

OCC Publishes Semiannual Risk Perspective for Fall 2020 – Key Issues and Effects of COVID-19

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Who Needs to Know

Banks.

Why It Matters

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- Characterizing the risks faced by banks as credit, strategic, operational, and compliance risks, respectively, the Report broadly notes that the early 2020 onset of the COVID-19 pandemic, as well as the historic economic downturn following measures implemented to contain the spread of the virus, created specific pressures on banks in each of the above noted risk areas.
- The Report notes that while economic activity rebounded in the third quarter of 2020 and banks generally remain in good condition with robust capital and liquidity levels, bank profitability continues to be challenged due to low interest rates and increased levels of provisions for troublesome loans.
- The Report observes that perhaps the two primary challenges to the economic recovery are the continued path of the COVID-19 virus and the uncertainty around continued support from government stimulus programs.
- A decline in bank earnings resulted from continued pressure on net interest margins (NIM) and a significant increase in provisions in the first half of 2020, particularly among the largest banks that had to recognize the impact from the implementation of the current expected credit loss (CECL) accounting method, resulting in an overall increase in provisions of 355% compared with 2019.
- Total loan growth increased year over year as of June 30, due to economic uncertainty and the effect of the CARES Act PPP program. Companies increased cash holdings by drawing down on bank credit lines and accessing public debt markets in early 2020. Interestingly, commercial and industrial loan growth increased notably compared with the prior year mainly due to line-of-credit drawdowns. A decline in consumer spending resulted in a decline in consumer loans.
- Regarding payment processing, increased demand for enhanced payment mechanisms continues to result in technological advances and new products and services, the adoption of which increased during the pandemic. The Report notes that the number and value of noncash U.S. payments continue to increase, adding that consumers are increasingly relying on electronic means to transact payments, with a corresponding decline in the use of more traditional methods, and that payment services have increasingly been provided by nonbank companies that engage in banking activities. The Report further advises banks to ensure that their processes are sufficiently strong to permit them to adapt to this environment and manage, partner, or compete with new

entrants as needed.

- Other areas highlighted in the Report include: (1) impacts to banks arising out of the transition from the London Interbank Offered Rate (Libor) to new reference rates; (2) cybersecurity threats faced by banks and the implementation of control and risk management practices, particularly in an environment where many employees are working remotely; and (3) enhanced compliance risk, especially following government programs and mandates related to the CARES Act and state government requirements.

The Report is available [here](#).

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