

## Product risk management top of mind for banking regulator

Product<sup>1</sup> risk management continues to be a regulatory focus area as evidenced by the Office of the Comptroller of the Currency's (OCC) October 15, 2021 release of its supervision priorities and objectives for banks and service providers during the upcoming fiscal year.<sup>2</sup> In it, the OCC continues to underscore the importance of adequately managing new, modified, and existing products, with particular emphasis on new activities.

Over the past decade, regulatory guidance<sup>3</sup> related to products has evolved from a narrow focus on investment-related products and complex structured finance transactions to a broader application of risk management practices for financial services institutions. While each new guidance by regulators increased the regulatory requirements on US financial institutions, management often chose to address the incremental requirements tactically.

Currently, product risk management begins and ends with the new product approval process.

Traditionally, ongoing product monitoring has been excluded from formal processes. Given the increasing pressure to acknowledge that products can change over time, product owners and risk partners are now being held responsible for identifying and managing changes to a product's risk profile—long after the product has been introduced. Even when introducing a new product, knowing whether formal New Product Approval is required is not always easily discernable.

To meet regulatory expectations and improve overall risk management, from product innovation through retirement, the industry is substantially strengthening the way products are managed. Common areas of focus in response to regulatory,

organizational, and customer demands include the following:

- Defined roles and responsibility between the first and second lines of defense
- Increased product knowledge
- Increased ongoing product risk monitoring
- Increased technology support
- More streamlined governance processes for product innovation and launch
- Defined enterprise wide product taxonomy as well as associated implementation

The OCC's FY 2022 supervision priorities make it clear that product risk management remains a priority from a regulatory perspective. Likewise, continuously improving product risk management practices should be a priority for firms.

# Endnotes

1. All references within this document related to “product” should apply to “products and services.”
2. Office of the Comptroller of the Currency, [“OCC Releases Bank Supervision Operating Plan for Fiscal Year 2022,”](#) NR 2021-106, October 15, 2021.
3. Including, but not limited to, OCC New, Modified, or Expanded Bank Products and Services: Risk Management Principles (2017), FINRA Heightened Supervision of Complex Products (2012), CFPB Risk Assessment (2012).

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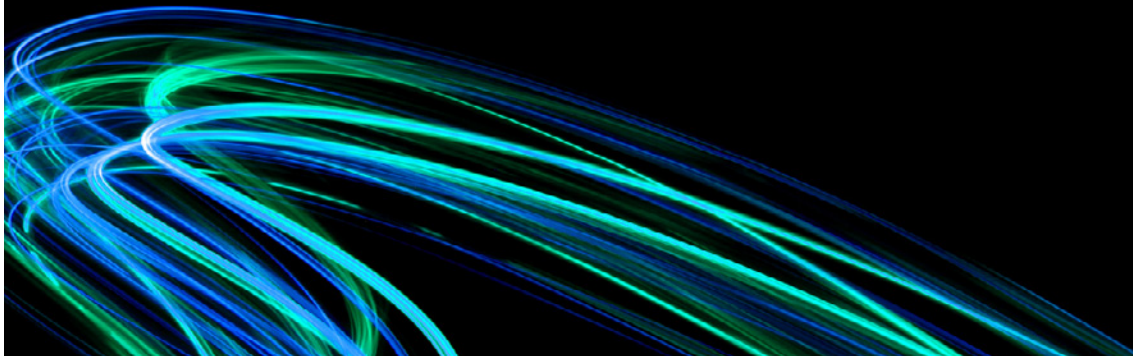
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