SolomonEdwards

BANKING & FINANCIAL SERVICES

Regulatory Risk Management as a Strategic Discipline

How Strategic Management of Regulatory Risk Transforms Burden into Revenue Opportunity and Why Financial Institutions Cannot Afford to Be Passive

AUTHOR

Prescott Ford, CFA

Principal, Banking & Financial Services

OCC Supervisory National Bank Examiner (retired)

2026 WHITEPAPER

Contents

1 Introduction 3

2 The Regulatory Environment Has Changed, But Risk Has Not Diminished 4

3 The Reduced Prescription Paradox 5

4 Two Core Beliefs That Change Everything 6

5 From Cost Center to Revenue Engine: Enabling Profitable Risk-Taking 7

6 Regulatory Risk Management is a Competitive Asset 9

7 What “Strategically Managing” Regulatory Risk Means in Practice 9

8 The Examiner’s Perspective: What Regulators Are Actually Evaluating 10

9 A Framework for All Institutions: From Community, to Regional, to Global Institutions 11

10 Conclusion: Strategic Management in Uncertain Times 12

11 About the Author 13



INTRODUCTION

Reframing Regulatory Risk as Strategic Advantage

A new regulatory environment is taking shape and there is an incredible opportunity. There are now new regulations defining "unsafe or unsound" and what is a matter requiring attention, and other foundational rules to supervision. Now is the time to get Risk Management right. Reduced prescriptive guidance from federal regulators, an evolving supervision posture, and heightened political scrutiny of the regulatory apparatus have created conditions that many leaders misread as a reprieve from compliance pressure. They are not. They are however opening the door to fixing layers of form-over-substance and clearing away regulatory issues in play, or post remediation processes that never made sense.

In this era of principles based regulatory guidance, the burden of ensuring safe and sound risk management shifts more squarely onto management itself, where it always belonged. Management manages, not the examiner. But there is more to the regulatory risk management story than mitigation. The institutions that will truly thrive in this environment are those whose leadership understands a foundational truth: strategic regulatory risk management is not merely a cost center. Done right, it is a revenue driver and a competitive advantage.

This paper articulates why, and how, bank and credit union executives should reframe their approach to regulatory risk management, turning what many believe to be a compliance burden into a genuine opportunity for growth, profitability, and a stronger return on equity (ROE).

Strong risk management is not a constraint on growth; it is the foundation of sustainable growth.

SECTION 2

The Regulatory Environment Has Changed, But Risk Has Not Diminished

The current regulatory environment reflects meaningful changes in supervision philosophy at the OCC, Federal Reserve, FDIC, and NCUA. There is a push from the top down to close out Enforcement Actions, MRAs, and DORs. Essential published guidance is being streamlined or rescinded in several areas, including model risk and AI, reputation risk, certain BSA/AML expectations, and aspects of managing liquidity and credit. Remaining oversight increasingly emphasizes principles-based supervision with greater deference to management's own risk frameworks. This shift does not reduce underlying risk; it raises the bar on management's ability to demonstrate that risks are identified, measured, monitored, and controlled without relying on detailed examiner checklists. For many bank and credit union executives, this feels like welcome relief after years of heightened regulatory intensity.

Governance structures that were created out of prescriptive piece-meal mandates can and should be reevaluated with a new lens. But relief and reduced risk are different things. Financial institutions of all sizes operate under the same economic pressures and often the same statues regardless of how actively regulators choose to prescribe the means of achieving them. When regulatory guidance becomes less specific, the question is not whether the risk exists. It is whether management has the credibility, frameworks, and core strength to ensure risks are well-managed on their own terms.

And as new business opportunities are being explored such as the efficiencies of artificial intelligence and in facilitating payments these frameworks and core strength are essential to defining the path to success.

SECTION 3

The Reduced Prescription Paradox

There is a paradox at the heart of reduced regulatory prescription that every financial institution leader must understand:

Institutions with genuinely strong risk cultures and frameworks are better positioned, not worse, in a less prescriptive environment, because they actually do operate on substance rather than form. Their risk management results in the achievement of sustainable safe and sound profit through the economic cycles.

Institutions that were achieving compliance through establishing prescribed processes without question and without genuine risk management depth, actually face dramatically increased risk to long term viability, both in earnings and in future exams. The concept of "doing it that way" because the examiner "said so" was never the right answer. Now is the time to look closely at what those instructions created, and separate out what does not support genuine good risk management.

The bar for demonstrating management competence has risen in today's environment, because examiners must exercise judgment and will do so rigorously when regulatory tides change or worse yet when real losses materialize.

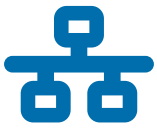
This is why the current environment demands more investment in regulatory risk management, not less. The institutions that misread reduced prescription as reduced risk are those most likely to be caught off guard when the next economic or examination cycle reveals gaps that were previously masked by prescriptive compliance.



1

Strong frameworks

Better positioned—substance over form



2

Procedural compliance

Greater risk to long-term viability



3

The bar rises

Judgment-driven examiner scrutiny

SECTION 4

Two Core Beliefs That Change Everything

Most financial institutions approach regulatory risk management as a defensive exercise to identify what regulators require, demonstrate compliance, and avoid enforcement. That framing guarantees underperformance. My practice is built on two beliefs regarding Risk and Compliance that reframe the entire discipline:

1

Good Risk Management is Good Business.

When a bank or credit union genuinely strengthens its risk management frameworks, not just on paper but in practice, it creates the ability to take on more risk with confidence. Management, the board, and regulators can all be assured that new risks are being properly identified, measured, monitored, and controlled. And since institutions must take risk to earn reward (Finance 101), stronger risk management directly enables more profitable activity. Strong risk management is not a constraint on growth; it is the foundation of sustainable growth.

2

Compliance's job is not to say "No." It is to say "How."

The compliance function exists to enable the institution to operate fairly, safely, and profitably; it is not there to block business. When compliance is structured as a strategic partner to the business, rather than a gatekeeper, it helps management identify pathways to new revenue, new efficiencies, new products, and new markets that are both profitable and defensible to regulators. That is the difference between a compliance and risk management culture that costs money and one that makes it.

These beliefs are not aspirational. They are operational.
Every engagement I conduct is designed to put both principles to work simultaneously: strengthening governance and risk management in efficient and effective ways that make the institution both safer and more profitable.

SECTION 5

From Cost Center to Revenue Engine: Enabling Profitable Risk-Taking

THE OLD VIEW
Cost Center

THE STRATEGIC REFRAME
Revenue Engine & Competitive Advantage

The most powerful reframing available to bank and credit union executives today is this: strategic regulatory risk management is not a cost of doing business. It is a driver for profitability.

Management earns the credibility to take on more risk with confidence when risk management frameworks are genuinely strong, when the board receives meaningful reporting, when the second line of defense has real teeth, and when issue management is disciplined and documented. That means new loan products, new markets, expanded balance sheet activity, and more powerful growth strategies that boards and regulators will support rather than resist. Strong risk management is the permission structure for confident, profitable growth.

Let's look at **just two examples** of how to fuel profitability with strategic regulatory risk management: optimizing capital and AI implementation.



Example 1 | Capital Optimization

The evolving Basel capital framework is widely viewed as yet another compliance burden. It need not be. For institutions that approach it strategically, the new Basel capital accords represent one of the most significant ROE opportunities in years.

Most institutions simply calculate their required capital and adjust accordingly. Institutions with credible risk frameworks and strong CAMELS ratings are better positioned to engage supervisors on capital optimization strategies, including more precise risk-weighted-asset treatment and internal capital assessments that support higher risk-adjusted returns. Strategic capital management analyzes which business lines and asset classes are most efficiently capitalized under the rules, optimize their portfolio composition to maximize risk-adjusted returns within the new capital structure, and use the rule mechanics to reduce capital requirements while maintaining or growing revenue. The result is a materially improved ROE - not despite the regulation, but because of how it is managed.

Example 2 | Artificial Intelligence



Areas of AI

Efficiency

- Loan Review
- Document Processing
- AML Transaction Monitoring
- Customer Service

Artificial intelligence presents banks and credit unions with fundamental cost reduction opportunities. Institutions deploying AI across loan review, document processing, AML transaction monitoring, and customer service workflows are compressing into minutes processes that once required multiple full-time equivalents. As banks and credit unions operate under persistent margin pressure, AI is a competitive lever, and the gap between institutions that deploy it well and those that do not is widening.

Strategically managing the risks of AI, including the regulatory risk, and ensuring the necessary governance is effectively established empowers the ability to take advantage of the opportunities for efficiency and increased profitability while maintaining trust and confidence. Those institutions that are avoiding these opportunities due to fear are "subconsciously" acknowledging their lack of confidence in their strength of risk management.

Conversely, those institutions that begin implementing AI without first ensuring a strong governance structure to match are not managing a technology project… they are accumulating immeasurable risk. It is vital to understand what the AI tools are doing and be able to explain AI-driven decisions to both consumers and regulators. The way to capture AI's full efficiency potential is to govern it rigorously from the outset, because trust is essential. Even as formal guidance evolves, the fundamental expectation remains: institutions must understand what their tools are doing, validate performance, monitor for drift, and be able to explain material decisions. Good AI governance is not the cost of doing business with AI. It is the condition under which AI becomes genuinely good business.

Capital optimization and AI implementation are just two examples

The same logic applies across the regulatory landscape: liquidity management that reduces funding costs, operational risk measures that improve efficiency, BSA/AML frameworks that enable rather than obstruct high-value customer relationships, Stable Coin and advancements in digital assets, CECL models that produce more accurate loss estimates and more efficient capital allocation, and overall governance structures that provide real substance. During our engagements we dive deeper into these potential opportunities to benefit most from strategic regulatory risk management.

SECTION 6

Regulatory Risk Management is a Competitive Asset

Financial institutions that earn strong supervisory standing with solid CAMELS ratings, an absence of exam issues, and a track record of proactive risk management gain a true competitive advantage. They are not bound by seemingly arbitrary restrictions on new products, acquisitions, and market expansion because they are self managed with controls that make good business sense. They move faster on strategic initiatives with confidence because they are not waiting for a sign of approval from their regulators or fear examiner scrutiny. And they attract better talent, better counterparties, and better acquisition partners because their institutional reputation reflects genuine management quality.

That regulatory standing does not happen by accident. It is the product of deliberate, strategic management of the regulatory relationship, and it pays dividends in revenue and growth for years.

SECTION 7

What "Strategically Managing" Regulatory Risk Means in Practice

Most financial institutions manage regulatory risk reactively: respond to examination findings, remediate issues, update policies when examiners change, and prepare for each exam as it arrives. That approach is insufficient in any environment, and particularly costly when regulators are exercising greater discretion and when the revenue opportunities of strategic management are left unrealized.

Strategic regulatory risk management treats regulatory relationships, examination outcomes, and supervisory standing as managed business outcomes subject to deliberate strategy, active monitoring, and continuous investment. The most effective institutions treat their regulatory relationships as professional partnerships as opposed to adversaries. Investing in true regulatory intelligence and ensuring exam readiness as a continuous state are foundational elements to strategic management of regulatory risk. Continuous exam readiness means maintaining current issue inventories, documented root-cause analysis, and sustainable remediation plans as a standing management discipline rather than a pre-exam scramble. However, it does not end there.

The foundations of strong governance are at the core. Ensuring an engaged board, credible CRO and CCO, clear risk appetite, and meaningful management information are the most important factors in how regulators assess any institution. This is the most powerful enabler of profitable risk-taking, because it provides the oversight infrastructure that gives management, the board, and regulators confidence in new activities.

SECTION 8

The Examiner's Perspective: What Regulators Are Actually Evaluating

Having served over twenty years as an OCC National Bank Examiner - including as a Technical Team Lead and resident examiner at Citibank and JPMorgan Chase, and as a Resource Team Manager leading a national cadre of specialist examiners supervising regional midsize, and complex community institutions - I can offer a perspective that few consultants possess: what examiners actually look for, and how supervisory judgments are formed.

This perspective applies equally to institutions of all sizes. The community bank that serves its local market with deep customer relationships and the megabank that operates across dozens of countries are evaluated by the same fundamental standard: is risk management in control?

5 Common Examiner Questions

The questions examiners are always asking at every institution are:

1. Are risk management measures organically built into new products, services, and growth opportunities, or are they an after-thought inserted as required?
2. Does the Board exercise genuine oversight, or is it largely ratifying management recommendations? Is management transparent with it's Board?
3. Does management identify issues before regulators do? Or do exams surface problems management was unaware of or were downplaying?
4. When issues are identified, is root-cause analysis credible and corrective action sustainable? Or are fixes cosmetic and likely to recur?
5. Is the risk management and compliance culture genuine, or is it a veneer? Does the tone at the top translate to risk-aware behavior at the business unit level?

These are judgment calls. In a less prescriptive regulatory environment, these judgment calls carry even more weight. The institutions that are most profitable through the cycles and consistently earn strong CAMELS ratings are not simply those with the fewest violations. They are those whose management has built the credibility through governance, transparency, and demonstrated competence to be trusted by their Boards and their examiners.

SECTION 9

A Framework for All Institutions: From Community, to Regional, to Global Institutions



One Discipline

that Applies at **All Sizes**



$500M

Community Institution

$500B

Global Institution

Strategic regulatory risk management is not only good business for the largest institutions. Regional banks, community banks, and credit unions that play a vital role in their local economies, in small business lending, and in serving communities face the same fundamental challenge: demonstrating to their regulators that the Board and its management are in control and genuinely want the institution to operate safely & soundly, as well as profitably.

The specific mechanics differ by institution size. The $500 million community institution and the $500 billion global institution do not face identical regulatory and risk demands. They have differing needs and challenges. What is an appropriate risk management structure for one is not the appropriate structure for the other. But the strategic principles are the same: invest in risk management capability commensurate with the institution's complexity; build trust through transparency and discipline; and treat the regulatory relationship as a strategic asset rather than an adversarial constraint.

My practice is built to serve institutions across this full spectrum because I have worked at both ends of it. As an OCC resident examiner, I evaluated capital, credit, governance, and risk management at Citibank and JPMorgan Chase. As a Supervisory National Bank Examiner, I managed regional and midsize bank examiners across the country. As a consultant in the private sector, I advised hundreds of banks and credit unions on regulatory strategy, capital, liquidity, and exam readiness. The core discipline is the same. The application is tailored to each institution's complexity, charter, and supervisory relationship.

SECTION 10

Conclusion: Strategic Management in Uncertain Times

> *The uncertainty in today's regulatory environment is real, but it is navigable for institutions that approach it strategically. The opportunities here for sustainable and profitable growth are also real.*

The regulatory environment will continue to evolve. Political cycles will shift, regulatory philosophies will change, and examination focus areas will rotate. What will not change is the fundamental obligation of bank and credit union management to operate institutions profitably, safely and soundly, and to demonstrate that they are doing so.

In uncertain regulatory times, the institutions with the greatest advantage are those that have built genuine regulatory risk management capability; not as a compliance exercise, but as a core management discipline that simultaneously strengthens governance and enables profitable growth.

Good risk management is good business. Compliance's job is to say "how." And the institutions that internalize both beliefs, and build their regulatory risk management approach around them, will find that the regulatory environment, however uncertain, is a source of competitive advantage rather than existential threat.





Prescott Ford, CFA

Principal, Banking & Financial Services

Prescott Ford is a Principal in the Banking & Financial Services practice at SolomonEdwards. A retired OCC Supervisory National Bank Examiner with more than 20 years of Federal service, he served as a Technical Team Lead and resident examiner at Citibank and JPMorgan Chase, and as a Resource Team Manager leading a nationwide cadre of specialist examiners supervising regional, midsize, and complex community banks. With disciplines covering capital, capital markets, model risk, retail credit, mortgage banking, operational risk, strategic risk, internal audit and governance, his experience crosses the risk stripes.

Prior to rejoining the OCC, he served as Managing Director of Regulatory Affairs for a leading capital markets advisory firm, advising boards and executives at hundreds of banks and credit unions on regulatory risk, asset/liability management, consumer credit portfolio and securities investment, and overall exam readiness. Prescott also served as creator and Senior Director of the Compliance Audit Group at Fitch Ratings, where he designed and efficiently built the firm's global compliance and testing function, described by the SEC as "robust" in regulatory examinations and in Congressional testimony.

SOLOMONEDWARDS



BANKING & FINANCIAL SERVICES

© 2026 SOLOMONEDWARDS GROUP, LLC