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Operationalizing your bank

Enterprise risk management

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Center *for*
Regulatory Strategy
US

Operationalizing enterprise risk management

This is the second of 13 perspectives we are issuing in our *Operationalizing your bank* series. This series is designed for applicants that have received conditional approval, are progressing toward final approval, or are focused on preparing for bank launch.

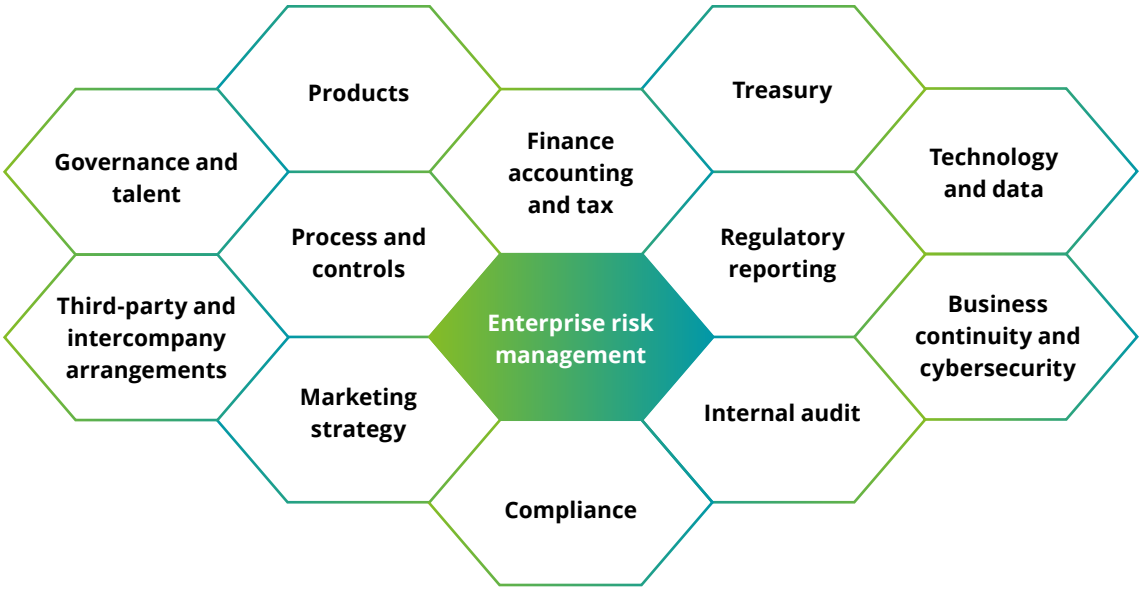
Our first perspective described our experience working with clients to implement effective governance practices and talent plans. As a bank prepares to launch, it should establish an independent governance framework and seat a qualified board with independent directors with experience relevant to the bank's business model, who can provide effective challenge and oversight. De novo banks should also prioritize executing the staffing plan so that people are in place to complete the buildout of the bank's critical first- and second-line functions.

In this edition, we cover the steps new banks should take in building a credible, bank-ready enterprise risk management (ERM) framework, which can be among the most consequential steps on the path to final approval and sustained operations. ERM is a process that helps management navigate uncertainty, manage related risks and opportunities, and strengthen the organization's ability to create and preserve stakeholder value.[1]

Regulators expect a new bank to demonstrate not only that all requisite policies and procedures are in place, but also that the mechanisms to identify, assess, monitor, report, escalate, and mitigate risks are operational, proportionate to the bank's risk profile and complexity, and can scale with projected growth across the three-lines model.[2]

Future editions of this series will focus on the remaining foundational areas listed in figure 1.

Figure 1: Series topics



The term "bank" is used broadly throughout this series to cover considerations across common bank charter structures, including national banks, state member/nonmember banks, national trust banks, and industrial loan companies (ILCs). Foreign banking organizations, US branches, and bank holding companies have a number of other nuanced and unique considerations. While this series aims to address broadly applicable operationalization considerations, organizations should evaluate this guidance within the context of their business strategy, targeted charter type, and general circumstances, as institution-specific requirements may warrant additional considerations beyond what is outlined in this series.

Core insights

1. **Risk management isn't one size fits all:** New banks are expected to establish an ERM framework scaled to their size, complexity, and risk profile. There is no universal one-size-fits-all approach. Instead, the framework should define the bank's approach to risk management and include the governance (e.g., risk committees, escalation paths), policies, processes, roles and responsibilities, and control systems that support sound risk-based decision-making. The guiding principles of the program should reach across all material financial (e.g., credit, liquidity) and non-financial (e.g., model risk, fraud, third-party risk) risk types, with coverage that is commensurate with the bank's approved activities and designed to expand as these activities scale. The bank must maintain appropriate governance, controls, reporting, and oversight processes. While a bank may leverage parent or affiliates for the execution of portions of its ERM framework, the bank must actively oversee the outsourced activities. A bank is ultimately responsible for managing its own risks.

2. **Risk appetite for the de novo bank:** Regulators expect a de novo bank to begin operations with a documented risk appetite that is operational, board-approved, and enables effective risk oversight within its defined limits. In the risk appetite statement, management and the board should clearly articulate the types and levels of risk the bank is willing to accept in pursuit of its strategic objectives. It should define tolerances across material risk categories and be translated into limits, thresholds, and escalation triggers that management can monitor and act on from Day 1. Defining your bank's risk appetite is more than just a documentation exercise. It is foundational to your bank's safe and sound performance over time and under a range of economic environments.

3. **Risk identification commensurate with the bank's activities:** New banks should have repeatable processes to identify, assess, monitor, report, escalate, and mitigate risks. Effective risk identification requires a deliberate, forward-looking methodology that surfaces financial and non-financial risks, their impact, and likelihood across the full scope of the bank's activities. It's important to note that risk identification is not solely focused on what happens inside the bank: it should include risks that originate from nonbank subsidiaries and affiliates, third-party relationships, and external market forces, economic conditions, or regulatory changes. Risk identification capabilities, including risk measurement frequency, should be aligned with the bank's business model and product offering, allow measurement at both the account and portfolio levels and be sensitive to changes in the bank's strategy and operating environment.

4. **Risk monitoring and reporting is not static:** A bank's board and senior management require timely, accurate, and actionable risk information to fulfill their oversight obligations. This includes a management information systems (MIS) reporting framework that covers all material risk categories, and is grounded in information that is timely, accurate, and relevant. Reporting should enable management to monitor risks for all bank-related processes, including those being executed by third parties. For a de novo bank, monthly management-level reporting and at least quarterly board-level risk reporting should be available from Day 1. More frequent reporting is an industry-leading practice and is likely necessary to manage risks associated with digital products and services that operate around-the-clock.

5. **Risk response and escalation:** A new bank must be positioned to respond to emerging or out-of-limit risk positions in a timely and proportionate manner. The bank's risk management framework should incorporate root cause analysis, clear decision-making authorities and expectations for escalation to support timely action by bank management. The framework should be comprehensive across all of the bank's activities, including those performed by affiliated and unaffiliated third parties.

Actions for launch readiness

1. **Establish risk appetite and governance prior to Day 1:** Translate the risk appetite articulated in your business plan into an operationally integrated framework with defined limits and thresholds aligned to the bank's strategy, products, and proposed activities. Demonstrate that management and the board have assessed the bank's material risk categories. Confirm that the board risk committee charter reflects its oversight responsibilities relative to the risk appetite, and that the committee has the appropriate membership and meeting cadence before operational launch.
2. **Conduct risk identification and assessment:** Prior to opening, the bank should define processes to identify risks across its products, services, delivery channels, third parties, and core processes. The bank should demonstrate that risk assessment results drive control design, trigger thresholds, policy requirements, and management reporting, thereby linking risk identification to broader bank operations. This should include documented evidence of how the identified risks were evaluated, prioritized, assigned to accountable owners, and how risk assessments informed changes to products, services, delivery channels, and third-party engagement.
3. **Establish controls that are appropriate to the bank's risk profile:** A de novo bank must establish a control framework that is deliberately tailored to its approved business model, risk profile, and planned activities. Controls should be specific and demonstrable, rather than generic or aspirational. Management should design, document, and implement key controls for identified risks, with clear ownership that can withstand examination scrutiny from Day 1. Specifically, for a de novo bank that relies on a parent, affiliate, or third party to perform material business processes, the control framework must extend beyond the bank's own four walls. The bank is accountable for the risk management (and effectiveness of controls) of outsourced activities regardless of who performs them.
4. **Operationalize independent risk oversight:** Mobilize qualified risk management teams before Day 1 to perform bank-specific risk management activities, providing credible challenge to business decisions. The bank's risk oversight should be independent of the parent, with the chief risk officer (CRO) having direct access to the board risk committee without routing through the chief executive officer (CEO), business-line management, or parent-level risk leadership. While certain executives may hold multiple roles across affiliate entities, executives should have bank-related experience and be able to demonstrate independence. Risk management should have sufficient authority, resources, and access to information to monitor risk effectively.
5. **Establish management information systems (MIS) routines:** Implement risk monitoring and reporting infrastructure that gives management and the board timely, accurate, and actionable visibility into the bank's risk profile. This includes routine management reporting on key risk indicators, limit utilization, and issues, along with board-level reporting on overall risk posture, adherence to risk appetite, and emerging risks. Define clear escalation triggers for risk limit breaches or risk events requiring prompt board awareness. Test the reporting infrastructure prior to operational launch to validate data quality, system integration, and the effectiveness of escalation processes to demonstrate active oversight from Day 1. Where possible, consider automating reporting and monitoring processes from the outset; doing so not only reduces manual risk and operational burden, but also positions the bank to scale its infrastructure as its activities, complexity, and regulatory obligations grow.

Digital asset licensees

De novo institutions seeking to offer digital asset products or services should design their ERM frameworks and processes to reflect the distinct characteristics of these activities from the outset. Activities such as digital asset custody, stablecoin-related services, blockchain-based settlement, or on-chain product offerings may create unique risk considerations, including 24/7 market activity, blockchain infrastructure dependencies, smart contract vulnerabilities, and wallet and key management risks. As supervisory expectations continue to evolve, institutions should be prepared to demonstrate that digital asset risks are not addressed as a stand-alone overlay but are embedded into core ERM processes and supported by appropriate expertise, governance, and controls.

Where to go from here

ERM is not a check-the-box exercise; it is the operational infrastructure that enables a bank to grow safely, withstand stress, and earn sustained regulatory confidence. For a new bank, the foundational period before and immediately after launch is the critical window for establishing the governance structures, risk identification mechanisms, and reporting infrastructure that examiners will evaluate throughout the bank's early years of operation.

As a new bank designs its ERM program, it should consider its business plan, product offering and growth expectations, as well as commitments made during the application phase, so that its design and implementation are fit for purpose and able to scale. Building an ERM infrastructure that is proportionate, examiner-ready, and aligned to the bank's risk profile will be critical for the pre-opening exam, as regulators will evaluate the bank's capabilities to identify, measure, monitor, and control all relevant risks. Done right, the ERM program becomes the foundation that the bank can expand upon as its size, complexity, and activities evolve beyond Day 1.

Regulatory insights to action

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Endnotes

1. *See* Federal Reserve Board of Governors, Speech by Governor Susan Schmidt Bies, "A Supervisory Perspective on Enterprise Risk Management," October 17, 2006.

2. For additional regulatory resources on de novo depository institution formation, see Federal Financial Institutions Examination Council (FFIEC), "Promoting De Novo Depository Institution Formation," June 30, 2026.

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