

This document and any attachments are superseded by Comptroller's Handbook - Community Bank Supervision.

Risk Management

This section is intended to provide an overview of the risk assessment process which management should implement as part of its foundation of internal controls. Management should have a process and methodology to identify, measure, monitor and control the risks associated with trust and asset management products, services and processing functions. A separate assessment should be made of each product and service the savings association provides. In order to ensure an effective internal control system, management should ensure the adequacy of: 1) the management oversight and control culture; 2) risk recognition and assessment; 3) control activities and segregation of duties; 4) information and communication; and 5) monitoring activities and correction of deficiencies.

A thorough assessment includes the following (see **Section 060**):

- identification of material risks;
- the quantity of risk;
- the quality of risk management;
- the level of supervisory concern;
- direction of risk;
- the potential exposure to liability or loss;
- adequacy of current controls; and
- actions necessary to improve the control environment.

In order for the savings association to make an appropriate assessment of the risks inherent with each trust and asset management activity, management must have a comprehensive knowledge of:

- current operations, including products, services and customer base;
- the overall trust and asset management industry; and
- the market segments to which the savings association provides or intends to provide trust and asset management products and services.

Execution/Administration

As stated in Section 060, the types of risk associated within a savings association's trust department include: reputation risk; strategic risk; transaction/operational risk; compliance/legal risk; and financial risk. A well planned and managed trust department will have policies and procedures that include a process and methodology to assess the risks associated with all trust and asset management activities and the documentation of these risk assessments. Management should clearly identify the products and services it renders or intends to render, the policies and procedures that will govern their delivery and its ability to implement adequate risk controls. Once risks are identified, management should ensure that recommended improvements are implemented and monitored.

An analysis of the gathered data should enable management to compose a comprehensive risk profile that clearly identifies the risks associated with its products and services. Management should then direct the implementation of the necessary processes to continually identify, measure, monitor and control these risks and identify personnel capable of delivering the products and services and processes in a manner that limits those risks. The risk profiles should also assist the savings association in determining the profitability of each rendered product and service and enable it to adjust its fees or proposed fees accordingly.

Risk management and assessment is an ongoing process requiring continual monitoring and adjustment. Once a program has been established and implemented, it must be continually reviewed for its effectiveness, taking into consideration changes in laws and regulations, the current legal climate and new products and services. The risk management process should be implemented into the savings association's compliance management and audit programs to ensure effective monitoring and compliance.

Risk Management Examination Program

Examination Objectives

To determine the adequacy and/or effectiveness of the trust department's risk management practices. Consider whether:

- the risk management program is appropriate for the size and nature of the trust and asset management activities;
- all the risks associated with the department's trust and asset management activities are identified;
- the board of directors and management, in their respective roles, have the ability to plan for, and respond to, risks that may arise from changing business conditions or the introduction of new activities or products;
- the risks of significant trust and asset management activities are addressed by appropriate policies, procedures and internal controls; and
- corrective action is taken and additional monitoring systems and controls are implemented when significant risks are identified.

Examination Procedures

Level I

Wkp. Ref.

Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether new products and/or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping; the examiner may need to perform certain Level II procedures.

1. Review examination scoping materials related to the operations and internal controls of the trust department. Scoping material should include:
 - Risk profile
 - Relevant PERK documents

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- Previous trust and asset management examination report
- Workpapers from the previous examination
- Previous safety and soundness examination report
- Examination reports of subordinate, functionally regulated entities
- Board of director and other applicable committee minutes

2. Evaluate the policies and procedures for risk management practices.

3. Has the board of directors and/or management developed and approved a process to identify, measure, monitor and control risk within the trust department? Is it reviewed and re-approved annually?

4. Evaluate whether management has the expertise necessary to carry out the risk management process. If the size and nature of the organization is large or complex, has management assigned this responsibility to a separate division within the organization?

5. If there is a separate risk management department or division, evaluate available expertise and note any personnel changes since the last examination. Review resumes for education, significant work related experience and any other pertinent information.

6. Analyze the risk management reports submitted to management to determine their usefulness in monitoring the risk management practices of the trust department.

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7. If there are separate divisions for risk management, compliance and audit, determine how these divisions share information, responsibilities and duties. Is there cooperation between the divisions?

8. Determine whether any new trust or asset management products or services have been introduced and whether risk assessments, control systems and monitoring processes were implemented for the product or service.

9. Consider whether the following risk contributors (if applicable) have been addressed:

- Does the risk management program adequately quantify the level of risk in the trust department?
- Is the savings association's risk profile reviewed regularly by the appropriate personnel and updated accordingly?
- Is the risk management process appropriately used as a management tool with significant risks appropriately considered in the business planning process?
- Considering the size and complexity of the trust department, is the risk management program adequate?
- Are material issues noted in audit, compliance or examination reports corrected in a timely manner?

The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

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Level II

Level II procedures focus on an analysis of trust department documents such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

1. Review the risk management reports and supporting documentation and determine that they are adequate, prepared in accordance with the risk management program and provide proper documentation.

2. Assess individual risk management reviews for particular products or services and determine if appropriate risk management techniques are deployed to assess the product or service's inherent risks.

3. Evaluate management's plan to correct any material unresolved exceptions present in internal, external, compliance or examination reports.

4. Review management's budget for the risk management division. Is it adequate to support the personnel and operating expenses?

5. Do risk management personnel have access to all complaint logs?

6. Do risk management personnel have access to all outsourcing agreements and understand the arrangements and responsibilities involved?

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7. If the risk management process is housed in the parent company's lead bank, or another affiliate, determine how the process is conveyed to and managed by the savings association.
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If the examiner cannot rely on the trust and asset management Level I and Level II procedures, or data contained in department records or internal or external audit reports, proceed to Level III.

Level III

Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Determine if the timing of risk assessments for each department or activity is adequate.
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2. Determine what the minimum documentation requirements are to support assessment decisions.
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3. Determine who has the authority to override risk assessments. Are the overrides used sparingly?
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4. Determine if line department managers review risk assessments for reasonableness.
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5. Review training programs to determine if they educate management and staff to identify risks.
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**Risk Management Examination
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Examiner's UTRS Rating, Summary, Conclusions and Recommendations:

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References - 220P

None

Workpaper Attachments - 220P

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Risk Management Examination Program

Optional Topic Questions

The following list of questions is offered merely as a tool and reference for the examiner and is not a required part of the examination process.

Risk Management Program

<ul style="list-style-type: none">• Has the savings association adopted a risk management program that is utilized in conjunction with its trust and asset management activities?
<ul style="list-style-type: none">• If not, does management have plans to implement a risk management program?
<ul style="list-style-type: none">• Does the savings association have well qualified staff to effectively implement a risk management program and is it being implemented effectively?
<ul style="list-style-type: none">• Does the program address each of the following risks?
<ul style="list-style-type: none">• Reputation Risk?
<ul style="list-style-type: none">• Strategic Risk?
<ul style="list-style-type: none">• Transaction/Operational Risk?
<ul style="list-style-type: none">• Compliance/Legal Risks?
<ul style="list-style-type: none">• Financial Risks?
<ul style="list-style-type: none">• Are all trust and asset management products, services and processes addressed in the program?
<ul style="list-style-type: none">• Are adequate monitoring procedures for the program in effect?

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