

Enterprise Risk Management

Treating risk as a reality, not a problem

Pen Air Federal Credit Union needed a new way to analyze and assess risk following an NCUA examination. Previously, risk management had not been a priority for the Pensacola, Florida-based credit union, but after the National Credit Union Administration (NCUA) left comments in their examination notes stating that credit unions would soon be expected to measure and report more analytics on risk, they knew their priorities would have to change.

Pen Air FCU turned to enterprise risk management (ERM), a process known for its proactive assessment of risk factors (both out-of-pocket and opportunity cost) in decision-making; instilling a strategic approach to risk as a reality to be worked with, rather than against; and treatment of risk as an opportunity instead of an adversary.

THE GOALS:

- // **Adopt** an objective-based approach to proactively identifying, assessing and analyzing risk
- // **Replace** a risk culture based on assumptions with one based on measurements
- // **Determine** and act on the risk involved in lending, competition and entering new markets
- // **Learn** how to differentiate between risks that are beneficial and those that are harmful

THE SOLUTIONS:

- // **Create** a new position to oversee and report on risk management
- // **Increase** risk awareness throughout the credit union, with oversight by two new committees
- // **Work** with The Rochdale Group to develop, implement and maintain a robust, quantitative ERM program

THE IMPACT:

- // **A new organization-wide mindset** of risk as a reality to be accepted, acknowledged and harnessed
- // **A process of measuring** and considering risk factors prior to taking action
- // **New products and opportunities** in lending that would not have been pursued previously
- // **Discovery of new pathways** for growth and value creation



Discovering the need for a change

When Stewart Ramsey became president and CEO of Pen Air FCU in 2012, the credit union had no firm process of measuring or applying risk data. Individual teams approached risk through a reactionary process, dealing with consequences only after problems had already arisen. Meanwhile, the credit union was paying for a risk management tool that wasn't being used in a consistent, value-focused or advantageous fashion. Put simply, risk was not a priority.

Pen Air FCU at a glance

The largest and oldest local credit union in Pensacola, Florida, Pen Air FCU is dedicated to enhancing lives through exceptional service, strength and financial solutions.



\$1.2 Billion
ASSETS



97,000
MEMBERSHIP



18
BRANCH LOCATIONS

That all changed after a routine examination by the NCUA.

Although the NCUA does not currently require credit unions to utilize a risk management process, their comments in Pen Air FCU's exam report made it apparent that they were considering the introduction of such a requirement in the near future. They were looking for more analytics than Pen Air FCU could provide — especially on what sort of risks were being taken and the justifications for those risks. Rather than wait for future NCUA requirements to sneak up on them, the Pen Air FCU executive team took preemptive action.

Building a new approach to risk

Knowing that they would need guidance in building their new approach to risk, Pen Air FCU turned to The Rochdale Group, a consulting team with extensive experience in implementing and managing ERM programs in the financial services industry.

Pen Air FCU hit the ground running.

Taking another look at every area in the organization that dealt with risk, the team began developing ways to identify, measure and assess the risk factors in every decision they made. They also set staff members on the path toward ERM certifications earned at CUNA Enterprise Risk Management Certification Institute, taught by the professionals at Rochdale.

Pen Air FCU's evolution also involved the creation of a new position, vice president of risk, as well as creation of an internal risk committee and a board risk committee. Together, these new structural elements help facilitate the measurement, review, analysis, application and oversight of risk data throughout the credit union. The committees meet annually to establish the appropriate level of capital for the organization and decide what sort of risks and amount of risks will be assumed in accomplishing that goal.



Stewart Ramsey,
President, CEO
Pen Air FCU

"It became clear that we needed to get a firmer grasp on our risk exposures and how to quantify the relevant data," said Ramsey.

"We had been making assumptions about our risk rather than sitting down and taking the measurements.

So when it came to determining what we were actually accomplishing with our risk-mitigating actions, and whether our concerns about certain risks were justified, we weren't sure where to start."

ERM at Pen Air FCU

Today, Pen Air FCU's approach to risk is dramatically different from where it was in 2012. Where before the credit union relied on a series of ad-hoc procedures built on potentially false assumptions and focused their attention on "putting out fires," it has now adopted a much more structured and proactive process of measurement and decision-making that creates opportunities to drive the credit union's vision forward.

Pen Air FCU's embrace of the ERM model has empowered it to pursue new pathways to growing the credit union. Armed with a comprehensive understanding of their risk profile, the entire staff now uses ERM to view risk as an area of opportunity rather than something to be mitigated. The lending department has ventured into new avenues in direct lending and modified the amount of mortgage lending they're able to keep on the books. When considering the introduction of a new product or the elimination of a current one, they are able to measure the risk factors involved and view those measurements in the context of accomplishing their goals.

"We measure and consider our options before we take action, rather than dealing with the consequences after the fact," concluded Ramsey. "And most importantly our staff has stopped seeing risk as bad thing. They see it as a reality, and they accept that they're in the risk business. I'm still amazed at how much peace of mind that realization has given us."

The Rochdale approach to ERM

The motivation behind Rochdale's ERM program is to assist organizations in making better decisions and achieving strategic progress. Therefore, understanding risk from a return perspective is a major element of success. For Rochdale, the decision to assume more risk has a greater impact when made in consideration of the value it creates rather than the expenses involved.

The Rochdale team also makes a point of targeting organizational complacency. "If a credit union becomes complacent, that can put the organization significantly behind its competitors," explained Ferris. "We need a way to understand risks proactively and take opportunities, rather than hunkering down and holding onto what we have. Flexibility and action — not complacency and conservation — are what will leave a long-term legacy."



When working with credit unions, The Rochdale Group focuses on two central objectives:

1. PROCESS EDUCATION

To ensure that the credit union understands how to determine a risk-value proposition and recognize how risks can be utilized to its advantage.

2. CULTURAL INTEGRATION

To instill a culture of risk assessment at the credit union that enables staff to evaluate their risk profiles and make prudent judgments.

cuna.org/erm



Tony Ferris,
Managing Partner,
The Rochdale Group

"The philosophy behind the ERM approach is to make no assumptions.

It's about garnering credit union intelligence from throughout the organization and helping them identify how to measure important risk factors and whether those factors are helping or hurting the organization's ability to accomplish its objectives. It's all done through dialogue - we educate and listen to what the stakeholders feel, what they're up against and what their goals are."