

Insights from the OCC Semiannual Risk Perspective

Article

Amundsen Davis Banking & Finance Alert

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On June 14, 2023, the Office of the Comptroller of the Currency (OCC) published its Semiannual Risk Perspective which identifies key issues facing the federal banking system. This highly anticipated report comes in the wake of recent bank failures, such as Silicon Valley Bank and First Republic Bank.

Overall, the OCC reported that the “overall strength of the federal banking system is sound.” While the system is sound, the OCC identified areas of risk that it will closely monitor moving forward. In particular, credit, operational, and compliance risks remain either moderate or elevated.

The report noted that the current inflation and interest rate environment are causing credit conditions to deteriorate. While problem loans have generally remained manageable, the OCC observed that signs of stress are on the horizon. Commercial real estate is identified in the report as the next potential problem facing banks.

Operational risk for banks remains elevated. Banks frequently engage third parties to offer additional products and services in order to attract and retain customers. Increased products and services leads to increased operational management and these third party engagements can take control of certain aspects of operations out of a bank’s hands and lead to greater reliance on the processes and procedures of the third party. These third-party relationships can lead to increased risks for banks. Banks also continue to face increased operational risks related to cyber security, especially as compute power increases and artificial intelligence becomes more prevalently used. Vigilant cybersecurity processes and procedures will help banks protect themselves from cyber security risks.

Increased compliance risks have resulted from banks expanding the products and services they offer as they battle to attract and retain customers. Bank compliance programs are confronted with the task of keeping up with the new products and services. Banks should emphasize compliance at the front end when introducing new products or services.

The OCC importantly noted that liquidity levels have strengthened since its last report. This is likely in response to the recent bank failures. Increasing liquidity can decrease the risk of being forced to sell portfolio securities at a loss to

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Senior Counsel

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It is important for banks to recognize the primary risks identified by the OCC and other regulators. This allows banks to review their internal processes and ensure that it is meeting the expectation of its primary regulator, while also protecting itself against potential issues in the future.

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