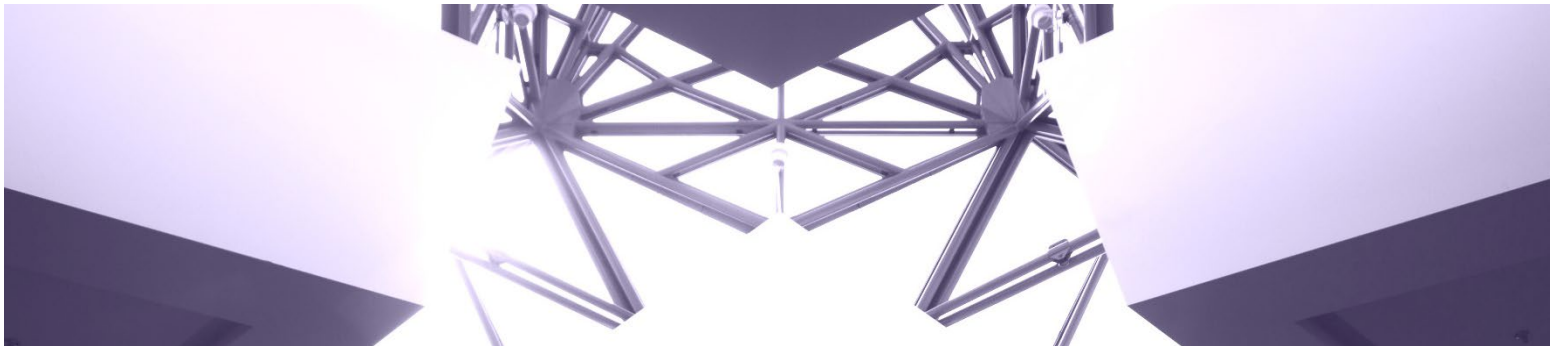
Risk Management Association

Advance Your World.

THE LOS ANGELES CHAPTER NEWSLETTER

SPRING 2022



FROM RMA HEADQUARTER LEADERSHIP

"Truly understanding how models work and how data in the model drives outcomes is a growing challenge, and an imperative from a regulatory and ethical standpoint."

IN OUR HIGHLY technological world, the ability to quantify and predict risk, and uncover all the complex relationships inherent in it, is increasing exponentially. AI and machine learning, coupled with other technologies, are taking risk modeling to another level. But what about the risk those models create themselves?

An article this month explores the model risk related to AI and machine learning (see page 52), and delves into the many challenges and opportunities created by this new era of risk modeling. More and more, this topic applies to financial institutions of all sizes as banks turn to third-party vendors to create and run advanced models. Some of the key issues we see emerging on this topic are:

- **Difficulty in attracting talent**. Finding the PhDs and master's degree holders who can write and manage such complex algorithms is difficult for all financial institutions, and impossible for many. That leads to a greater reliance on outsourcing, which may have long-term implications for bank resources and culture.
- **Managing third–party risk**. With more vendors involved in banks' modeling work, the risk of the unknown is great. Truly understanding how models work and how data in the model drives outcomes is a growing challenge, and an imperative from a regulatory and ethical standpoint.
- **Introducing AI and other advanced technologies**. The power of AI and machine learning to predict actions and automate work is astounding, but the risks they bring are just as mind-boggling. For institutions that do not have enough tech talent (and that is almost all of us), identifying and monitoring the risks of advanced technology cannot be overstated.
- **Increasing regulatory scrutiny**. With all these risks, it's not surprising that regulators' interest in how models work and are being employed is growing. This is particularly true with consumer models, given concerns of redlining and other issues that could negatively impact consumers.

RMA believes addressing these risks needs to be a top priority, and we are helping the industry do so. In 2020, we launched the Model Validation Consortium (MVC) to help address these problems. The Member institutions participating in this group work with highly skilled and experienced industry practitioners (10 PhDs and 12 master's degree holders) to build or validate their models. This group has performed more than 500 validations to date with a growing number of RMA Members.

I encourage you to learn more about the Consortium on our website and to reach out to your Relationship Manager if you're interested in more information. And, I hope you'll find that this edition of *The RMA Journal* advances your knowledge on this important topic.

All the best,

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IN THIS ISSUE

LINKED TOGETHER: HOW BORROWERS AND BANKERS CAN WORK TOGETHER TO MITIGATE SUPPLY CHAIN DISRUPTION

BY DEV STRISCHEK – March 2022 *RMA Journal*

Introduction: Something Wanted This Way Comes, Maybe? For years we have rested comfort - ably with a good balance of wants and needs, as commemorated in the Rolling Stones' iconic refrain: "You can't always get what you want, but if you try sometime, you'll find you get what you need." But what if you can't even get what you need? Until the pandemic, most consumers never thought about the supply chain—an invisible network that somehow sources and transports goods from around the world so they can purchase them in local stores (and, increasingly, online). However, the past couple of years have been hard on sellers. Among surveyed chief financial officers, 44% reported that supply chain shortages or delays increased their companies' costs by 5% or more.

Thanks in large part to the recent global-scale disruptions to supply chains caused by COVID-19, the visibility of the supply chain, especially its broken links, is increasing. Media coverage of container ships anchored off coastal ports waiting to dock, ware - houses filled to capacity, and trucks idling for hours to haul off cargo has the public more knowledgeable about it than ever before.

Lenders and borrowers are also painfully aware of these supply chain problems. Fortunately, both parties are in a position to improve the situation. This article will examine the key areas to focus on to reduce the damage and mitigate the risk in borrowers' supply networks—and offer some practical tips and strategies.

Causes of Supply Chain Disruption: COVID Chain Reaction

Several factors have combined to disrupt the supply chain:

- Pandemic pressures that weaken the workforce, slow down logistics, and make it difficult to source and manufacture products.
- Reduced manufacturing capacity as suppliers mothball production lines and facilities, making them slow to restart and meet renewed demand.
- Port, shipping, and transport delays because of a lack of workers; shipping assets being in the wrong place; demand spikes; and disruptive events.
- Increased consumer demand as customers come out of the pandemic, receive government support, and want to spend their money.

Nearly one-third (32%) of surveyed CFOs noted that their 2021 sales fell due to delays or shortages, with 28% expecting sales this year to suffer. We learned how precarious the supply chain network is when the container ship Ever Given was blown sideways to become stuck in the Suez Canal for six days last March, costing an estimated $9.6 billion in trade. Just-in-time inventory management was already in trouble, if only because its designers had never considered long term delays in delivery. They should have known better: In 1997, a factory fire shut down one of Toyota's key parts suppliers. With only a couple days worth of the brake part on hand, Toyota lost 160 billion yen in revenues. Despite the loss, Toyota continued to pioneer just-in-time, and many companies have adopted it, only to discover its fatal assumption of rapid delivery forever.

Read the entire article in the March 2022 edition of the RMA Journal.
https://www.rmahq.org/the-rma-journal/current-issue/

UPCOMING EVENTS

Member Appreciation – June 2, 2022

Join us on Thursday, June 2 from 4:30pm to 6:30pm at Angel City Brewery for an in person, members exclusive networking event with great food and beer. This event is FREE for Registered RMA LA Members. Registration is limited to members only and for the first 65 guests so register now!

Lunch & Learn – June 29, 2022
Identifying Problem Loans (2.4 CRC CEUs)

Barry Smith and Robert McWhorter of Buchalter will go over some of the telltale signs of a problem loan, and actions that lenders should take to help enhance ultimate recover. The Lunch & Learn will be held at the Banc of California office in downtown Los Angeles, and space is limited. Click here to Register.


Barry A. Smith Robert S. McWhorter

RMA MEMBERSHIP

DID YOU HEAR ABOUT THE FREE MEMBERSHIP?
That's right! FREE! If your organization is an RMA Institutional Member you can sign up as an RMA member for FREE! Follow these 3 easy steps:

1. Go to https://www.rmahq.org/membership
2. Click "Associate Member Application" and fill out the form (be sure to select the Los Angeles Chapter)
3. Click Submit

That's it! If you have any questions, please reach out to our Los Angeles Chapter Board at info@rmalosangeles.org

Webinar – June 16, 2022 (11AM Pacific)

The Painful Effects of Inflation: Perspectives of Fed Dissenter Thomas Hoenig (1.2 CRC CEUs)

Exclusive virtual event featuring Tom Hoenig – the infamous Fed Dissenting Voter, former KC Fed President and former Vice Chair of the FDIC. With inflation at a 40-year high and back-to-back interest rate hikes, the Fed seemingly feeling the need to 'catch up' to regain control of inflation and inflation expectations. A rapid-fire pace of aggressive interest-rate heightens the chances of a policy misstep that could be enough to topple the economy into a recession. This is an exclusively virtual event that will be streamed live via Zoom for all registered participants.

Hoenig will cover:

- Increasing risk of recession
- Fed actions, monetary policy, successes, and failures
- Lessons learned from past inflationary periods, including political influences on the Fed
- National debt, QE and now QT, likely outcomes
- Bernanke's and Powell's Fed

Click here to Register.

GET INVOLVED WITH RMA

Three Open Board Positions:

- Women in Business Chair,
- Secretary (effective June 1, 22), and
- YP Chair & Academic Chair

If you are interested in joining the Los Angeles Chapter's Board, please contact us at info@rmalosangeles.org.

KEEP IN TOUCH

Please follow us on our new LinkedIn Company page:

linkedin.com/company/rmalosangeles

https://community.rmahq.org/losangeles/home