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RISK MANAGEMENT AS A DRIVER OF BUSINESS PERFORMANCE

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OVERVIEW

- I. Opportunistic Risk Taking
- II. Thinking of Yourself as a Risk Manager – Keeping it Simple and Straightforward
- III. The Real Role of the Risk Manager
- IV. Risk Management in a Mission-Based Organization
- V. Risk Management v. Compliance
- VI. Opportunities for Credit Unions
- VII. Next Steps to Get the Ball Rolling



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OPPORTUNISTIC RISK TAKING AT ITS "FINEST"

Disrupters are simply opportunistic risk takers



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ARE YOU FEELING LIKE A RISK MANAGER?

Risk Management is an innate activity that we do every day without much thought – keep it that simple!

- Being risk aware versus being risk averse
- Viewing the other side of the risk coin – opportunity

Opportunity/Risk	Definition using Opportunity Approach	Definition using Risk Approach
Expansion using all Revenue Streams	All revenue streams are considered when determining strategy for expanding the brand	Members and subscribers are viewed as our customer but other consumers of our products are not
Health Insurance Portability and Accountability Act (HIPAA) and PCI Compliance	Focusing on data security allows for compliance with privacy rules while boosting brand loyalty	Current systems are not secure and may result in failure to comply with HIPAA regulations
Expansion with current members	Current members are given alternative Plan opportunities that blend the various operating formats	Continued requirement for someone to choose only one operating format without the ability to easily move between the various formats

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THE REAL ROLE OF THE RISK OFFICER

The Risk Officer is a facilitator, keen listener and business partner but is not the risk owner.

- Broad understanding of the business, its strategy, goals and risk appetite
- Facilitator
- Listener
- Problem Solver
- Keep risk and opportunity top of mind
- Strategic partner in bringing forward the high priority risks and the need for smart capital
- NOT the Risk Owner

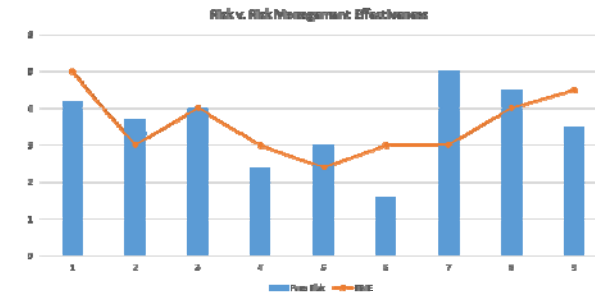
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THE REAL ROLE OF THE RISK OFFICER (CONT'D)

The Risk Officer is viewed as a business partner guiding the organization to optimize its risks.

- Measuring Impact and Likelihood against Current Management Effectiveness



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RISK MANAGEMENT IN A MISSION-BASED ORGANIZATION

In order to prudently pursue its mission, the organization must recognize its risks and optimize its responses to those risks.

- Considering risks and risk management can be viewed as not servicing the member
 - ❑ It is important to remember that all members must be serviced and this requires prudent business management
 - ❑ Optimizing responses to risks provides additional resources to be put toward key strategic objectives
- Continuing to do business as usual, or "familiar," can put the organization at risk
 - ❑ IT Infrastructure must be identified as a risk and prioritized

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RISK MANAGEMENT V. COMPLIANCE

Risk Management uses compliance as one factor in good decision making.

- Strategy
- Processes
- Technology
- People



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OPPORTUNITIES FOR CREDIT UNIONS

Opportunities exist in current services, mergers and new areas such as mortgages.

- Key Risks
 - ☐ Income Risk
 - ☐ Reinvestment Risk
 - ☐ Liquidity Risk
 - ☐ Regulatory Risk
- Opportunities in current services
 - ☐ Delivery of services using different technology and/or processes
- Opportunities in mergers
 - ☐ Present current services to new population of members
 - ☐ Gain economies of scale in the cost of service delivery
 - ☐ Understand nature of community
 - ☐ Understand nature of employment
- Mortgage loans
 - ☐ Contrast U.S. Credit Union mortgages with U.S. Savings and Loan mortgage
 - ☐ It will be critical to understand risk appetite and establish strong underwriting processes

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NEXT STEPS TO GET THE BALL ROLLING

First learn the business, particularly the parts of the business that will drive growth

- Work with executive management and the Board to:
 - ☐ Understand strategic objectives for your credit union
 - ☐ Guide discussions regarding Risk Appetite – can start simplistically
 - ☐ Clearly articulate the key risks and opportunities
- Work with partners to:
 - ☐ Identify key risks to each of the strategic objectives
 - ☐ Understand root cause(s) for each key risk
 - ☐ Clearly articulate current risk management techniques
 - ☐ Determine whether the risk is optimized
 - ☐ Brainstorm the opportunities that can be seized from the risk
 - ☐ Identify limitations from regulatory framework or risk appetite
 - ☐ Approach executive management for capital
 - ☐ Pursue the opportunities!

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