Jennifer Burke

Bruce Branson:

Hi, I am Bruce Branson, the Associate Director of the Enterprise Risk Management Initiative at the North Carolina State University. I am joined today by Jennifer Burke, Jennifer is a partner with Crowe Horwath, and she heads their ERM practice in the financial services industry. We are going to chat a little bit today about challenges of ERM in the banking industry. Jennifer, I would like to start with, maybe you give us a broader overview of what ERM looks like, what's the state of ERM in the banking industry.

Jennifer:

Sure. It's an interesting time, I think, for ERM in financial services. We are still a bit, there is still a bit of recovery from the 2007 situation. There are 500+ financial institutions no longer with us. So, I think what you will see is a wide variety of where banks are from an ERM maturity perspective. Some of the larger banks, of course, from a regulatory perspective, have been pushed to be much further down the path. What we are seeing now is, even the community banks are embracing the concept, and regulators are pushing it. We still see some immaturity, or less mature programs in the smaller banks. The larger banks are much further down the path.

Bruce:

Could you talk to us a little bit about some of the challenges that may be unique to the banking industry, and trying to start an ERM program, and get it to function effectively?

Jennifer:

Sure. I've been in banking all of my career, either being in a bank, or from a consulting perspective. And I think one of the challenges that bankers have, as a general rule is, everything is very prescriptive. There are so many regulations, it's such a regulated industry, you throw ERM in, which is much less regulatory, we were just talking about the fact, it's much more an art than a science, and in a heavily regulated industry, that's often quite difficult to manage because there is not a nice check list that you can check the boxes on. So I think that's probably the biggest challenge for bankers. It's certainly not that they don't know how to manager risk, basically banks are in the business of taking risks, and they lend money, they hope that gets paid back, although hope is not a strategy, so they are in the business of taking risks, they simply don't have a good handle around how to implement something that's nebulous, like ERM.

Bruce:

Maybe we follow up on that a little bit- Banks historically have been very good at what we may call traditionally risk management, management credit risk, and managing liquidity. What's different about ERM? What are some of the issues you see specifically to ERM that can be helpful for banks?

Jennifer:

That's a great question. I think that, usually when we talk with banks, the first thing they think about is credit risk, because historically, that's the largest risk, they are lending out money. But when you start to think about it, you have liquidity risk, you have operational risk, now everyone is talking about cyber security, etc; so banks have had to broaden the way they think about risk; not think more about it, but just broaden that perspective a bit. And quite often, just thinking about what is strategic risk, how does credit risk fit into that, how does a risk cross the organization, credit risk isn't just a chief lending officer issue, it's across the organization. So I think that's one of the biggest challenges banks face.

Bruce:

Fantastic. Maybe we can talk a little bit about how you see the value proposition for ERM specifically. What are the gains in the banking industry?

Jennifer:

Well, unfortunately, bankers tend to think quite a lot about regulations, so one of the easy, low hanging fruit benefits is regulators are going to be happy to see that you are focus on risk, and you are profitable and successful because you are focus on it, and not because you are lucky. And so, having that framework, I think is definitely an advantage. I also think being able to understand and not necessarily predict, but at least have your arms around things you know, and more importantly, things you don't know, certainly gives you a jump over your competitors when something does happen, or something does go wrong, you have at least thought through the scenarios, and you are prepared for that. We also find that, from an operational perspective, we can often see that banks can find some savings from an ERM perspective, as well. Duplication, maybe we are controlling risks that are more low priority, etc. So, they are often cost savings as well.

Bruce:

Well, that's tremendous. Thanks for joining us today, Jennifer.