10 Common Reasons Risks Are Not Appropriately Managed

1. Mindset—We can take action **when** bad things happen so things will never be as bad as the simulation is showing—*forgetting that the point at which we address a problem is directly related to the number of viable options we have for solving it*
2. Decision-makers don't agree on appetite for risk
3. Decision-makers agree on appetite for risk but don't make the tough decisions to manage within their appetite
4. Decision-makers take on more risk than they are truly comfortable taking because *"everyone else is doing it"*— so it must be right…

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5. Lack of effective communication between decision-makers and risk quantifiers
6. Short-term decision making
7. Decision-makers not linking strategy and A/LM (financial structure management)
8. Contingency plans are not tested to determine if they are adequate
9. Using old decision drivers and measures of success in a new environment—following peers

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10. Improper risk quantification providing a false sense of security

a. Intermingling existing risks with hopes and dreams of the future during Step 1 of the process

b. Not considering the **entire** financial structure—focus on margin can lead to bloated operating expense structures

c. Relying on core deposit studies—rarely takes into account **member** age and does not consider that credit union deposits are not widely traded… so how would the institution get the value out of the deposit when it needs to?

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d. Managing to probabilities when risks include bad things that might happen—not just what is likely

e. Not asking the right questions:

- What could be our worst-case loan loss?
- What if new volumes change as rates are changing?
- Is the type of growth we are experiencing sustainable?
- What external factors could turn things upside-down?
- What if liquidity is in short supply?