as seen in

Risky Business

By Stephen R. King

The regulatory environment has never been as intense as it is today – especially for financial institutions. Community financial institutions are feeling as much pressure to comply as their larger counterparts with the Dodd-Frank bill heaping more than 10,000 pages of new regulations on them. This and the sheer number of major regulatory changes (more than 10 each year) are increasing the need to have in place efficient and nimble risk management programs and a strong risk manager.

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Today, it is vital for community financial institutions to focus on putting in place the most effective risk management program possible and to support their risk officer in order to attain their business goals, successfully introduce new products, and remain compliant with a growing number of regulations.

Risk assessment is a relatively new science that is growing, changing and becoming more important every day. But some institutions are still stuck in older, less efficient models of risk assessment.

Some of the pitfalls that exist in poorly executed risk management programs are:

- Lack of support for the program and risk officer from the C-suite
- An approach that is too complex and is inconsistent across the institution
- A cumbersome program that identifies too many risks and threats
- A silo approach to risk management that is not integrated throughout the institution.

Your risk management program should serve your institution by keeping you in compliance while allowing you to stick to your business goals, and there are four factors that should be part of any plan:

Consistency – This is vital to a well-oiled risk management program. To counter confusion and inefficiency, an institution should define an assessment methodology with consistent measures that everyone performs. This methodology should start from the business line and then be applied across the institution for the best performance.

From the bottom – The most sensitive receptors for assessing risk at your institution exist at the business line where the products and services are. Building your risk management program from the bottom up – from the business line to the board level – will ensure that all potential threats and risks are considered and covered. It will also provide a consistent set of measures needed for your risk management program.

Keep it simple – It's important that the entire institution operates in line with your risk management program, and clear communication is key to making this happen. Your risk management program should be explainable to the board down to the most junior associates within your organization so it is embraced and implemented at all levels.

Currency – The regulatory and business climate is changing faster than ever before. To ensure that your risk management program is always providing security and maximizing profitability, it is essential that your institution and risk officer are always current on the latest regulations and that the risk assessment is constantly evaluated based on these changes. A good risk officer is one that is always proactive in implementation and maintenance of the program so that it never grows out of date, which increases risk and the potential for losses.

Equally important to having a solid risk management plan in place, is giving your risk officer more power to effectively and efficiently manage your institution's program. In the last five years, the risk officer has emerged as a powerful asset in successful financial institutions. And there is good reason for that. The risk officer is there to understand the regulations and their impact on the bottom line and to find solutions that will allow the institution to pursue its business goals while remaining in compliance.

A strong risk officer also serves an important role as a liaison between the board, the C-suite and the business lines. When the board has an idea that makes the business line nervous and vice versa, the risk officer is the one that finds the best solutions. Overall, if allowed to flourish, the risk officer can serve the institution in many ways as an analyst, leader, facilitator, communicator and visionary.

Although the regulatory environment is the toughest it's ever been and risks have increased, community institutions should not shy away from setting high goals for providing the best products available for their customers or increasing profitability. With an effective and nimble risk management plan in place and a strong risk officer at the helm, your institution can survive the current regulatory environment and plan for success in the future. ■

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