

# Harnessing Risk Assessment to Meet Compliance Goals

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#### What is a Risk Assessment?

- Generally
- CFPB Examination Manual, etc.
- Risk Assessment Template



### **CFPB Exam Manual**

CFPB's Risk Assessment process is designed to evaluate on a consistent basis the extent of risk to consumers arising from the activities of a particular supervised entity and to identify the sources of that risk. "Risk to consumers" for the purpose of the CFPB Risk Assessment is the potential for consumers to suffer economic loss or other legally-cognizable injury as a result of a violation of Federal consumer financial law. To determine risk to consumers, the Risk Assessment considers the interaction of two broad sets of factors: the inherent risks in a particular line of business or the entity as a whole and the quality of controls implemented by the entity to manage and mitigate those risks.



### **CFPB Exam Manual**

Inherent risk includes factors that increase the potential for unfair, deceptive or abusive acts or practices, for discrimination, or for violations of other Federal consumer financial laws. It also includes factors that increase the compliance management challenges of a business and thereby increase the risk of such violations.

The <u>quality of risk controls</u> includes factors related to both managing and mitigating specific inherent risks as well as the strength of an entity's overall system of compliance management.



# Risk Assessment Conclusions: CFPB Template

CFPB Risk Assessment

Entity Name: Prepared by: Docket Number: Date:

#### RISK ASSESSMENT CONCLUSIONS

#### **Risk Summary**

Supervised entity or line of business reviewed: [Click&type]

Element	Current MM/DD/YYYY	Preceding MM/DD/YYYY
Inherent Risk	[Click&type]	[Click&type]
Quality of Risk Controls and Mitigation	[Click&type]	[Click&type]
Overall Risk to Consumers*	[Click&type]	[Click&type]

Expected Change/Direction of Risk	☐ Increasing ☐ Decreasing ☐ Stable	
Last Change in Direction	MM/DD/YYYY	
	☐ Increasing ☐ Decreasing ☐ Stable	



# Risk Assessment Conclusions: CFPB Template

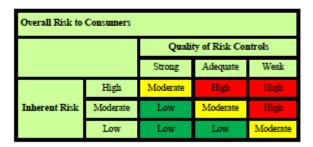
#### **CFPB**

#### Risk Assessment

Entity Name: Prepared by: Docket Number: Date:

\*Overall Risk to Consumers:

The overall risk is the inherent risk identified in a particular business line or supervised entity, mitigated or amplified by the strength or weakness of the controls to address those risks. The following chart is a general guide to assessing the overall risk to consumers. Examiners must apply their judgment in making this determination; however, a risk controls conclusion of "Weak" should result in an overall risk conclusion that is no more favorable than "Moderate," even if the degree of risk is concluded to be "Low."



Summarize the primary bases for the summary conclusions:

[Click&type]



# Risk Assessment Conclusions: CFPB Template

The factor ratings and comments **should be used to inform the Examination Scope**. For example, if the nature and structure of certain products point to high inherent risk and the quality of risk controls is only adequate, then the examination scope should likely include a review of those products and the related compliance controls. The magnitude and severity of potential consumer harm arising from particular risks should be considered when setting priorities for review.



#### **FDIC Examination Manual**

The goal of a risk-focused, process-oriented examination is to direct resources toward areas with higher degrees of risk of consumer harm. To accomplish this goal, the examiner must assess the financial institution's CMS as it applies to key operational areas and evaluate the risk of non-compliance with applicable laws and regulations. This process is documented by the examiner in a scoping memorandum, the Assessment of Risk of Consumer Harm (ARCH), which is reviewed and approved by the supervisor.

The ARCH <u>describes the focus of the examination</u>, including issues to be investigated and the products, services, or regulations that exhibit inherent risk not sufficiently mitigated by the institution's CMS. The identified areas with residual risk will be further reviewed or transaction tested during the examination.



#### **FDIC Examination Manual**

The ARCH is divided into five sections and begins with an overview of the institution and examination, including current examination information, financial data, and previous examination supervisory comments.

Section I - institution's **structure and supervisory history**;

Section 2 - initial assessment of the **CMS**;

Section 3 - identify <u>inherent risks</u> (questions about the institution's operations, followed by an analysis of whether each inherent risk is low, mitigated, or results in residual risk of consumer harm);

Section 4 – identify <u>specific product/service/regulation risk</u> which will determine intensity of transaction testing; and

Section 5 – <u>approval of material changes</u> to the scope of the examination.



## Risk Ratings: Dimensions to Consider

QUANTITY OF RISK	QUALITY OF CONTROL	COMPOSITE RISK	DIRECTION OF RISK
HIGH Inherent risk is high before controls are applied	STRONG Strong controls exist and are applied to the process	HIGH Risk remains high after controls are applied to the process	INCREASING Level of risk is increasing and needs attention
MODERATE Inherent risk is moderate before controls are applied	SATISFACTORY Adequate controls exist and are applied to the process. There is some room for improvement.	MODERATE Risk is moderate after controls are applied to the process	STABLE Level of risk remains the same
LOW Inherent risk is low even before controls are applied	WEAK Weak or no controls exist	LOW Risk is low after controls are applied to the process	DECREASING Level of risk is decreasing considering additional controls that are being applied



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### Understanding Your Risk

- Underlying Product and Industry
- Business Model and Structure
- Applicable Laws
- Compliance System and Resources



# Re-Assessing Risk Assessment: Quantity of Risk

- New Products
- New Service Providers
- Federal and State Regulation



# Re-Assessing Risk Assessment: Quality of Control

- Compliance Reviews and Audits
- Litigation
- Complaints



## Re-Assessing Risk Assessment: Direction of Risk

- Political Regime Change
- Media Coverage of Industry Concerns
- Litigation and Complaints



### **Questions/Discussion**

If you would like to ask a question, you can ASK or type your question into the CHAT feature NOW.



## **Speakers**



H. Blake Sims

423.490.7563

implies brims@hudco.com



Rob Tilley

202.327.9718

☐ rtilley@hudco.com

