Comptroller Says OCC Will Continue to Expand Risk-Based Approach to Compliance Exams

WASHINGTON -- The Office of the Comptroller of the Currency is continuing to expand its risk-based approach to compliance supervision, Comptroller John D. Hawke, Jr. said today.

"As it's fleshed out in the coming months, this risk-based approach promises to reduce regulatory burden on banks that are meeting their compliance responsibilities and to help us better identify -- and correct -- deficiencies at those institutions that are falling short," he said in a speech to the American Bankers Association's Regulatory Compliance Conference.

The program is similar to the supervision-by-risk approach employed by the OCC's safety and soundness examiners, Mr. Hawke said. In the safety and soundness area, supervisory resources are targeted to the institutions and activities that pose the greatest systemic risk.

In the future, Mr. Hawke said, the OCC might target fair lending exams at institutions displaying particular risk factors, such as those with high management turnover, or a large number of consumer complaints.

In addition, the OCC will expand a pilot program launched last year to target high-risk national banks for more intensive Bank Secrecy Act examinations.

The initial pilot involved a pool of institutions under suspicion by law enforcement authorities, plus one bank from each of the nation's four most active drug trafficking areas. Three of those four were found to have serious BSA deficiencies and corrective action was initiated. Next year, Mr. Hawke said, the program will be expanded to include banks from each of the Department of Justice's 21 High Intensity Drug Trafficking Areas.

In his speech, Mr. Hawke said the OCC has had to learn to work smarter and to manage compliance resources more efficiently because of the proliferation of consumer compliance laws that must be enforced through the examination process.

"One might argue that the existence of the bank examination process has been an invitation to add additional tasks to those already performed by examiners," Mr. Hawke said. "And Congress has repeatedly made clear that it intends that process be used to ensure compliance."
Mr. Hawke said the history of bank compliance legislation has at least three implications:

Bankers are more likely to be subject to new regulatory legislation than nonbank competitors.

The nature of bank examinations has been significantly altered. While safety and soundness is still the focus, compliance with consumer protection laws has become a major component of regular exams.

The role of bank compliance officers is likely to become increasingly important.

"Banks operate today in a fishbowl and their compliance is closely and continuously monitored -- by the regulatory agencies, the banking public, the investing community and elected officials," he said. "In this environment, there's a growing recognition that compliance slip-ups can be every bit as harmful to a bank's long and short-term prospects as mismanaged credit risk."

Mr. Hawke said compliance officers should be considered part of the bank's total risk management team. The most successful organizations, he added, are those in which employees not only understand specific provisions of law, but have internalized the spirit of the law as well.

"That calls for a conservative approach to customer relations, even in those areas where no specific regulatory requirements currently exist," he added. "Most importantly, it means anticipating the kinds of problems that can lead to new compliance requirements if they're not corrected first."

If all banks take a cross-functional, pro-active approach, he added, "the industry might finally win regulatory relief -- from both existing and future requirements."

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The OCC charters, regulates and examines approximately 2,600 national banks and 66 federal branches of foreign banks in the U.S., accounting for more than 58 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.