

How to Hire a Chief Risk Officer

As the concept of enterprise risk management (ERM) continues to gain traction among regulators and community bankers, more small banks and credit unions are considering the addition of a chief risk officer (CRO), but dreading the expense of additional headcount. The solution is to emphasize effective ERM as a competitive advantage.

All community banks and credit unions already embrace a culture of internal controls and risk assessment. However, a CRO can make a material difference in two ways:



- 1) Consolidate line-of-business risk management into a centralized “executive dashboard,” enabling the institution to more strategically manage risk and allocate resources, and
- 2) Implement sophisticated quantitative models and stress testing to more accurately measure and manage credit risk and interest rate risk, thereby reducing losses, improving net interest margins, bringing additional visibility to capital ratios by line of business and ultimately driving additional earnings.

Size Matters

When considering a CRO hire, community banks and credit unions must consider the role they are asking the potential hire to play. This will vary depending specifically on the size of the institution. There are critical differences in the types of risks commonly faced by large and small institutions. Large banks are particularly vulnerable to counterparty risk and liquidity risk (e.g., Lehman Brothers). Small banks, on the other hand, are more prone to credit risk, portfolio concentration and interest rate risk. These considerations need to inform the selection of a CRO. In addition, the banking industry in general rewards economies of scale – something that is in short supply for institutions under \$1 billion (or even \$5 billion) in assets. Top-20 banks can have multi-million dollar BASEL II and III budgets with hundreds of high-powered experts at their disposal; community banks obviously do not. Therefore, it is important that small institutions keep feasibility of an ERM strategy top of mind and set the expectations of, and for, a CRO realistically.

Preferable Candidate Traits

In the same vein, CRO candidates must possess skills that most directly match the needs and capabilities of the hiring institution. Small community banks and credit unions should consider the following traits when attempting to identify the right candidate:

Technical banking skills: The single most important area where most small banks and credit unions can realize an immediate improvement in risk methodology is in the management of credit risk and portfolio concentration. A CRO must be able to accurately calculate likelihood of default and loss given default, with legitimate stress testing. This can create an immediate competitive advantage and add to the institution’s bottom line, as well as make the regulators more comfortable with capital ratio calculations. While it is not realistic to hire a CRO to do original financial modeling (e.g., Quants), they should be able to select a software vendor, use the software and be experts in Excel. The only way to achieve this is with specific expertise in finance, accounting, credit, or asset/liability management.

Entrepreneurial attitude: As all community bankers know, sometimes the only way to get a project done is to do it oneself. There are thousands of bankers employed at large financial institutions with superior technical skills who would be lost trying to manage ERM at a small bank with serious resource constraints. A successful CRO needs to be a self-starter and a problem solver who understands that the *very best solution* may not be the *most realistic option* for a small bank or credit union, and who can find a way to use available resources to achieve success.

Superior communication skills: The active participation and buy-in of stakeholders across the organization, including board directors, senior management and business unit managers, is necessary for the successful execution of an ERM strategy. The best way to achieve this participation is through frequent, open, respectful dialogue, and driving this conversation is one of the key responsibilities of the CRO.

Global banking perspective: A CRO can't be expected to create an ERM methodology and "executive dashboard" if they don't completely understand the fundamental aspects of a bank and how they work together. While having deep and granular expertise in every functional area of a bank is probably unrealistic, a CRO candidate must at least understand the basics, like the difference between deposit and loan operations, or what "ALM" means.

Where to Find Candidates

So, where does one find these technically proficient, entrepreneurial, articulate and well-rounded bankers? Since it is not always possible to find someone with previous CRO experience, the search will come down to evaluating transferable skill sets among (mostly passive) candidates. Here are the top five places to look:

In a commercial credit or finance/accounting department: Look for a seasoned commercial credit officer or CFO who might relish the challenge of creating an ERM framework.

At a public accounting firm: Look for a manager or senior manager in the financial services practice who wants to make a move out of public accounting and into a bank or credit union.

At the FDIC, OCC, Federal Reserve, or local FHLB: Look for a credit officer or senior examiner with a combination of internal bank and external regulatory experience.

At an asset/liability management service provider or software vendor: Look for an ALM analyst at a consulting or public accounting firm, or an investment bank, who has community bank-specific ALM experience.

In a risk, internal audit, or BASEL department at a regional or national bank: Look for "big bank" talent with community banking experience, but make sure they are enough of a generalist to run ERM without extensive support.

What to Offer

Pay will vary based on size and ownership of the institution, its geography, and the experience of the individual, but a realistic base salary range for the skill sets discussed above is between \$90,000 and \$150,000.



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