

PROFITABILITY PERSPECTIVES

Planning Pointers & Potential Pitfalls

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Change: Finding the Right Balance

Concerns:

- * Confusion
- * Control
- * Commoditization

Conclusions:

- * Communication
- * Collaboration
- * Customization



Challenged by Risks

KPMG asked audit committee members to name up to three of their companies' biggest challenges. Here are the top answers:

- Effectiveness of Risk Management Program: 41%
- Legal/regulatory compliance: 34%
- Managing cyber security risk: 28%
- Maintaining the control environment of organization: 28%
- Tone at the top and culture of the organization: 24%

Source: KPMG 2017 Global Audit Committee Pulse Survey.



Yearning for Innovation

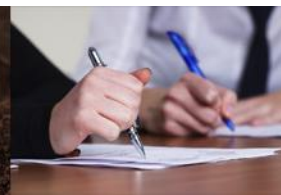
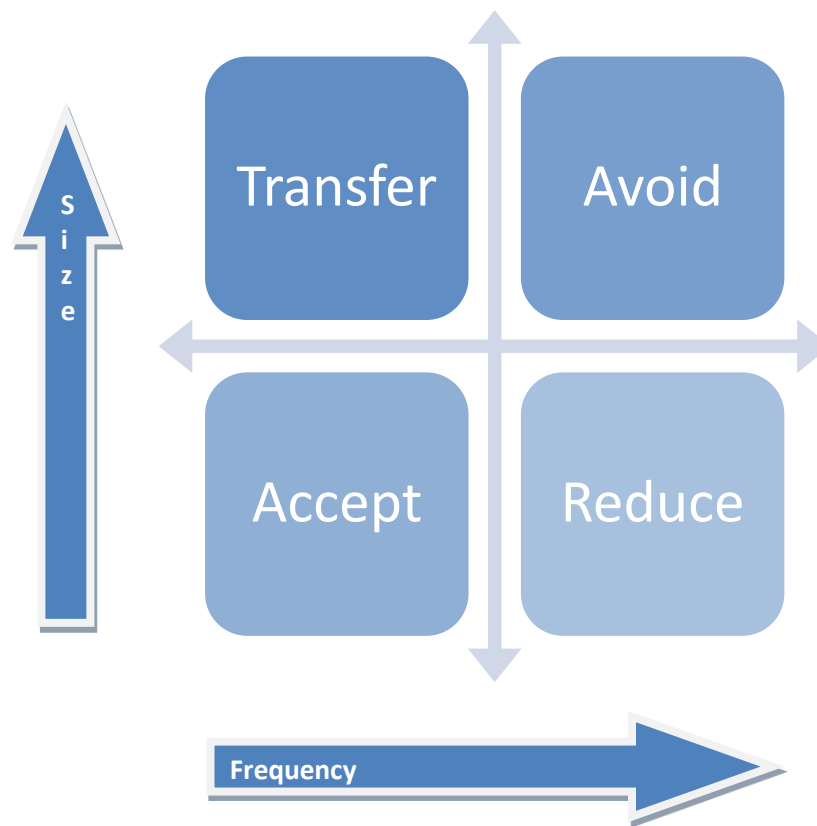
PwC asked CEOs what they would like to strengthen to capitalize on new opportunities:

- Innovation: 23%
- Human capital: 15%
- Digital and technology capabilities: 15%
- Competitive advantage: 10%
- Customer experience: 10%

Source: PwC Global CEO Survey.



Framing Risk: Traditional Point of View



Framing Risk: Quantitative Point of View

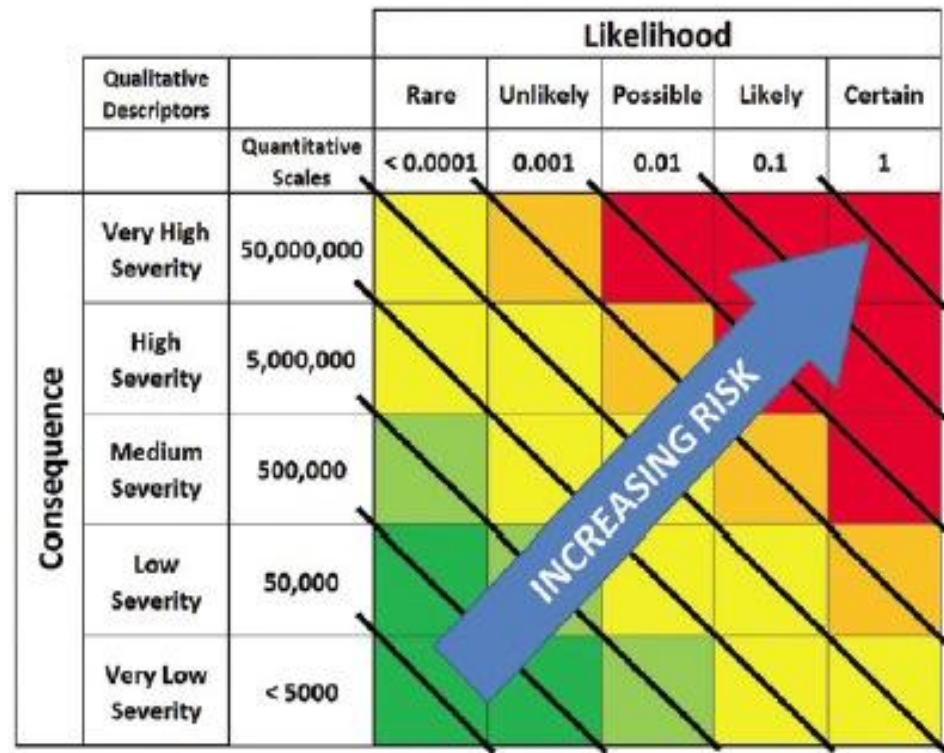


Figure 2: Example risk matrix with superimposed constant risk contour lines as described by the traditional risk definition.



The Three Lines of Defense for Good Risk Management



- Business Unit Managers
 - Define & manage the processes, people & technology
 - Take ownership of the risks the unit takes, including identifying & assessing the risks
- Risk & Control Specialists
 - Supports first LoD managers
 - Establishes & communicates common risk management taxonomies, assessment methodologies and standards & practices
- Internal & External Auditors
 - Validates managers' risk & control assessments, including testing them
 - Provide senior management and board with independent assurance of design and operating effectiveness



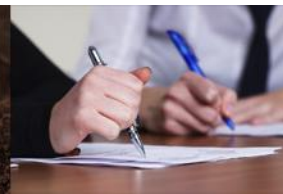
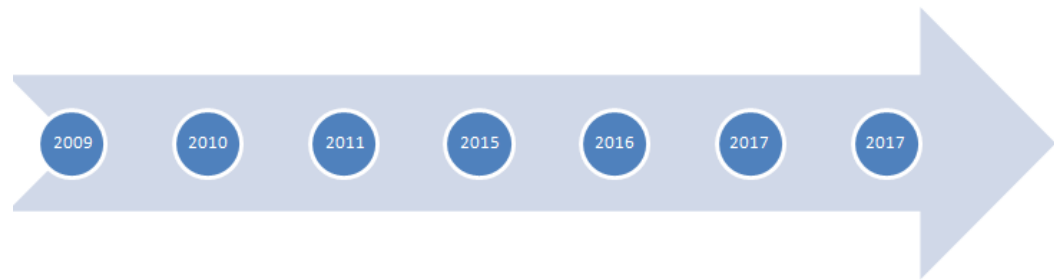
Strong LoD = Better Risk Intelligence

Organizations with strong lines of defense are capable of quickly identifying and reacting to risk, they more efficiently deploy scarce resources to manage risk on a prioritized basis, and they have greater internal risk transparency so they can leverage information among the lines without the need to recreate reports or needlessly perform multiple layers of testing.



Recent History of Enterprise Risk Management

- 2009 Deloitte survey notes 36% have ERM in place
- 2010 - AON reports mature ERM practices maintain and grow profitability.
- 2011- Accenture research shows 'increasingly linked to profitability'.
- 2015- Forbes notes risk management helps banks' identify and achieve growth'.
- 2016- COSO updates fraud Risk Management Guide enhances profitability.
- 2017- AICPA notes NC State survey that 'magnitude and severity of risks is rising'.
- 2017- McKinsey & Co state Board Members are RESPONSIBLE for ERM.



Expectations for 2017

- Global business environment is riskier than in previous years, but many organizations are not devoting additional time or resources to risk management over the next 12 months.
- Concerns about regulatory requirements are often listed as the top challenge facing U.S. businesses in a quarterly survey of finance executives by the AICPA.
- Magnitude and severity of risks is rising but possible responses seem to be dropping, could indicate that organizations are facing resource constraints.
- Organizations may be satisfied with the sufficiency of prior-year investments in risk management.
- Chief information officers rated the most risks, 12, as having significant impact. Board members rated 18 of 30 risks as having less significant impacts. Five of the top 10 risks are operational risks, three are strategic risks, and two are macroeconomic in nature.

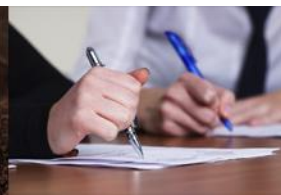
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Risk Ranking 2016-2017

Risk	2017 rating	2016 rating
1. Economic conditions	6.61	5.83
2. Regulatory changes & scrutiny	6.51	6.06
3. Cyberthreats	5.91	5.80
4. Speed of disruptive innovation	5.88	5.48
5. Privacy or identity management & information security	5.87	5.55
6. Succession challenges, ability to attract & retain talent	5.76	5.63
7. Global market & currency volatility	5.67	5.33
8. Organization culture hindering escalation of risk issues	5.66	5.30
9. Resistance to change operations	5.63	5.40
10. Sustaining customer loyalty & retention	5.62	5.28

Source: Protiviti, NC State



The Value of RMC:

Case #1 – Community Bank

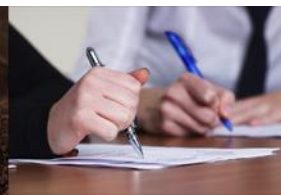
HOW DO COMMUNITY BANKS DEAL WITH THE RISKS THAT THEY FACE?

- Community Banks face growing risks.
- Strategic- business decisions are not properly implemented.
- Compliance- violations of laws or regulations
- Business Continuity- unable to continue business functions due to certain events.
- Interest Rate- potential mismatch between rates on earning assets and liabilities.
- Data Security- sensitive information improperly obtained by an outside party.

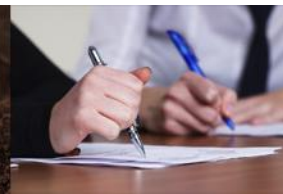
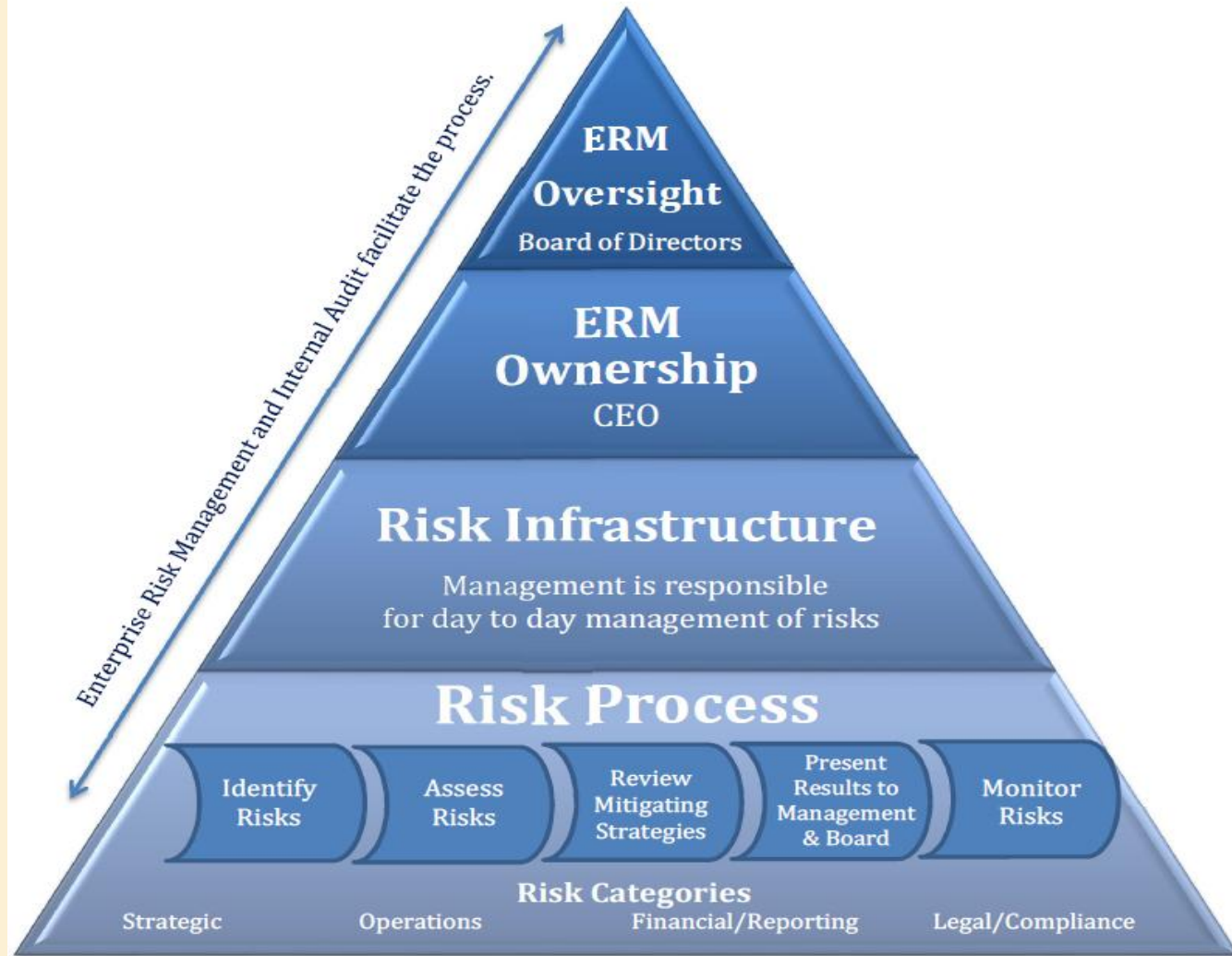
Community Banks should consider implementing/enhancing RMC

- Representatives from each area of the bank.
- Significant focus on future risks that could impact the institution.
- Active discussion regarding regulatory and accounting changes.

AN OVERALL RISK BASED INTERNAL AUDIT PLAN IN KEY.



ERM: Management & Board Responsibilities



The Value of RMC:

Case #2 – Risk Interviews

The value of risk interviews as part of ERM strategy

- Risk interviews can be an effective way to get to the heart of an organization's top risks. Conversations often yield better, richer information than online surveys.
- Some organizations use a mix of risk interviews and surveys to communicate with a larger portion of employees and get a better sense of the risk environment.
- Organizations can use the information gathered in risk interviews to devote more time to a particular risk, revamp strategy, and better integrate risk into functions such as internal audit.
- Information gathered from risk interviews can show how risks have changed over time, giving organizations a chance to sharpen their approach to mitigating risk. Interview data are shared with company executives and board members.

Neil Amato, *Journal of Accountancy*, January 2017



Risk Assessment Risk Identification Process

We asked the following questions:

Question 1

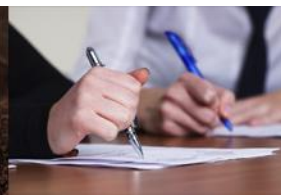
- What are the top three business risks (in priority order) the Company faces over the next two years that could have a significant adverse effect on the Company's ability to achieve its strategic and/or financial objectives?

Question 2

- What are some of the things the Company is doing to help manage/mitigate each of these three risks?

Question 3

- In your opinion, are these risk mitigation strategies effective?



Five Trends Moving Forward

1. Strengthening the Integration of ERM and Strategy
2. Looking for Clusters of Risk Drivers
3. Strengthening Metrics to Monitor Key Risks
4. Ensuring Both Short Term and Long Term Horizons are Considered
5. Obtaining an Honest Read on the Organization's Risk Culture



Discussion Question #1

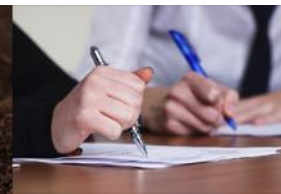
Which “people issues” have you seen negatively effect projects or major initiatives you have participated in?

(Select your top choice)

1. Resistance from employees to the change effort
2. Poor executive sponsorship
3. Ineffective communication
4. All of the above



17



Discussion Question #2

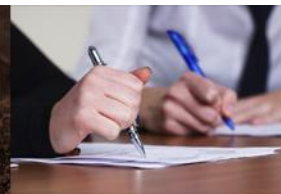
Why do Change Efforts fail?

1. Resistance by Employees
2. Inadequate Sponsorship
3. Unrealistic Expectations
4. Poor Project Management
5. Business Case not Compelling
6. Project Team Lacked Skills
7. Scope/Expansion/Uncertainty
8. No Organizational Change Plan
9. Scope/No Horizontal Process View
10. IT Perspective not Integrated

Source: RGP and Deloitte & Touche study of 500 corps.



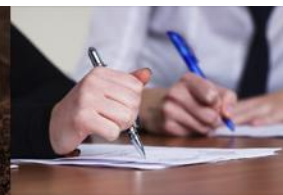
"WE DON'T WANT YOU TO VIEW THIS AUDIT COMMITTEE
AS BEING IN ANY WAY CONFRONTATIONAL"



Which factors determine risk culture?



<https://www.bankinghub.eu/banking/finance-risk/competitive-edge-measuring-assessing-risk-culture>



The End.

Questions?

