CUNA
Credit Union National Association

"In an already weakened economy, one can't be too careful about the choices their organization makes. We've designed ERM's risk assessment and management process to produce stability and security for a company's foreseeable future by guiding and monitoring every decision as it's being made."

Tony Ferris
Managing Partner
The Rochdale Group

ERM, According to Rochdale

Enterprise Risk Management (ERM) is a process that drives decisioning in order to maximize performance/opportunities at a given level of risk. ERM encompasses all of the structures, methods and processes used by organizations to identify, measure, and manage risks related to the achievement of business and strategic objectives. It provides a formalized and repeatable process intended to validate that all organizational risk exposures have been accounted for, with the most pertinent being reported up through senior leaders of the organization.

At the end of the day, ERM is about making better, more-informed decisions. It provides a conduit through which valuable information can be obtained and communicated earlier, allowing organizations to respond more quickly, and with more options. It provides the early warning systems that allow leaders to quickly mobilize the organization to respond appropriately to the uncertainties faced by every organization.

- Uncertainty of future growth and profitability
- Heightened regulatory environment
- Competitively keeping pace
- Balancing organizational and strategic risk
- Financial, operational, legal and reputation surprises

Goal

Develop the internal capabilities to assist management in achieving the entities performance and profitability targets and prevent organizational losses.

Result

Improved bottom-line financial and organizational performance.

The Rochdale Group™ Inc.
Delivering clarity to credit unions through expertise and experience

#30311

cuna.org/erm

case **study**

Enterprise Risk Management

An Ongoing Risk Assessment Process

BELLCO
Banking for Everyone.

At Bellco Credit Union, making educated decisions is key to strategic and fiscal growth. The economic recession left the organization reeling, evoking the realization that their decision-making had involved more assumptions than they could afford. Seeking a process that would ensure they had all the facts before making any decisions, Bellco turned to enterprise risk management (ERM), a process dedicated to preemptively assessing the risk factors involved with any decision a business makes.

THE CHALLENGES:

- **Increase** organization-wide awareness of risk to avoid making decisions in vacuums.
- **Allocate** risk-taking in a controlled, predictable and affordable manner.
- **Implement** a risk management process into the long-term culture of the organization.

THE SOLUTIONS:

- **Employ** an enterprise risk management process to utilize in decision making.
- **Be attentive** of and manage risk in fraud in areas that have the potential to cost the organization money.
- **Consult** with The Rochdale Group for enterprise risk management guidance and strategy.

THE IMPACT:

- Bellco's delinquency has decreased and its profitability has increased.
- A 6% return on loans and a 3.9% net interest rate margin.
- An organizational understanding of acceptable risk.
- ERM been a strategic planning tool at Bellco for more than four years.

"ERM is a tool with which we manage our major decision making in the organization. It truly is a cultural development where you have to take time to integrate it and get people used to the idea that you're going to stick with it."

Doug Ferraro,
CEO Bellco CU

cuna.org/erm

Enterprise risk management (ERM) is both a tool and a process that provides awareness and analysis of risks present in every substantial decision made by an organization.

By accessing growth potential, regulatory compliance, strategic risk, unintended results and competition, ERM is designed to produce stability and security for a company's foreseeable future by guiding and monitoring every decision as its being made. For credit unions, this means no more partially-blind operating. Decision-makers are given a clear view of available paths, and may therefore choose whichever best and most safely suits their credit union.

Enterprise risk management at Bellco Credit Union in Colorado

Bellco Credit Union implemented enterprise risk management in the midst of the economic recession. It had previously been a credit union that was highly invested in consumer lending and took on a good deal of risk, pricing well for it accordingly. When the recession hit, they found that their organization's profitability had taken a concerning blow.

"We felt like we knew our jobs and had sufficient experience — we were done," says Doug Ferraro, CEO of Bellco CU. "We didn't think we needed the kind of discipline that ERM provides, but when we actually dug into the problems, we found there were issues we didn't understand."

Bellco's personnel had been heavily involved in consumer lending for years, but had no way to be aware that they should be addressing delinquency based on unemployment levels. Without the more global outlook advantages of ERM, the credit union's board was basically in the dark with regard to the concept of trade-offs and most of the risks that Bellco was taking.

The organization had also been suffering obliviously to a trend wherein each separate team or department would make decisions based on the needs and risks of their specific realm, having no tools to view the greater organization, or how their choices could potentially affect Bellco as a whole.

Determined not to repeat the misguided period of the early recession, they took on ERM as a tool to guide them.

"We embraced ERM as a tool for the future to analyze what risks we're taking and be more sophisticated about how we take on risk rather than blindly feeling like we can just keep taking more on," explained Ferraro.

ERM has now played a pivotal role in Bellco's day-to-day operation for more than four years.

ERM at Bellco

Rather than a one-time snapshot of the state of risk at Bellco, the credit union uses ERM as an ongoing management tool. It acts as a living process that all ongoing credit union activities must be run through before being carried out. They now use ERM to measure risks across the board, from fraud to credit risk.

BELLCO
Banking for Everyone.

The Benefits of ERM Outsourcing

After spending some time trying to hire an internal ERM department, Bellco made the decision that the available expertise was not sufficient to compensate for the cost of such a department. They elected to outsource their ERM activity to The Rochdale Group, an ERM-dedicated team with a vast presence within the credit union movement.

"We find outsourcing to Rochdale to be more cost-effective than hiring full time staff; they're better at all this and, even on a part-time, outsource basis, we think they're more productive for the money. Additionally, if we had staff working on ERM, they'd only ever be engaged in our own little world — we wouldn't be in touch with industry trends or what others are experiencing. By outsourcing, we get a feel for trends and what's going on outside of Bellco."

The Rochdale Group has been providing Enterprise Risk Management solutions selectively to credit unions since 2006. As specialists in the field, they offer credit unions refined expertise and resources, making them the effective alternative to an internal ERM department for organizations like Bellco.

Culture Shift

Ferraro estimates that the full cultural integration of ERM at Bellco lasted about two years. Even after a fourth year, they are still learning new uses and improvements for the process.

Bellco's motivation in committing to ERM was to continue being a major lending institution. Only through a dedicated cultural implementation have they been able to fully understand the risks involved in pursuing that goal and determine whether that strategy would be feasible and beneficial.

The Pay-off

Today, Bellco boasts lower delinquency and higher profitability rates compared to their status before ERM implementation. In the midst of a lingering economic struggle, they can claim a 6% return on loans and a 3.9% net interest rate margin. They even take on a large amount of credit risk, approaching that risk in a smarter way than they would have been able 4 years ago, the result is loan losses are only a fraction of what they'd used to be.

All of the credit union's teams understand, strategically, that they are not eliminating risk, but determining where that risk is acceptable. For example, the professionals at Bellco know they won't take on certain types of transaction risks and they take no risks in regulation and compliance.

"I think everyone has a good reason to implement this process, whether it's minimizing regulator criticism, a board's full understanding of the organization or motivating employees," concludes Ferraro. "There are so many scenarios to make ERM valuable; everyone has to decide what's in it for them."

"You have to have commitment and motivation. You need to believe that it's going to be useful in a fashion that's really going to help you on a daily basis or you're not going to feel like it's a useful part of what you're doing. So, I think the bottom line from my perspective would be that you have be willing to say that, 'This is important to me and to make part of our future' for a good reason."

Doug Ferraro,
CEO Bellco CU

TO LEARN MORE
Visit **cuna.org/erm**