



TOP 10 QUESTIONS BOARDS SHOULD ASK ABOUT ENTERPRISE RISK MANAGEMENT

VIRGINIA BANK
DIRECTORS SYMPOSIUM

April 19th and 20th 2022

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TOP TRENDS IN RISK MANAGEMENT



The Top 5 Trends in Risk Management for 2022



Alignment of Strategic Planning
and Risk Management



Improving Data Quality, Data
Governance and Data Lineage



Measuring the Maturity and
Effectiveness of Your Risk
Management Program



Availability of Risk Professionals
is a Recent Challenge
(Turnover, Retirements and Availability)








Comply with New Regulatory
Requirements in Managing Risk Related
to FinTechs and Crypto Products



**DOES THE BANK ALIGN STRATEGIC GOALS WITH
ENTERPRISE RISK MANAGEMENT PRINCIPLES?**

HOW DOES IT ALIGN ONGOING?

Align Strategic Goals with Risk Management Principles

-  Risk Appetite Statement should guide Strategic Plan development
-  Top Risks Related to Each Strategic Goal should be Identified (10 Total)
-  For Each Strategic Goal, Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) should be developed
-  Manage the Risk Appetite, KPIs, KRIs, and overall Risk Profile on monthly and/or quarterly basis. These items are managed by most banks on Excel spreadsheets or Watchtower.
-  A common or normalized rating system (1 to 5 for instance) is applied all Risk Categories (Credit, IRR, Liquidity, Strategic, Operational, IT/IS, Compliance and Reputational Risk)



DOES THE BANK'S RISK PROGRAM FOCUS ON HINDSIGHT ONLY OR DOES IT HAVE ELEMENTS OF FORESIGHT?



Transition Your Risk Program from Hindsight to Foresight

Hindsight

Single source of truth for all risk and performance factors, providing an accurate record of where you've been.

Insight

Make swift and informed policy decisions by tapping into the most current and accurate information to ensure that you're on the right path.

Foresight

See and solve risks before they become unsolvable with a continuous stream of forecast information and insights.



- **Automated Quarterly & Monthly Risk Trend Analysis**
- Historical Board Reporting
- Risk Governance Framework Documentation
- Historical Regulatory Tracking & Reporting
- Risk Assessment Tracking
- First through Third Line Collaboration

- **Strategic Goal Alignment**
- Peer Comparison & Benchmarking
- Policy Limit Tracking
- Risk Data Governance (Data Lineage & Integrity)
- Board Risk Appetite Alignment & Management
- KRI & KPI "Guardrails and Speedbumps"
- Real Time Issue Tracking & Notifications

- External Economic Data & Forecasting (MSA & Segment)
- **Fiserv Forecast Models (ALM and Financial)**
- Forward Looking Credit Stress Testing Data
- Future Looking Capital Stress Scenarios
- Merger & Acquisition Risk Analytics
- **Projected Risk & Performance Trends & Profiles**



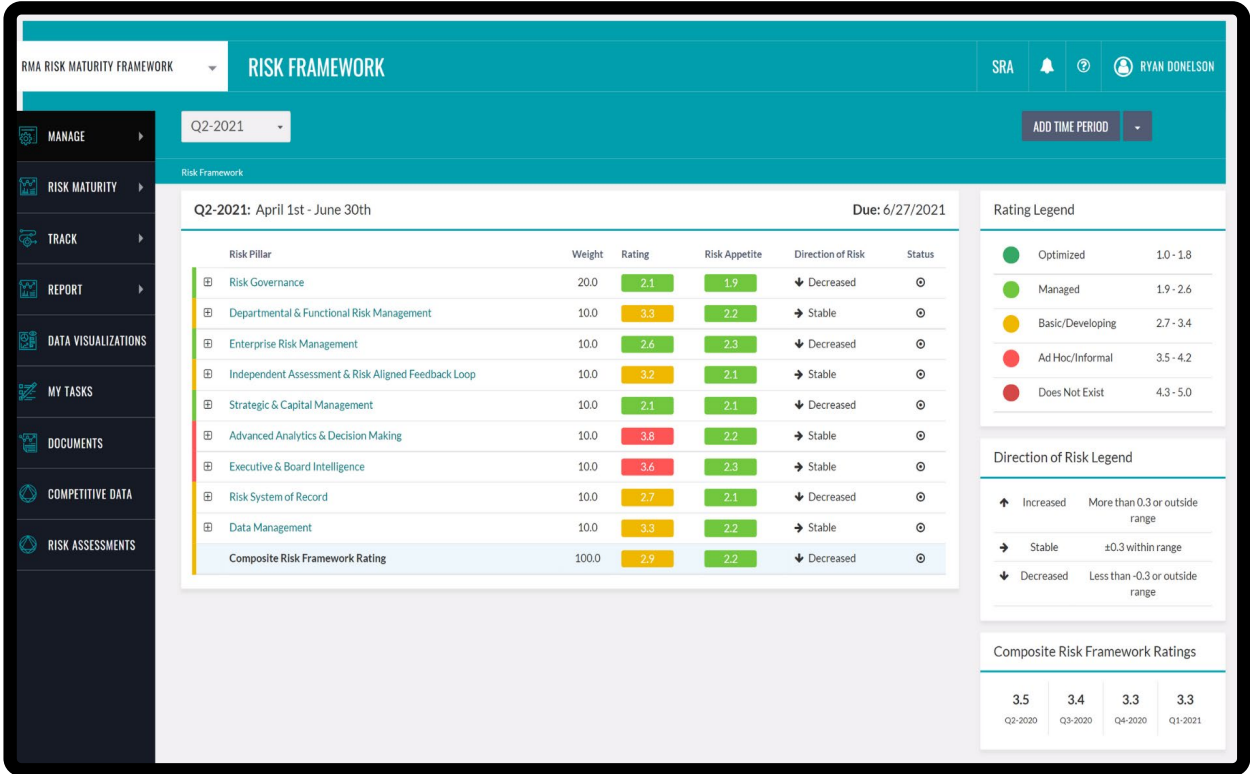
DOES THE BANK MEASURE THE MATURITY AND EFFECTIVENESS OF ITS RISK MANAGEMENT PROGRAM?




Benefits of Completing the RMA Risk Maturity Evaluation

The objective of the Risk Management Association’s (RMA) Risk Maturity Framework is to measure the effectiveness of each financial institution’s risk management program against industry standards and regulatory guidance.

- Allows for peer comparison benchmarking in future state (Mid 2022)
- Educates the Board and executive team on the institution's current risk maturity level
- Facilitates conversation on the expected future risk maturity level at the Board level
- Informs regulators on the institution's risk maturity progress and supports regulatory compliance
- Helps facilitate the development of a risk roadmap
- Accommodates management of risk improvement activities



The RMA Risk Maturity Assessment Measures 9 Pillars of Maturity Across 45 Categories and 140 Key Maturity Measurement Points

Pillars		Categories	Ratings										
1	Risk Governance	■ ■ ■ ■ ■	1 - 5 Rating Scale <div style="border: 1px solid #ccc; padding: 5px; margin-top: 10px;"> <p>Rating Legend</p> <table border="1"> <tr> <td>● Optimized</td> <td>1.0 - 1.8</td> </tr> <tr> <td>● Managed</td> <td>1.9 - 2.6</td> </tr> <tr> <td>● Basic/Developing</td> <td>2.7 - 3.4</td> </tr> <tr> <td>● Ad Hoc/Informal</td> <td>3.5 - 4.2</td> </tr> <tr> <td>● Does Not Exist</td> <td>4.3 - 5.0</td> </tr> </table> </div> <p>Red, Yellow, Green indicators visualize exactly where your gaps are and take immediate action</p> 	● Optimized	1.0 - 1.8	● Managed	1.9 - 2.6	● Basic/Developing	2.7 - 3.4	● Ad Hoc/Informal	3.5 - 4.2	● Does Not Exist	4.3 - 5.0
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2	Departmental Risk Management	■ ■ ■ ■ ■											
3	Enterprise Risk Management	■ ■ ■ ■ ■											
4	Independent Assessments	■ ■ ■ ■ ■											
5	Strategic Management	■ ■ ■ ■ ■											
6	Advanced Analytics	■ ■ ■ ■ ■											
7	Executive & Board Communication	■ ■ ■ ■ ■											
8	Data Transformation – Unified Risk and Performance Information	■ ■ ■ ■ ■											
9	Data Management	■ ■ ■ ■ ■											



FOUNDATIONAL QUESTION:

DOES THE BANK HAVE AN ENTERPRISE RISK POLICY?



FOUNDATIONAL QUESTION:

HAS THE BANK DEFINED THE ROLES OF THE FIRST LINE (DEPARTMENT MANAGEMENT), SECOND LINE (RISK MANAGEMENT) AND THIRD LINE (INTERNAL AUDIT AND LOAN REVIEW) RELATIVE TO RISK MANAGEMENT?



IS AVAILABILITY OF RISK PROFESSIONALS A CHALLENGE?

(TURNOVER, RETIREMENTS AND AVAILABILITY)



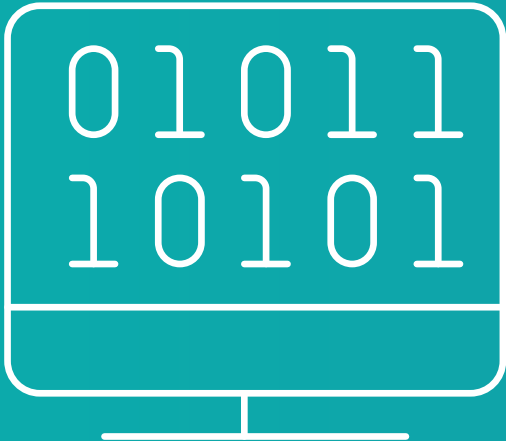
FOUNDATIONAL QUESTION:

DOES THE BANK HAVE GOOD DATA QUALITY?

**DOES THE BANK MEASURE IS LEVEL OF DATA QUALITY
AND DATA GOVERNANCE?**

Improve Data Quality and Data Management

Transition various islands of data across the enterprise to a common data warehouse to deliver an actionable, strategic risk management platform and dashboarding tool kit.







Raw Data



Aggregated and organized data to provide actionable insights

Example Solution: Watchtower + Fiserv Data + Technology Ecosystem

Data Aggregation

-  Economic Data
-  Governance, Risk and Compliance Data (GRC)
-  Cyber and InfoSec Systems
-  Peer Performance Data
-  Call Report Data
-  Asset & Liability System & CECL Platforms
-  General Ledger & Financial Planning Systems

Aggregates 1,000's of data inputs

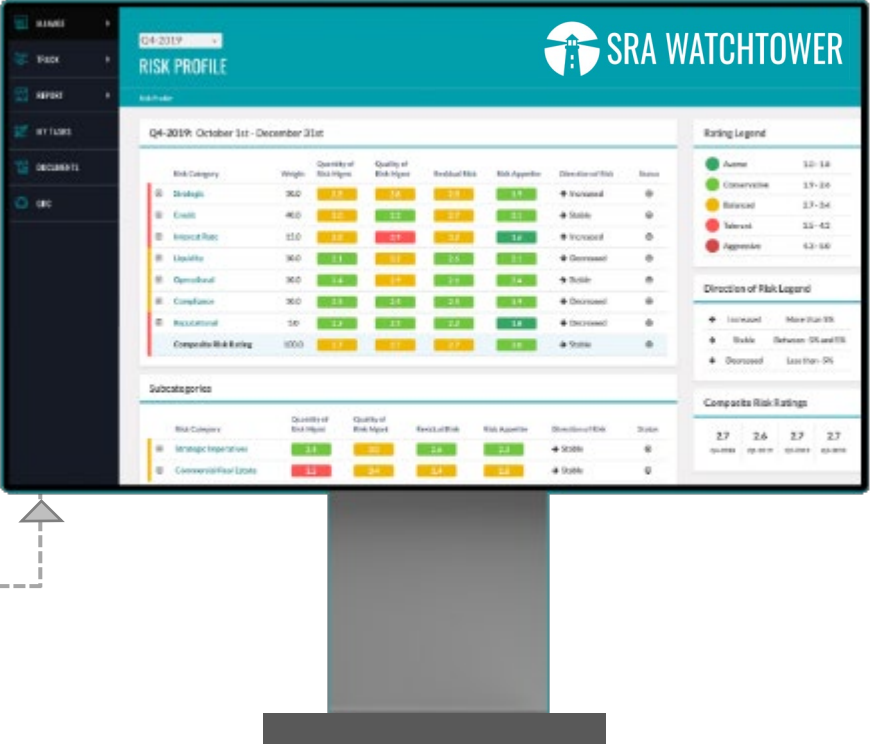
Data Transformation



Snowflake: Digitize, organize & aggregate your data

Can connect to the core to feed client loan and deposit data

Run Risk Management with Watchtower's Digital Office





HOW DOES THE BANK COMPLY WITH NEW REGULATORY REQUIREMENTS IN MANAGING RISK RELATED TO FINTECHS AND CRYPTO PRODUCTS?

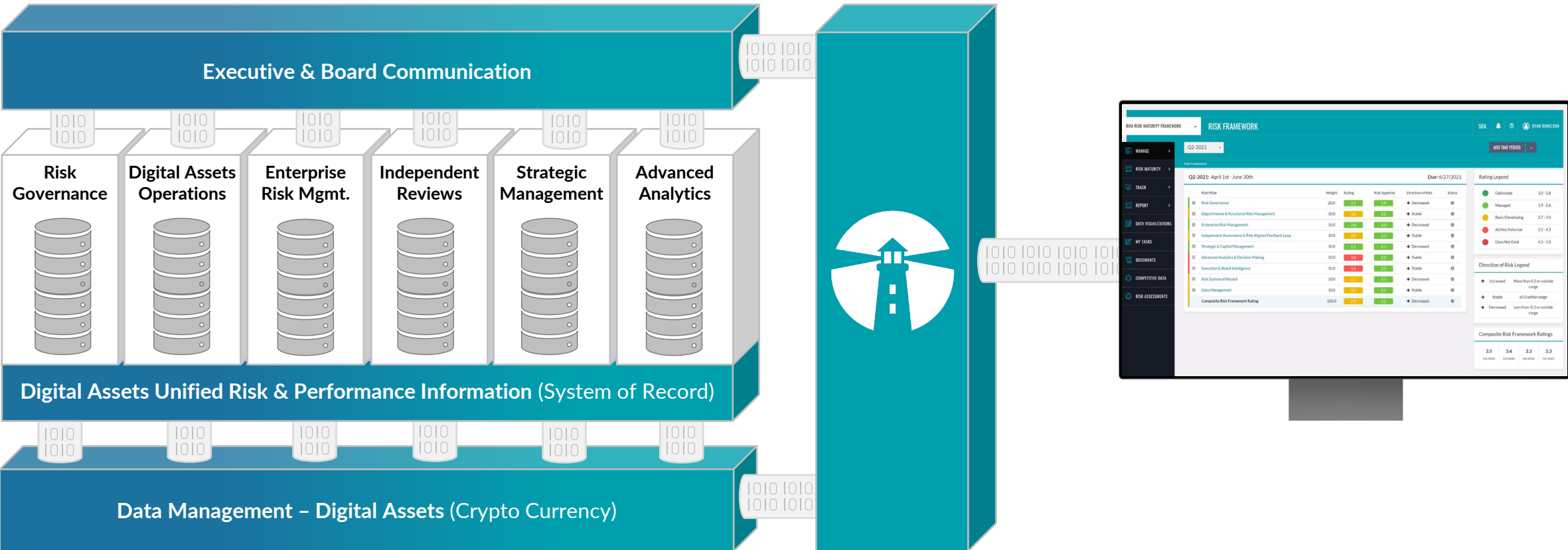


FinTech Regulatory Guidance (OCC, Fed, FDIC) in August 2021 Changed the Banking Industry

Key Bank Responsibilities for Each Individual FinTech – Upfront Due Diligence & Ongoing Monitoring

- ✓ **Business Experience & Qualifications:** Evaluating business experience, strategic goals, and overall qualifications allows a bank to consider a FinTech company's experience in conducting the activity and its ability to meet the bank's needs
- ✓ **Business Strategies & Plans:** Understanding strategic plans provides insight on key decisions under considerations, new products / services, partnerships or business combinations and the potential impact on the bank
- ✓ **Qualifications and Backgrounds of Directors and Company Principals:** Understanding the background and expertise of the company's directors and executive leadership
- ✓ **Financial Condition:** Banks need to understand the current and projected financial condition of the FinTech. Critical to this is understanding how they fund current operations as well as funding sources for future growth and infrastructure build
- ✓ **Market Information:** Understanding the FinTech's competitive environment can provide additional insight on the company's viability. Information on their client base can assist in determining whether there is too much reliance on certain key clients. Can the company survive the loss of one or a few key clients?
- ✓ **Legal and Regulatory Compliance:** Banks need to understand the form of the FinTech's legal entity structure, where is it licensed to do business and for what products / services. Does the company have an appropriate Compliance Management Program given the nature of the products and services provided
- ✓ **Risk Management & Controls:** Assessing the adequacy and effectiveness of the FinTech's internal controls and risk management practices is critical to ensure that controls are in place and that the risk appetite of the company is in line with that of the Bank. FinTech's are more likely to outsource Internal Audit functions and it is important to understand the nature and scope of Audit coverage
- ✓ **Results and Remediation Status:** The results of Audits and other control reviews and status of remediation activities can provide insight into the adequacy and effectiveness of the systems of internal control and the level of priority placed on addressing issues in a timely manner
- ✓ **Information Security:** It is critical to understand what security framework a FinTech employs to manage cybersecurity risk. Scope, frequency and results of information security control assessments (penetration testing, vulnerability assessments) provide key information on the strength of the Information Security Program. Understanding where the FinTech's data centers are located (domestically or internationally) is also key
- ✓ **Operational Resilience:** Review of FinTech's business continuity, incident response, disaster recovery plan and related testing is key to understand their ability to continue operations in the event of a disruptions
- ✓ **Reliance on Subcontractors:** FinTech's may be more likely to rely on the services of other providers. Understanding who these providers are and processes in place for monitoring their controls and performance is vitally important. Obtaining independent reports and certifications regarding subcontractors is recommended

Actively Manage FinTech and Crypto Risk Maturity With “Purpose-Built” Models





Thank You

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