Office of the Comptroller of the Currency

CCBN Top Banker Meeting

Regulatory Panel

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Semi-Annual Risk Assessment – Key Takeaways

1

The condition of the federal banking system remains **sound**.

2

Banks should continue to **identify material risks and their interconnected impacts**.

3

Continuous risk management improvement allows banks to **guard against complacency**.

Semi-Annual Risk Perspective – Key Risk Themes

CREDIT RISK
is increasing.

MARKET RISK
net interest margins are under pressure due to strong deposit competition.

OPERATIONAL RISK
is elevated.

COMPLIANCE RISK
is elevated.

Agency Priorities

Guarding Against Complacency

Adapting to Digitalization

Promoting Fairness

Bank Merger Act

Firmwide Resilience Efforts

- It is crucial that banks establish a risk culture that identifies potential risk, particularly ***before*** times of stress.
- Effective overall contingency planning includes robust capital planning.
- Proactive understanding and response to potential increased credit risk during times of stress remains a prudent resilience-planning component.
- A significant liquidity risk management component includes contingency funding planning.
- Advances in technology have improved banks' ability to identify and recover from various types of disruptions. Cyber threats are increasingly sophisticated and interdependencies with counterparties and service providers are growing.

Evolution of Bank Supervision

Acting Comptroller Remarks on "Evolving Bank Supervision" on September 3, 2024

Nature of Supervision – regular communication and highly skilled and trained examiners.

Evolving Banking System – fewer banks of increased size and complexity with more third parties.

Evolving Supervision – "team of teams" approach for consistency and efficiency, including risk-based supervision.

Bank-Fintech Arrangements Request for Comment

OCC Bulletin 2024-27

Comment period extended to October 30, 2024

Input requested on:

- Nature of bank-fintech arrangements
- Benefits and risks
- Implications
- Potential enhancements to existing supervisory guidance

Appendix

Key Risk Theme: **Credit Risk**

- Commercial credit risk remains moderate and increasing. Funding issues at some larger banks resulted in increased market volatility.
- CRE loan growth slowed, but concentrations continue to present heightened risk.
- Risk in multifamily is increasing due to a variety of stressors.
- Mortgage and retail credit performance remains satisfactory.
- Due to continued economic and geopolitical uncertainty, management across the industry reported tighter lending standards across most categories of residential real estate lending, as well as credit card, auto, and other consumer loans.

Key Risk Theme: **Market Risk**

- Deposit competition remained strong through 2023 and exerted increased pressure on NIMs.
- Banks continue to build asset liquidity, but investment portfolio depreciation remains a liquidity concern.
- Rate uncertainty, combined with depositor behavior during the recent increasing rate cycle, may present new challenges for banks to model and project deposit rates and balances in both interest rate and liquidity risk stress scenarios.
- Uncertainty regarding the rate environment and depositor behavior over the next 12 to 24 months increases the importance of stress testing and sensitivity analysis of deposit assumptions.
- Liquidity risk management remains critical, particularly contingency planning with operationally ready contingent funding sources.

Key Risk Theme: **Operational Risk**

Operational risk remains elevated as continuing cyberattacks and current geopolitical tensions contribute to a heightened risk environment.

Banks continue to leverage new technology and innovative products and services to further their digitalization efforts and to meet evolving customer expectations.

Fraud targeted against banks and their customers continues to grow.

Digitalization and technological innovation continue to advance the trend of banks and trust companies outsourcing technology operations and entering partnerships or other arrangements with third parties, including fintechs, related to the delivery of financial products and services.

Key Risk Theme: **Compliance Risk**

Current Customer Due Diligence Rule and other existing BSA requirements for banks remain unchanged pending the issuance of changes to those regulatory requirements required by the Anti-Money Laundering Act of 2020.

Fraud continues to be a significant risk for banks.

As banks work to process checks and other payments in a safe, fair, and efficient manner, check and wire fraud, and P2P transaction scams have become more prevalent.

Banks continue to increase their use of artificial intelligence and machine learning in customer service, underwriting, and lending operations. While most banks recognize the need to monitor and adjust the models for credit risk, compliance risk increases when banks fail to recognize and appropriately manage the fair lending risk associated with these models.

Bank-Fintech Arrangements - Current Guidance

Third-Party Relationships: A Guide for Community Banks

- Assists community banks when developing and implementing their third-party risk management practices and provides potential considerations, resources, and examples through each stage of the third-party risk management life cycle

Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks

- Provides information relating to six common areas of due diligence
- Provides general considerations, potential sources of information, and illustrative examples relevant to community banks

Third Party Relationships: Interagency Guidance on Risk Management

- Outlines the third-party risk management life cycle
- Describes sound risk management principles to consider when developing and implementing third-party risk management practices