



Risk Tolerance and Appetite

A Federal CRO's ERM Journey

 Rural Development
U.S. DEPARTMENT OF AGRICULTURE

- More than 40 Programs
- Loans, Grants, Guarantees and Technical Assistance
- \$250 billion loan and grant portfolio
- Driving rural community and economic development
- Improving the quality of life in rural areas



Rural Development's ERM Function

- Chief Risk Officer appointed – November 2016
- Charter and Standup of Enterprise Risk Management Committee
- ERM webinars and presentations to all RD Staff FY 2017 and annually
- Development of Risk Taxonomy, Process and Rating Criteria
- 3 cycles of risk collection, analysis, prioritization and response.
- First risk profile – June 2017; FY 19 profile anticipated May 2019
- Tangible Results: 4 major agency initiatives; ongoing additional risk response activities



RD's Risk Taxonomy

Within each category of risk, there are five sub-categories. These help RD staff to identify potential sources of risk in their day-to-day work.

Program

- Program Management
- Third Party
- Customer Service
- Marketing
- Products & Services
- Underwriting

Operational

- Human Resources
- Reporting
- IT
- Facilities & Asset Management
- Procurement
- Budget & Financial

Portfolio

- Performance & Credit
- Concentration
- Market
- Fraud & Criminal Activity
- Grants
- Servicing & Collections

Strategic

- Environmental
- Market & Economy
- Political
- Industry Trends
- Communications
- Strategic Planning

Reputational

- Compliance
- Legal
- Civil Rights
- Program Performance
- Ethics
- Public Relations

- Access to Quality Data
- Data Visualization Tools
- Qualified Staff



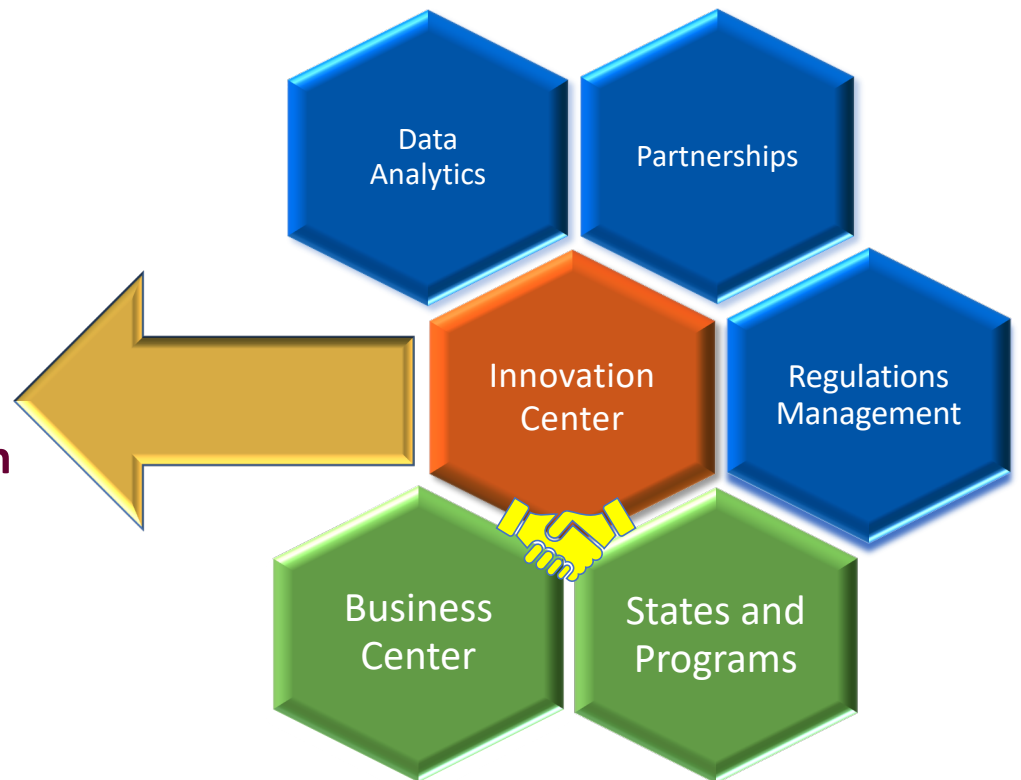
USDA Rural Development
Innovation Center

**Working together to develop fresh,
creative solutions – Innovate**

Policy and Trend Analysis

**Drive synergies by promoting collaboration
across agencies**

Rural community capacity building



Setting Appetite and Tolerance

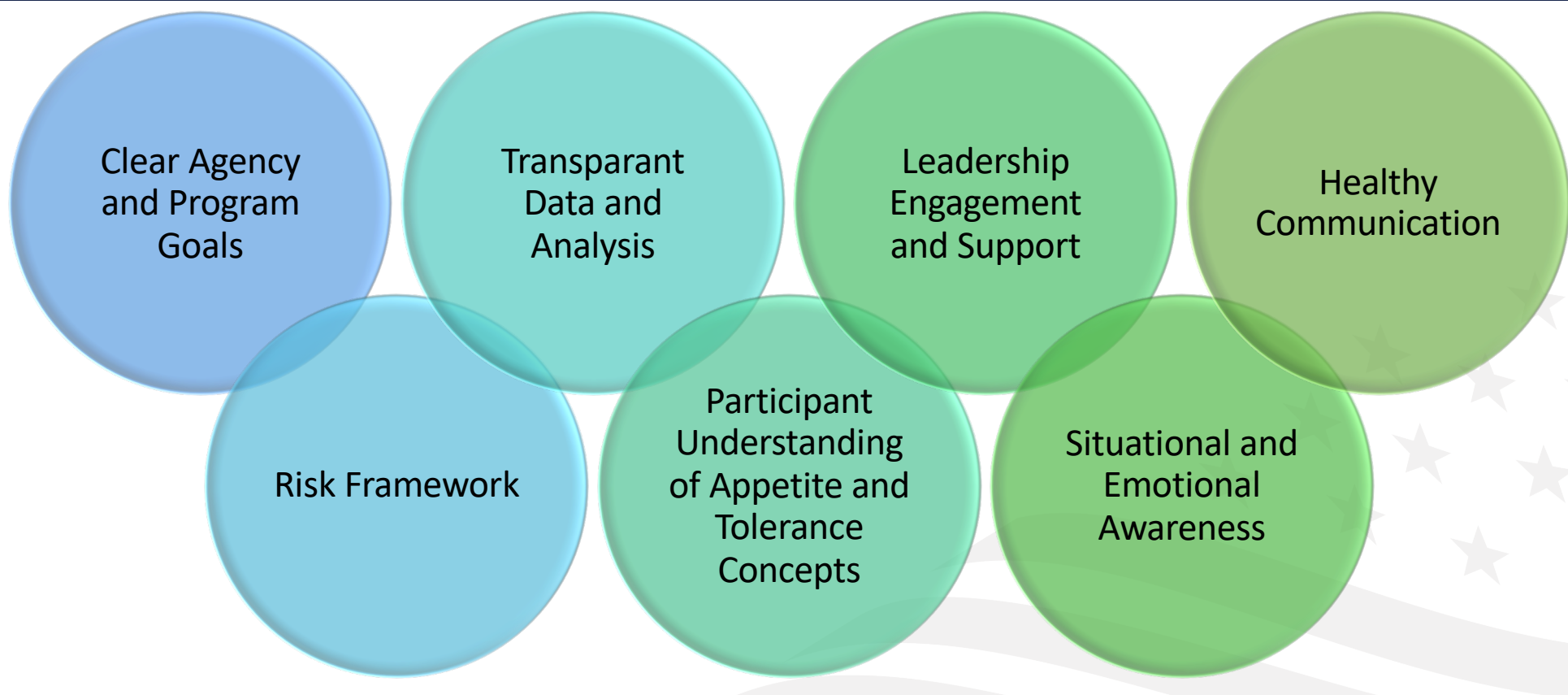


Drivers of Risk Appetite and Tolerance

- Direction
 - Congress (Appropriations, Authorizations, other laws)
 - OMB
 - Agency Directives
- Influencers
 - Public
 - Press
 - Audits, reviews
 - Congress, OMB
- Change
 - Leadership transitions
 - Mergers, realignments, restructuring
- People
 - Core Values
 - Individual risk appetite



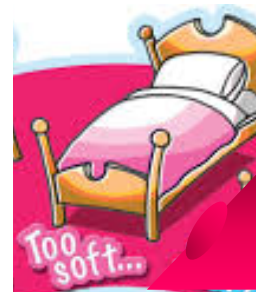
Components Needed to Drive Successful Appetite/Tolerance Discussions



Approach Matters: Engaging the Organization in Appetite Discussions

Starting at Enterprise Level

- Education on Appetite/Tolerance through tools;
- Attempt to get a setting for the entire mission area
- Facilitated discussion across leadership.



Setting at Program Level

- Program Specific Data and Analysis by CRO and shared with program leadership.
 - Historical tolerance based on portfolio
 - Alignment of current activities to agency goals
 - Pipeline analysis
- Engage in discussions at program level; set appetite
- Derive Agency appetite through program appetite analysis



Approach Matters: Use Relatable Examples

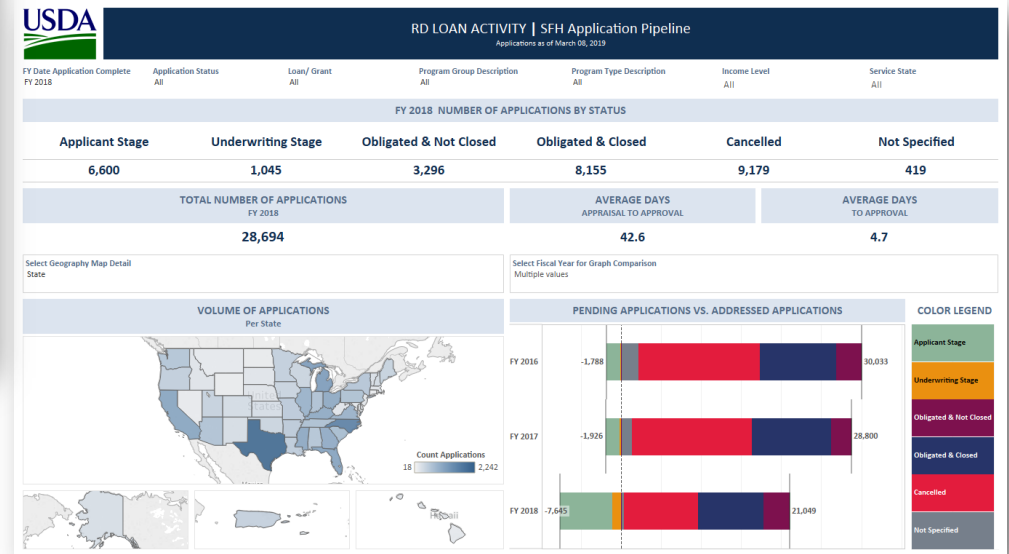
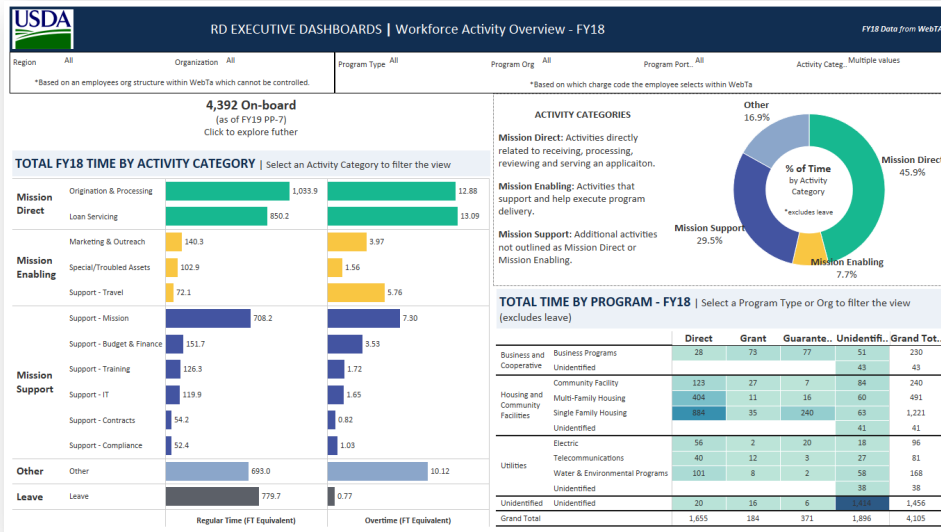


Risk Appetite

How much risk are you willing to take to meet your mission or achieve a desired result?



Break Down the Data Walls



What motivates agency leadership to set appetite and tolerance?

- Compliance
- Fear/Crisis
- Value





Patience and Persistence

- Understand when your organization is ready to engage.
- Know when to walk away or take a different approach.
- Integrate into agency processes.

Appetite and Tolerance Levels Need Periodic Review



Appetite and Tolerance Levels Need Periodic Review



- New leadership
- New Product or services
- Budgets
- Science/data/new knowledge
- Technology
- Laws
- Social norms/acceptance
- “Your Change Here”

Thank You!

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