

# Post-Pandemic Pitfalls

Risk Management Considerations for New Activities

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A magnifying glass is positioned over a bar chart. The chart has a y-axis ranging from 50,000 to 100,000 and an x-axis with months from Jan to Dec. The bars are blue and show an upward trend. A legend on the right side of the chart identifies 'Sales 1' and 'Sales 3'. The text 'BANKING & SUPERVISION FORUM 2023' is prominently displayed in large, bold, black letters, with 'FEDERAL RESERVE BANK OF KANSAS CITY' in smaller text below it.

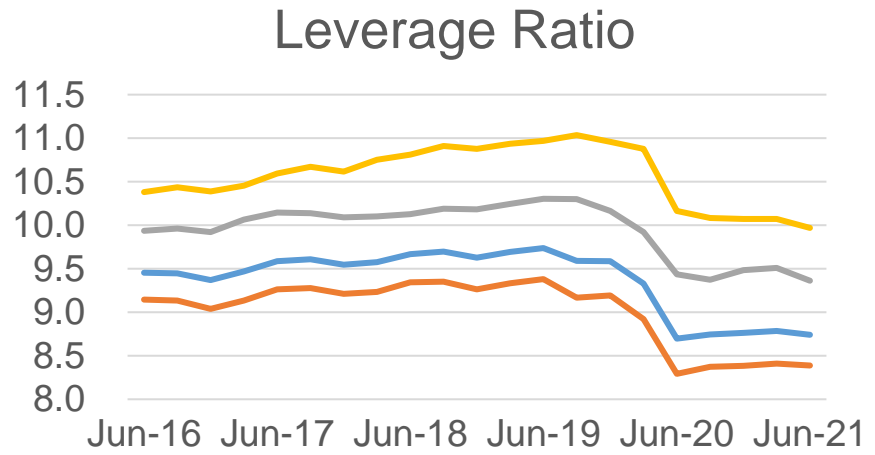
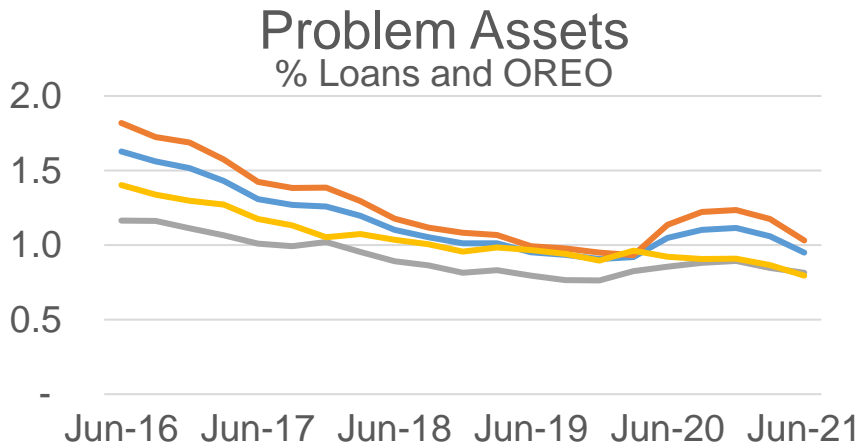
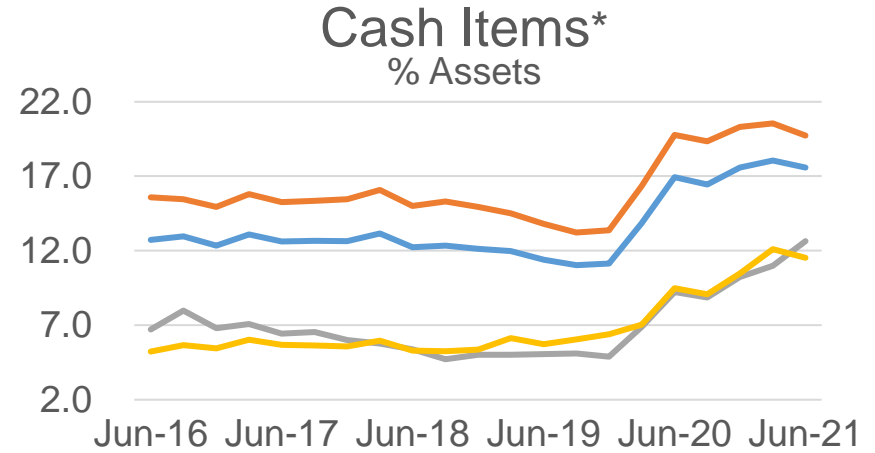
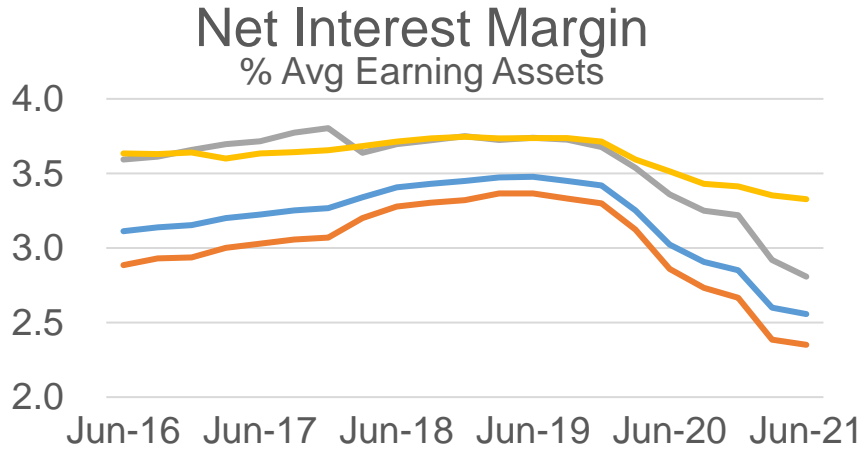
**BANKING &  
SUPERVISION FORUM 2023**  
FEDERAL RESERVE BANK OF KANSAS CITY

# In This Session, We'll Discuss:

- Conditions that led to financial institutions entering new activities, investments, and markets
- Problems that banks have experience when rapidly growing or implementing new activities
- Risk management considerations that are needed to prevent pitfalls from significantly impacting the bank

# Banks Were Positioned To Act

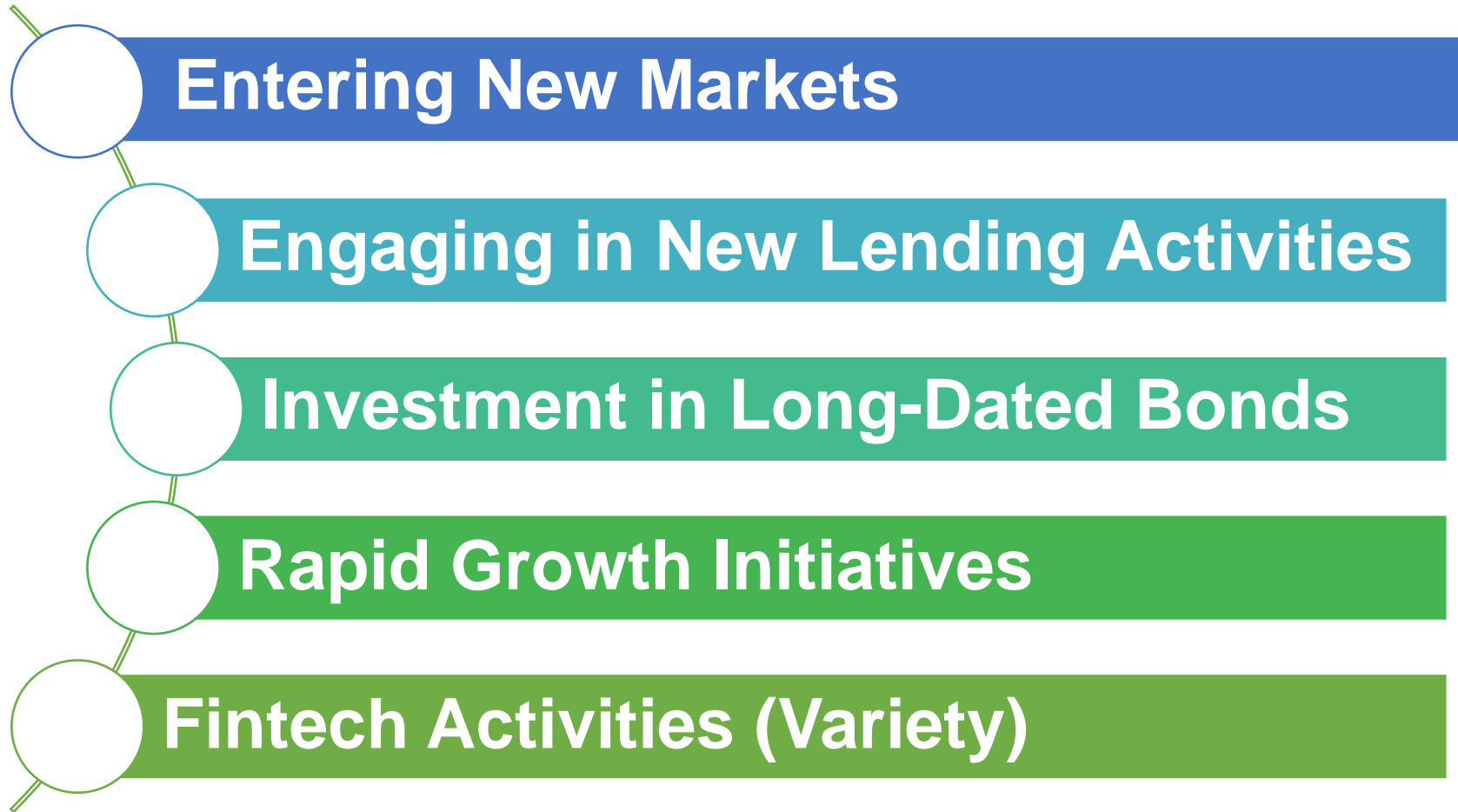
## Trended Banking Conditions 2017 - 2021



— All US Banks — Banks Over \$100B — Banks \$10 - \$100B — Banks Under \$10B

\*Interest-Bearing Bank Balances, Fed Funds Sold and Resales

# Several Moved In New Directions



# New Activities Bring Potential Pitfalls

## New Markets/Lending/Growth Initiatives

- Balance sheet expansion and reduction of capital ratios
- Exhaustion of pandemic era liquidity growth
- Increased delinquencies/collections expenses
- FDICIA compliance challenges
- Inadequate staffing – both volume and skill
- Consumer compliance challenges

## Long-Dated Securities

- Significant increase in Unrealized Losses
- Elevated risk to liquidity, earnings, and capital

## Fintech/Crypto-related Activities

- Unanticipated vendor expenses and risk
- Elevated reputational, operational, liquidity, and legal risks

# Sound Risk Management Is Needed



# What Should I Do Right Now?

- If you've engaged in new activities or markets without the necessary risk management framework in place, pause and focus on developing the requisite framework.
- If you're considering engaging in new activities or markets, take the time to develop proper risk management elements before engaging in these activities.
- Include the Reserve Bank and State in your due diligence process – we often hear of other banks trying the activities you are considering and can tell you where potential pitfalls may lie.