

Enterprise Risk Management

Speed Limits & Safety Nets: Reimagining Enterprise Risk Management

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Why ERM Still Matters in 2025

- Enterprise Risk Management (ERM) provides resilience, trust, and informed risk-taking.
- Even small financial institutions face rapid change: cyber, economic, regulatory, and reputational challenges.
- Trends: AI acceleration, digital banking, regulatory change, and consumer expectations.
- CEO Priorities: efficiency, regulatory agility, and sustainable profit.

Regulatory Update: Reputational Risk Removal, but not Irrelevant

- FDIC, OCC, and NCUA in 2025 are removing “reputational risk” from exam frameworks – focus shifts to operational, credit, compliance, and strategic risks.
- Impact: Less ambiguity, heightened expectations for clearly communicating and managing core risks.
- Reputational risks now treated as concrete exposures like financial loss, legal fines, or operational failures.
 - For example:
 - A data breach resulting from weak cybersecurity (operational risk)
 - Fraudulent account openings leading to regulatory fines and customer loss (compliance and credit risk)
 - Customer service interruptions causing payment failures and customer attrition (operational and financial risk)

Like a referee deciding not to penalize “unsportsmanlike conduct” anymore — players must focus on the concrete rules.



2025 Risk Landscape: What's New?

- Rate volatility and liquidity crunch
- AI/cyber risk: Model error and vendor risk
- Climate risk: Physical loss and regulatory pressure
- Increase in model risk and data bias compliance audits
- Fast-response incident playbooks critical

Demystifying Risk Appetite vs. Risk Tolerance

Concept	Definition & Example
Risk Appetite	The amount/type of risk an institution is willing to pursue in pursuit of objectives. Example: We accept increased lending risk to grow membership.
Risk Tolerance	The acceptable deviation from risk appetite. Example: We will accept up to a 2% loan default rate as part of growth.

Analogy — Speed limits:

- **Risk appetite** is setting the max speed on a highway (how much risk you want overall).
- **Risk tolerance** is the leeway before police pull you over (how much you'll actually tolerate on a given day).

Practical Tools for Small Institutions

- All credit unions—formal ERM not required, but informal practices essential.
- Practical steps:
 - Annual risk inventory and ranking exercises. Update quarterly.
 - Case-by-case risk reviews at the board/leadership level.
 - Clear, simple dashboards or heat maps (even in Excel). Green/yellow/red for key risk indicators.
 - “Trigger lists” — predefined reaction plans if metrics breach set thresholds.
 - Make risk review standard in credit and operations meetings.
- **Example:** Community credit union reviews its top 5 risks quarterly with the board and uses a one-page summary for strategic decisions.

Real-Life and Lighthearted Examples

Non-banking analogy (Risk Appetite):

- Planning a vacation — one person books an adventure trip with lots of uncertainty (risk-seeking). Another picks an all-inclusive resort to avoid surprises (risk-averse).

Non-banking analogy (Risk Tolerance):

- Hiking — willing to risk a sprained ankle on a challenging trail (risk tolerance), but not a broken leg (outside tolerance; so, bring extra supplies or choose an easier trail).

Team Exercise: Write a Risk Appetite & Tolerance Statement

- Within your group let's pair and share. Draft a risk appetite and a risk tolerance statement for a new initiative:
 - **Example:** “We are willing to accept up to 1% increase in non-performing loans to expand into a new underserved market. Our maximum tolerance is a 2% rise — beyond that, we pause lending and reassess.”
 - You can choose any initiative in your group.
- Be prepared to discuss.



Enterprise Risk Management Takeaway

- The best ERM programs aren't necessarily big or complex — they're *intentional and clearly communicated*.
- Takeaway: “Everyone needs an agreed-upon speed limit and a working speedometer — even a single-branch credit union or local bank.”
- Review your risk statements with your teams this year — make it a living conversation.

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