Risk	Customer credit risk	Yellow
Operational Risk	Fraud risk	Red
	Internal controls risk	Yellow
	Compliance risk	Yellow
	Human capital (HR) Risk	Green
	IT risk	Yellow
Financial Risk	Reporting Integrity risk	Red
	Customer concentration risk	Yellow
	Supplier concentration risk	Red
Market Risk	Interest rate risk	Green
	Currency risk	Green

How?
Why?



Definitions of the above risks can be found in the glossary section.

Symbol	Definition
Green	The BOD accepts the impact of potential risk in materializing.
Yellow	The BOD has a moderate appetite to accept its exposure to risk.
Red	The BOD attempts to avoid/limit/mitigate its exposure to risk.

Risk Reporting

S.6 - Capacity analysis

	Within appetite	Exceeds appetite	Exceeds capacity
	75	3	1
Inherent credit risk	4	0	0
Liquidity	2	0	0
Inherent operational risk	11	0	0
Quality of controls in operational risk	14	0	0
Financial crime controls	0	2	1
Excess/Marginal capital	3	0	0
Inherent market risk	5	0	0
Board & Committee Quality	7	0	0
Management Quality	10	0	0
Internal Audit Quality	2	0	0
Culture & Compensation	5	0	0
Risk Management Quality	2	0	0
Strategic	4	0	0
Conduct risk controls	0	1	0
Supervisability & structural complexity	2	0	0
Reinsurance risk/concentration	1	0	0
Inherent risk of products	1	0	0
Quality of controls in credit risk	1	0	0
Concentration of Market risk	1	0	0



Risk Reporting





S.2 - Risk overview

60

Total risks

	Trivial	Low	Moderate	High	Extreme
Inherent	0	5	18	28	9
Residual	5	21	34	0	0
Proposed	0	0	4	5	11
Ongoing	0	0	1	15	4
Completed	0	0	0	0	0

Risk trend analysis

	Inherent	Residual
Emerging 	0	0
Growing 	1	7
Shrinking 	0	43
Static 	59	10
Unassessed	0	0




Trend analysis is based on status of risk at date report was generated


Risk activities

Reviews completed	7
Reviews overdue	0

Reviews completed/overdue are calculated based on last risk/next risk assessment date falling within the reporting period

Risk Control Performance Review

Consolidated performance review   

 10 performances up to date

Reviews

Consolidated treatment performance  

 3 treatments performances unsuccessful
7 treatments performed successfully

Performance

Consolidated treatment effectiveness  

 3 are ineffective
1 is less effective
6 are effective
1 is unassessed

Effectiveness



Internal Control Reporting

S.2 - Summary

28

Total risks on Consolidated register

17 Risks without controls

3 Risks have other controls

8 Risks have key controls

10

Total controls on Consolidated register

First line - Ops Performance

0 Late
3 Not performing
0 Partially performing
7 Performing
0 Never performed

Second line - Effectiveness

1 Review overdue
3 Not effective
0 Less effective
6 Effective
0 Never assessed

For shared controls, the total control is the count of distinct controls and may differ to the per risk performance and effectiveness totals.

Internal Control Reporting

S.3 - Control performance

S.3.1 - Controls whose performance is late

No control performances are currently overdue

S.3.2 - Controls which are not performing

Due	Control	Performed by
2022-10-02	Server Upgrade	CEO
2022-11-10	LBR's	CEO
2022-11-24	Due Diligence	CEO

S.3.3 - Controls which are partially performing

No controls were only partially successfully performed.

S.3.4 - Controls which are performing

Due	Control	Performed by
2022-09-30	Strategic Plan Review	CEO
2022-10-08	New Control	CEO
2022-10-14	Cash Reconciliation	Financial Controller
2022-10-14	SEEF	Financial Controller
2022-11-22	Payroll Review	Head of Finance
2023-03-14	AML/CTF - Compliance - Breach Resolution	CEO
2023-04-27	SLA Annual Review	CEO

S.3.5 - Controls not performed

No controls were not performed.

Risk Hierarchy - Develop Corporate, Sub and Standalone Risk Registers



Risk Management & Technology



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Considerations Risk Systems

- ▶ Excel Spreadsheets - Size, Version Control, Embedding
- ▶ Integrated API's in Risk Systems
- ▶ Automatic Notifications
- ▶ Audit Trail
- ▶ Realtime Reporting - Filters, Historic Reporting
- ▶ Internal Control Framework
- ▶ Cloud vs Prem
- ▶ Loss events / incidents / leading indicators
- ▶ Bow Tie Risk Management - Cause & Consequences
- ▶ Risk reporting and documentation
- ▶ Value Add - Makes Life Easier
- ▶ GET A DEMO OF RED FLARE!!





TAKEAWAYS



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GOVERNANCE RISK COMPLIANCE

Takeaways

- ▶ Develop a Comprehensive Risk Management Plan
- ▶ Develop Comprehensive Risk Appetite Statement
- ▶ Develop Multiple Risk Registers
- ▶ Document, Record & Embed Internal Controls
- ▶ Create & Track Key Risk Indicators
- ▶ Embed Performance Controls - 1st Line (Staff “FLOD”)
- ▶ Oversight of Performance Controls - RMO
- ▶ Thematic Board Meetings - Risk Centric (Quarterly)
- ▶ Align Risk Management to Supervisory Expectations (PRISM Findings)
- ▶ Embrace Technology (Red Flare GRC)
- ▶ Risk Culture Comes From The Top
- ▶ Allocate Owner, Review Period, Type, Tasks, Notifications
- ▶ Record BOD Risk Discussion and Challenge
- ▶ What Gets Measured Gets Done!!!

QUESTIONS?



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- ▶ Thank you for your time!



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