



ERM Program Considerations

by [Steve Brown](#) Topics: [ERM](#), [risk management](#), [regulatory](#)

Summary: While ERM is not required for most community banks, more are choosing to implement such programs as a means to reduce risk and increase profits.

Working can be hazardous to your health at times. Research by the Bureau of Labor Statistics (BLS) ranks such things and finds fatal work injuries most often results from transportation incidents (41%); followed by falls, slips and trips (17%); violence and other injuries by persons or animals (16%) and contact with objects or equipment (14%). Risks are everywhere so be careful out there.

Speaking of risks, today we look at enterprise risk management (ERM). Yes, we know ERM is not required for most community banks, but more are choosing to implement such programs as a means to reduce risk and increase profits.

At a time when community banks are under so much pressure, it could seem odd that many are looking to embrace ERM programs. After all, regulators don't require community banks to have formal ERM programs.

That said, community banks are recognizing that successful risk-management initiatives can boost profitability, mitigate third-party and other risks and aid in meeting strategic goals. You heard us right - ERM may seem incidental, but it is increasingly becoming more appealing, as risk management and potential security compromise become bigger issues. Here are some tips for bankers who may go down this path.

Regulators are becoming more interested in ERM. While community banks are not required to have an ERM program in place, regulators are becoming ever-more aware of how **all** US banks manage internal and external risk. It's not unusual to include enterprise risk as a discussion point in regular meetings with the board, or senior management these days. Even individual department heads are becoming involved in ERM development.

Balancing customer experience and risk. In some cases, providing for a more secure experience may take away from how you connect with your customer. Hence, in developing an effective ERM program, many bankers are (understandably) concerned that they will also be undercutting their ability to connect with customers and prospects. Keep this in mind if you are setting up an ERM as you test and learn.

Competing with bigger banks. Community banks will never have the resources of the largest counterparts, so you have to do things faster and simpler when possible. Here, a well done ERM program can move from a large bank "best practice" to a way for community banks to differentiate themselves, boost profits, control risks and avoid high costs and duplicative efforts.

ECONOMY & RATES

Rates As Of: 08/28/2019 12:17PM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.98	-0.08	-0.37
6M	1.87	-0.20	-0.61
1Y	1.74	-0.24	-0.85
2Y	1.50	-0.37	-0.98
5Y	1.37	-0.45	-1.14
10Y	1.47	-0.55	-1.22
30Y	1.94	-0.59	-1.08
FF Market	FF Target	Fed Disc	
2.12	2.25	2.75	
SOFR	Prime	Unemp	
2.15	5.25	3.70	

[More Market Rates](#)

BANK NEWS

M&A

1) Morton Community Bank (\$3.9B, IL) will acquire First Trust & Savings Bank of Albany (\$183mm, IL) for an undisclosed sum. **2)** Newton Federal Bank (\$307mm, GA) will acquire Affinity Bank (\$308mm, GA) for \$40.3mm in cash (100%) or 1.58x tangible book. **3)** CorTrust Bank (\$894mm, SD) will acquire First Minnesota Bank (352mm, MN) for an undisclosed sum. **4)** Wellington State Bank (\$385mm, TX) will acquire The First National Bank of Paducah (\$44mm, TX) for an undisclosed sum. **5)** Capital One (\$374B, VA) will acquire M&A advisory services firm KippsDeSanto (VA) for an undisclosed sum. This move boosts Capital One's advisory business as it expands industry expertise. **6)** Indiana Members CU (\$2B, IN) will acquire The Commerce Bank (\$179mm, IN) for a cash sum (100%) equal to about 1.57x tangible book.

Assessment Credits

The FDIC is seeking to amend its rule governing when assessment credits can be used. As proposed, once the FDIC insurance fund grows to 1.38% of insured deposits, credits are applied against assessments as long as the fund exceeds 1.35% vs. the current 1.38%. Credits left after 8 quarters would be remitted back to banks.

Bank Confidence

The Promontory Bank Confidence Index climbed in Q2 to 50.1-pts on a scale of 100, marking the first time since the end of 2017 that it surpassed the 50-pt threshold. Bankers projected further rate cuts by the Fed would loosen funding costs and ease deposit competition. That said, some 61% said they expected deposit competition to worsen in the 12 months ahead.

ON DEMAND HELP FOR COMMUNITY BANKERS

Community bankers face many difficult challenges every year, but you are not alone. Our experts stand ready to help you address a variety of issues. Go [here](#) to view options and opportunities.

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