

Who Regulates the Regulators? by Charles B. Wendel

I've seldom seen bankers more concerned and, yes, nervous, than when the regulators come to visit. Oftentimes it seems that banks are managing more to the regulator's requirements with the customer taking second place. But for many years, behind the backs of the regulators, bankers have complained about turnover within the regulators and the varied quality of regulatory personnel.

Two recent news items illustrate that in some cases the regulators have clay feet and seem unable to manage themselves, never mind the banks.

Related to the OCC, it turned out that their initial hire as chief financial technology officer had a fake resume. The job role involved "ensuring that the OCC stays ahead of rapid advancements in financial technology, promoting innovation, enhancing regulatory collaboration, and supporting financial institutions in adopting secure and efficient technologies."

As reported on the Dev X website: "The Office of the Comptroller of the Currency (OCC) has found itself embroiled in a scandal as its inaugural chief financial technology officer resigned amid allegations that his resume contained significant inaccuracies. Among the main disputes are dishonest claims about his prior employment at major banking organizations. This resignation has raised concerns regarding the vetting process for key roles within the OCC and casts doubt on its credibility. In response, the organization is expected to launch a thorough internal investigation to re-evaluate its hiring protocols and maintain transparency with the public."

The article goes on to state: "This resignation has raised concerns regarding the vetting process for key roles within the OCC and casts doubt on its credibility. In response, the organization is expected to launch a thorough internal investigation to re-evaluate its hiring protocols and maintain transparency with the public." American Banker jumped on this story with the headline, "Did the OCC hire a con artist to oversee fintech?"

Obviously, this raises questions about the OCC's due diligence process, not only in this instance but more broadly. In this case the resume was so egregiously incorrect that if you did the math the employee would have been working at Citibank when 13.

The OCC is on the hunt for a new exec. George Santos?

But problems go beyond the OCC. Back in May, the New York Times headlined an article, "*Brain Drain Threatens the F.D.I.C. and Its Efforts to Regulate Banks.*" Its first sentence read, "High turnover and low pay are luring its staff to the private sector, leaving the banking supervisor, and the financial system, more vulnerable to a crisis."

But a recent Wall Street Journal revealed a more fundamental problem that may be resulting in women exiting the FDIC. Despite all the focus on ESG, DEI, and wokeness, some female examiners may have been subject to abuse.

From the WSJ: “The FDIC’s inspector general will examine the ‘leadership climate at the FDIC with regard to all forms of harassment and inappropriate behavior,’ a spokeswoman said. The IG will also assess the agency’s sexual harassment prevention program, including looking at what steps the FDIC has taken since a 2020 IG report found that the program was flawed...A Journal investigation revealed allegations of a toxic workplace culture at the agency that drove many female bank examiners to quit.” The 2020 seems to have gone largely unanswered.

My bet is that neither the OCC nor the FDIC lack crippling internal bureaucracies to supposedly guard against harassment and ensure employee due diligence. And companies like this have seen more rules and more personnel hired in HR, all paid for by you, the banking industry, and its customers. What a management failure!

What are the lessons from this for banks? First, do you have the right policies in place? Second, are those policies being followed? Third, who is overseeing the overseers? Fourth, the industry itself should reach out, maybe through the Congress, to ensure that those who are regulating them are held to at least the same set of standards as the banks themselves.

FIC works with senior management and Boards on issues that are critical to a bank’s sustainability and growth. We emphasize practical solutions that we customize to a company’s capabilities and culture. Reach FIC at cwendel@ficinc.com.