

ERM & Change Management: Teamwork

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ERM & Change Management

Financial institutions face a dynamic environment with ever-changing regulations, market risks, and operational challenges.

ERM and Change Management are critical tools for managing compliance risks and ensuring regulatory adherence while navigating change.

In this session, we will explore the synergy between an effective change management program and a defined ERM program, examining how they work hand-in-hand to identify and reduce risks across the organization.

Agenda

- ❖ ERM Framework
 - ❖ What is it?
 - ❖ Compliance Examples of ERM
- ❖ Change Management Process
 - ❖ What is it?
 - ❖ Compliance Examples of Change Management
- ❖ ERM & Change Management Collaboration
 - ❖ Examples
 - ❖ How to Document
- ❖ Making Change Happen

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What is Enterprise Risk Management (ERM)?

Definition: A holistic approach to identifying, assessing, managing, and monitoring risks across an organization.

- Focus on aligning risk strategy with business goals.
- Types of risks: Strategic, operational, financial, compliance, and reputational.

ERM is not just a compliance function but an integrated part of the organization's overall strategy.

For financial institutions, it includes managing risks like regulatory compliance, market fluctuations, and cybersecurity threats.

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The ERM Framework

An ERM Framework Includes:

- Risk Identification
- Risk Assessment
- Risk Response/Control
- Monitoring and Reporting



ERM involves a systematic approach: Identifying risks (e.g., regulatory changes, economic shifts), assessing their potential impact, responding appropriately (via controls, mitigation strategies), and monitoring them over time.

Effective ERM requires communication between departments (e.g., legal, compliance, finance) and a continuous feedback loop to ensure risks are kept under control.

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Example of ERM Framework & Compliance – Reg E

Regulation E (Reg E) Compliance:

- Risk Identified: Changes to Regulation E (such as updates to electronic fund transfer requirements) require banks to ensure that customers are properly notified of rights and the processes are compliant.
- ERM Impact: Banks must assess the risk of non-compliance, which could lead to penalties or customer disputes. ERM frameworks would guide the bank to revise procedures, update disclosure processes, and enhance staff training on new rules. Monitoring of customer complaints related to Reg E would also be essential.

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Example of ERM Framework & Compliance - UDAAP

Unfair, Deceptive, or Abusive Acts or Practices (UDAAP):

- Risk Identified: Risk of violating consumer protection regulations, leading to penalties or reputational damage.
- ERM Impact: Banks must continually assess and mitigate the risk of engaging in practices that could be considered unfair, deceptive, or abusive under Dodd-Frank. This requires monitoring all customer interactions, reviewing product offerings, and ensuring transparent and ethical practices.
- Example: A bank's marketing team inadvertently misrepresents the terms of a loan product which could be seen as deceptive. ERM processes would ensure the team is aware of these risks and establish controls to regularly review advertising and product communications to avoid deceptive claims.

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What is Change Management?

Definition: The structured approach to transitioning individuals, teams, and organizations from a current state to a desired future state.

It focuses on minimizing resistance to change while maximizing engagement.

In financial institutions, change management is critical as the industry undergoes constant regulatory, technological, and market changes.

Effective change management ensures that all stakeholders are aligned and equipped to adapt to new systems, policies, or processes without disrupting compliance or operations.

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The Change Management Process



Change management isn't a one-time event; it's an ongoing process.

The process ensures that the impacted parties are ready and able to work within the new regulatory and operational framework after changes occur.

A Change Management Process Includes:

- Prepare for Change: Assess the scope and need for change.
- Plan for Change: Develop strategies, objectives, and timelines.
- Implement Change: Execute the plan with clear communication and support systems.
- Sustain Change: Reinforce the changes through feedback and continuous improvement.

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Why Change Management is Critical in Compliance

- Regulatory updates often require compliance processes and systems to evolve.
- Change in technology and platforms (e.g., implementing new compliance software).
- Integration of new risks (e.g., cybersecurity or financial crimes).
- Maintaining business continuity while adhering to regulatory requirements.

This means Compliance professionals need to lead or at a minimum be an integral part of the way in helping the organization adapt to regulatory changes swiftly and smoothly.

Implementing change management reduces the risk of errors and compliance failures during transitions.

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How do changes occur within your organization? Are they:

Informal

Siloed

Disruptive

Undocumented

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Workflow of a robust Change Management Process:

Formal

- Changes are presented to a Change Management Committee comprised of members from across the organization, including Compliance.

Collaborative

- Discussions take place across department lines to understand the impact the proposed change has on other areas across the organization.

Aligned

- Changes support the common goals of the affected areas

Documented

- Change Requests and committee minutes provide details of the change. New processes and procedures are created to support the affected areas.

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Example of Change Management – Reg E

Regulation E (Reg E) Compliance Change:

- Change Trigger: An update to Reg E that alters the dispute resolution process for electronic transfers.
- Change Management Impact: The compliance team will communicate the updates to all relevant departments (e.g., customer service, operations) and collaborate with Training team to create training materials. Employees will need to be retrained on handling dispute claims, and systems must be adjusted to accommodate the new processes.
- Example: A bank's online platform must be updated to capture and store more detailed information about customers' electronic transfers. IT will need to collaborate with compliance to ensure all processes are updated without disruption to customer service.

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Example of Change Management - UDAAP

UDAAP Compliance Change:

- Change Trigger: A new set of guidance from regulators clarifying what constitutes unfair, deceptive, or abusive practices, especially in consumer loan offerings.
- Change Management Impact: The compliance team will collaborate with lenders, loan operations, marketing and training to ensure that product offerings, marketing materials, and sales practices align with the new guidance. Employees across sales and customer service must be trained to recognize and avoid potentially abusive or deceptive practices, particularly in collections, fees, or lending practices.
- Example: The bank's collections department receives updated guidance on handling delinquent accounts in a way that avoids abusive tactics. Compliance will lead training sessions for employees and ensure that new policies are implemented effectively.

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ERM & Change Management Collaboration

Reg E Compliance:

- ERM Role: Identifying the risk of failure to update customer agreements and systems in line with regulatory changes.
- Change Management Role: Ensuring timely updates to bank systems and training all staff on new customer rights and dispute resolution procedures.

UDAAP Compliance:

- ERM Role: Identifying and assessing the risk of unfair, deceptive, or abusive practices in consumer-facing interactions (e.g., marketing, collections, and lending).
- Change Management Role: Updating operational processes to ensure transparency and ethical practices in product offerings and consumer interactions. This could involve reviewing and altering scripts, customer communication, and sales incentives to align with UDAAP standards.

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But Did You Document It?

Change Management documentation should include:

- ✓ Change Implementer
- ✓ Reason for the Change
- ✓ Departments Affected
- ✓ Implementation Plan
- ✓ Testing Plan
- ✓ Timeframe
- ✓ Committee Approval
- ✓ Results of the Change

ERM Framework documentation should include:

- ✓ Risk Description
- ✓ Risk Trigger
- ✓ Probability & Impact Scores
- ✓ Action Trigger (Guard Rail)
- ✓ Response Considerations
- ✓ Results if no action taken
- ✓ Reporting
- ✓ Risk Owners
- ✓ Monitoring Systems

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Change Management Documentation

Change Request Form

NOTE: Highlighted or RED marked fields are required

Change Request #: 223 Change Owner: Lynette Kane Vendor Scheduled Outage? YES NO

New Vendor or Vendor Enhancement? YES NO Type of Change: Normal Expedited Emergency

Remember to complete the due diligence required for N

Project/Change Name: Re-presentation of Returned Items Date Created: 7/18/2023

Department Requesting the Change: Compliance

Description of the Change and System(s) Being Changed: FIS-Horizon enhancement that allows us to identify and track all check and ACH transactions that are returned unpaid and determine when such transactions have been re-presented for payment. When an unpaid item is re-presented, a message will display stating, "Not authorized to charge a fee for re-presented item." This functionality is only available when Returned Item Processing (RIP) Redesign is enabled.

Change Implementer: ██████████

Risk Level: Low Medium High Is This a Regulatory Issue? YES NO

Beginning Date of Change Implementation: 7/21/2023 End Date of Change Implementation: 8/18/2023

Departments and/or Systems Impacted: Retail / Branch Operations, Deposit Operations

Department(s) Approval: YES NO N/A Date of Approval 7/18/2023

Does this Change affect an RPA? YES NO

Reason for Change: The FDIC issued supervisory guidance to ensure that institutions are aware of the compliance risks associated with assessing multiple NSF fees arising from the re-presentation of unpaid ACH transactions and checks. The practice of charging multiple NSF fees for the same unpaid transaction will be viewed as consumer harm and result in heightened risks of deceptive practices violations.

Implementation Plan: Systems will activate the redesign functionality for select team members and managers on July 21, 2023. This will include members of the customer care center, deposit operations dept., and branch operations. The redesign will be enabled for all users when the designated control group is comfortable with the functionality and training has been provided to the appropriate users.

Test Plan: The testing will be conducted live. This is the only way for us to see check and ACH activity. RIP testing will be conducted with care center team members and supervised by Marci Duke. Marci will also be responsible for training branch personnel who process returned items. URI testing will be conducted by Tammy Vega and her designee(s). The designated control group will meet to discuss the results of the testing and implement a training plan with an expected completion date of 8/18/23.

Back-Out Plan: Do not enable the RIP redesign.

Please add any additional attachments related to the Change Request

Horizon Release 2023.03.0418-Re-presentation of Returned Items.pdf 1.82 MB

NSF Re-presentation Fees Recommendation.docx 152.01 KB

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ERM Framework Documentation

Risk #	Risk Description (What Could Go Wrong)	Risk Trigger	PROB 1-3	IMPACT 1-3	PI Score (Prob times Impact)	Action Trigger (Guard Rail)	Risk Owner Responsibilities				Monitoring Systems (Verifies effectiveness of risk responses)	
							Response Considerations / Description	Expected Result - No Action Taken	Reporting	Risk Owner (Committee/Group)		Risk Owner - Chairperson/Lead
CO-01	CRA Exam impacts ability to continue branching.	Evaluation of CRA Self Assessment or Regulatory CRA Examination, changes in or lack of qualifying community development activities, findings from audit reviews.	2	2	4	Results of internally established system triggers, management becomes aware of changes that impact performance evaluation or impedes ability to meet credit needs of the assessment area.	Evaluate CRA LAR trends, document changes to assessment area, and corporate culture.	Bank may not be able to achieve strategic goals due to lack of ability to branch. Adverse financial impact. Loss of reputation and trust of the community intended to serve.	Situations that meet action trigger threshold shared with impacted areas upon identification and discussed at meetings as they occur. Summary reported to Senior Management Group.	CRA Committee		Results of regulatory examinations, independent external audits. Internally prepared monitoring reviews and reports by Risk Department.
CO-02	Failure to meet Fair Lending/ Servicing expectations restricts ability to grow the loan portfolio and penalties have adverse financial impact.	Fair Lending/ Servicing examinations results, consumer complaints, and/or evidence of discriminatory lending practices.	2	3	6	Results of internally established system triggers, management becomes aware of procedural changes that impact loan origination and/or loan servicing that were not considered through the established change process.	Training, documentation of expectations (procedures), Audit Program, management committees/groups and corporate culture.	Adverse financial impact or reduction in operational efficiencies. Loss of reputation and trust of the community intended to serve.	Immediate notification to impacted areas upon identification. Standard agenda item discussed at every meeting. Summary of occurrences reported to Senior Management Group.	Banking & Operations Committee		Results of regulatory examinations and independent external audits. Internally prepared monitoring reviews and reports by Risk Department, complaints and tracking log entries.
CO-03	Deficiencies in account disclosures (initial subsequent)	New and/or revised account disclosures, changes to product terms and/or features, software system changes, regulatory requirement changes.	1	3	3	Results of internally established system triggers, management becomes aware of system or product changes that were not considered through the established change process.	Training, documentation of expectations (procedures), Audit Program, management committees/groups and corporate culture.	Adverse financial impact or reduction in operational efficiencies. Loss of reputation and trust of the community intended to serve.	Situations that meet action trigger threshold shared with impacted areas upon identification and discussed at meetings as they occur. Summary reported to Senior Management Group.	Banking & Operations Committee		Results of independent external audits, internally prepared monitoring reviews and reports by Risk Department of audit findings, complaints and tracking log entries.
CO-04	Vendor does not meet compliance obligations or expectations causing the bank to be in noncompliance, creating potential consumer harm and adversely impacting the banks reputation.	Changes to third party, reconciliation and/or monitoring procedures. Process changes made by third party. Vendor appropriately implements new/revised regulatory requirements.	2	3	6	Notification of vendor BCP event or system changes, management becomes aware of vendor's inability or potential inability to meet contractual agreements; vendor data integrity is compromised in whole or part.	Evaluate vendor relationship.	Adverse financial impact and misstatement in financial reporting. Loss of reputation and trust of the community intended to serve.	Immediate notification to impacted areas upon identification. Standard agenda item discussed at every meeting. Summary of occurrences reported to Senior Management Group.	IT Committee		Effective completion and reporting of annual vendor reviews. Results of independent external audits, internally prepared monitoring reviews and reports by Risk Department of audit findings, complaints and tracking log entries.

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ERM & Change Management Process Requires



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Thoughts/Questions



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