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Regulators Matter: How Strong Relationships Build Stronger Banks

By John P. Carey

Speculation is swirling around the change of administration in Washington, with new leadership taking the helm at the Consumer Financial Protection Bureau (CFPB), Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corp. (FDIC). Yet there's still a solid through line: the need for banks to establish and maintain effective regulatory relationship management.

Someday we may remember these days as the calm before yet another storm of regulatory change, from a White House that again seems determined to roll back Basel implementation, rescind the CFPB's consumer protection and data reporting rules, and minimize the FDIC's role in bank resolutions. Regardless of which direction the regulatory pendulum swings, bankers should nevertheless remain focused on building and maintaining sound relationships with their regulators.

Fairly or unfairly, a regulator can make or break your bank. And, with thousands of career professionals at federal and state regulatory agencies across the country, building trust with all who supervise your financial institution can seem like a complex maze of relationship management. Nevertheless, there are a few time-tested best practices that will make a difference.

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Everyone Is Responsible

For too long banks have viewed the health of their relationships with regulators as the exclusive responsibility of the compliance department—not the banker, line manager, or chief financial officer. Good practice, however, dictates that the entire organization is responsible for a strong, engaged, trusting relationship with examination teams, the people who supervise them, and those who define and create policy for the agency.

Regulators and examiners should know and be able to evaluate management at all levels in an organization. Sheltering management from regulators limits the regulators' ability to assess the strength and depth of management and gives them an incomplete view of the bank. Establishing a cadence in which management meets regularly with its examiners, provides substantive business updates, and shares areas of concern or focus will build credibility and mutual respect.

Rule of No Surprises

There is nothing more embarrassing for an examiner than learning about a material event at a bank through the media rather than directly from the bank. Examiners are expected to stay close to their institutions, and their bosses expect to hear news about the bank from the bank and not from news outlets. Significant fluctuations in earnings performance, changes in business strategies or key personnel, and planned sales or acquisitions should all be communicated directly with your regulator before those events are announced. Have a mechanism in place that keeps the exam team fully informed before information becomes public, whether it's good or bad. Letting the regulator know first—from you—will build the confidence and trust you want your regulator to have in your bank.

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When Things Go Bump ...

Sometimes things don't go as planned—there is a gap in a compliance system, operations don't work as expected, and failures are discovered. When this happens, banks have a tendency to investigate fully and remediate before disclosing. Hours, days, and sometimes weeks can go by without the necessary and critical conversations with regulators. Unfortunately, such delays can irreparably damage bank-regulator relationships. It is critical that your management team communicates early and often when issues are discovered—even without complete information. Preface the conversation with, "this is what we know now." Pledge to provide regular updates on what your investigation is finding.

Don't Snow the Regulator

Too often, presentations, slides, and databases are created exclusively for a regulator. Producing unique materials for a regulator results in duplication, does little to create business value, and in fact may even be discounted by the examiners when assessing your business. Instead, sharing much of your management routines with

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your regulators will help bring them closer to the challenges your organization faces. Importantly, allow those who are most knowledgeable about the subject matter to present the materials. Exposing your management team to your regulators shows the strength, depth, and breadth of management, thereby giving them additional confidence in the bank's underlying strength.

Make It Personal

As a leader in your company, set time aside to develop and maintain a personal connection with your regulator. Establishing regular one-on-one time with your examiner-in-chief or with the leadership team at headquarters will help get things done. It's a good opportunity to discuss your hopes and aspirations as well as your doubts and concerns for your institution. Give your examiners that same opportunity, which will not only help build the connection but also help you understand when the examination team later focuses on additional areas of inquiry.

Get There Before You Are Dragged There

In years past, before the emergence of matters requiring attention (MRAs) as a primary supervision tool, regulators would provide banks with observations in their examination reports about potential opportunities for focus or future improvement. With most direction now coming from formal findings and MRAs, regulated institutions have lost this useful, informal tool for anticipating where the regulator is headed in its supervisory agenda.

Still, you *should* ask your regulators how you can better anticipate the future. Tracking agency policy statements, speeches, and panels also puts your company in a better position either to get to where your regulator wants you to be or to develop the necessary thinking and positioning to offer different and carefully considered alternatives.

Bring on the Board

The need to maintain a strong relationship also extends to members of your board of directors. For a long time, bank boards would meet only once a year with regulators, to hear their exam team's annual report—with occasional ad hoc meetings addressing specific regulatory concerns. Those days are over.

Institutions whose board members meet regularly with examiners are better able to manage regulatory risk in general. Some institutions have their audit committee chair or an independent director establish routine, one-on-one meetings with the bank's lead examiner or with the regulatory community in Washington.

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It's Simple: Relationships Matter

Done right, bank supervision can be an enormous benefit to a financial institution. A strong connection with your regulator serves as a valuable mechanism for running a safe and sound institution; seeing things through the examiner's lens can only help you better serve your customers and your shareholders. As a strategic priority, banks invest assiduously in building relationships with their customers. Treating regulators with the same level of care can matter even more to success.

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