Managing Risk

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Compliance Risk

• Goes beyond a failure to comply with consumer protection laws. It encompasses
  – all laws
  – prudent ethical standards,
  – contractual obligations, and
  – exposure to litigation.
Where do you start?

- Assess your risk
- Determine which risks can be mitigated
- Determine which risks you are willing to accept
Amount and Direction of Risk

- **Quantity of risk** – level or volume of risk
- **Quality of risk management** – how well risk is identified, measured, controlled and monitored
- **Aggregate risk** – summary of quantity of risk and quality of risk management
- **Direction of risk** – assessed as decreasing, unchanged, or increasing
Can Compliance Risk be Managed?

• YES!

• Start with a Compliance Management System (CMS)
  – “appropriate for the size and complexity of the credit union”
Components of a CMS

• Board of Directors and Management Oversight
• Compliance Program
• Consumer Complaint Response
• Compliance Audit Program
Compliance Program vs. Compliance Management System

• CMS is a Compliance Program on steroids
• CMS includes topics often not included in a Compliance Program.
  ➢ Audits
  ➢ Board and Management responsibilities
  ➢ Policies and procedures
  ➢ Monitoring and corrective action
Appropriate for Size and Complexity

• MUST include the four categories to some degree
• May not need all recommended components within the four categories
• No specific structure required
What a CMS does

• Establishes compliance responsibilities
• Ensures responsibilities are incorporated into business processes
• Reviews operations to ensure responsibilities are carried out
• Take corrective action
• Updates tools and systems
Common Weaknesses

• Deficient monitoring and compliance audits
• Relying solely on external audits without conducting internal monitoring
• Lacking one or more components
CMS Policies and Procedures

Develop a system of policies and procedures that address every consumer financial product or service offered. They should be formal, written documents that detail compliance responsibilities and instruct employees on the appropriate methods for executing these responsibilities.
Example of CMS in Action
Opening and Maintaining Deposit Accounts

- OFAC
- BSA
- AML
- Overdrafts
- Error Resolution

- CIP
- Remittances
- Pay Day Lending
- ACH
- Funds Availability
CMS is Not Just a Decoration

• Use it!
• Review it regularly
• Ensure employees are informed about it
• Keep it updated
Questions
Thank you!

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