

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.