eBook

# Beyond oversight: Proactive risk management in a shifting regulatory landscape

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# Overview

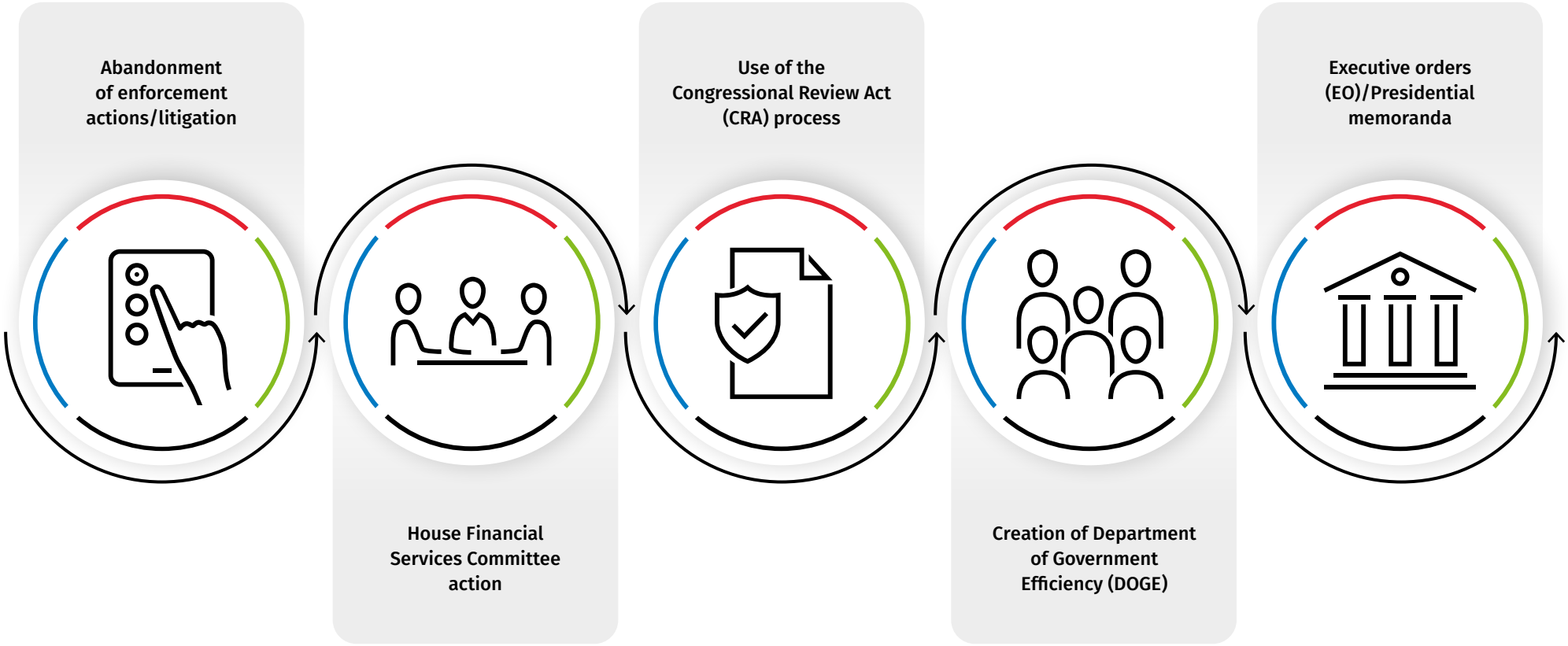
Deregulation is accelerating, and it's reshaping how financial institutions approach risk and compliance. Through a mix of executive actions, congressional rollbacks, and agency-level changes, long-established regulatory frameworks are being scaled back or dismantled altogether. In their place, institutions are left navigating growing ambiguity, shifting enforcement priorities, and mounting pressure to self-govern.

This eBook explores the implications of this evolving environment. Drawing on lessons from past deregulation cycles, it identifies recurring patterns that led to institutional failures and highlights five common root causes of regulatory breakdowns. More importantly, it offers practical strategies to help institutions strengthen oversight, safeguard compliance integrity, and build resilience from within.

In a time when external guardrails are being removed, internal discipline, coordination, and foresight are more critical than ever.

# Mapping the landscape

Deregulation today is not a single policy shift. It's a broad, coordinated effort to reshape the administrative state that has long defined risk and compliance oversight. Rules, examinations, litigation, and agency staffing that once provided structure and predictability are being replaced by uncertainty, forcing institutions to take greater ownership of risk management in a landscape with fewer external guardrails.



**Abandonment of enforcement actions/litigation**
Agencies like the Consumer Financial Protection Bureau (CFPB) and Department of Justice (DOJ) have dropped certain enforcement cases, particularly in areas such as crypto, anti-money laundering (AML), and unfair, deceptive, or abusive acts or practices (UDAAP). Their focus shifted to violations clearly within their legal remit. However, cases involving protection for veterans, service members, and small businesses continue to be prioritized, signaling that some regulatory boundaries remain firmly in place.

**House Financial Services Committee action**
Meanwhile, the House Financial Services Committee has issued letters urging federal agencies to rescind, revise, or repropose existing rules and guidance. In response, the CFPB rescinded 67 guidance items, many of which are still under review. Institutions now face the challenge of determining whether to maintain compliance in the absence of clear federal direction, particularly as state regulators begin stepping in to fill regulatory gaps.

**Use of the Congressional Review Act (CRA) process**
The CRA is also being actively used to overturn regulations approved within the past 60 legislative days. While older regulations face more procedural hurdles, they are still subject to repeal under the current congressional makeup, demonstrating a strong deregulatory intent across federal leadership.

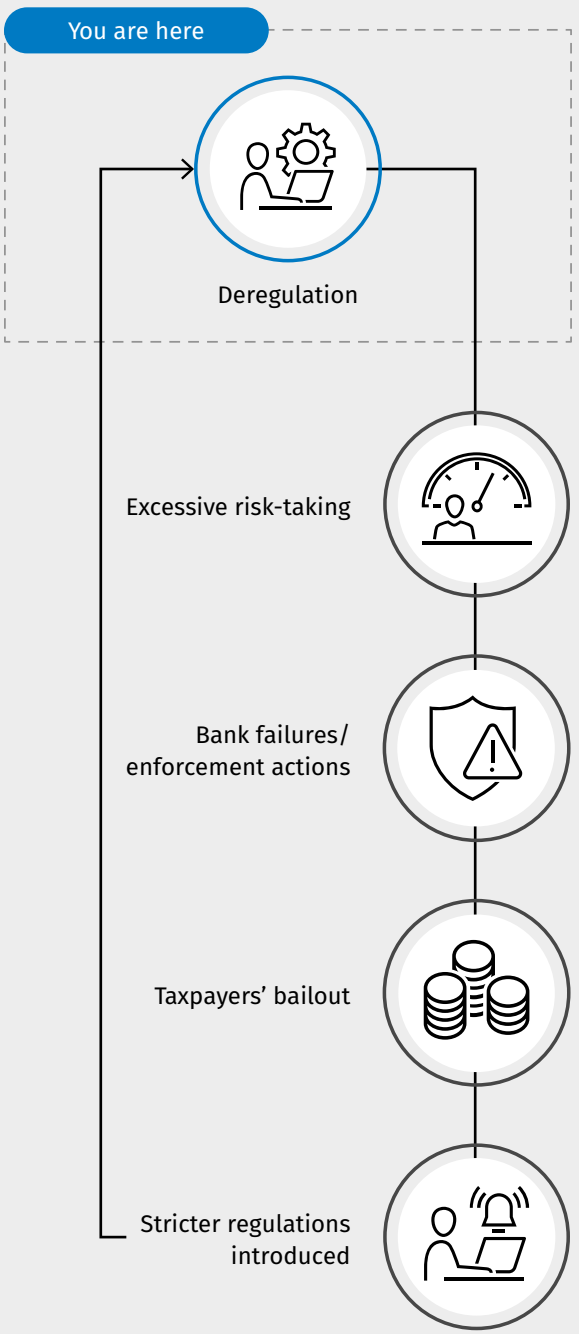
**Creation of the Department of Government Efficiency (DOGE)**
At the executive level, DOGE was created and tasked with directing agencies to review and eliminate regulations that exceed statutory authority or address politically sensitive issues. These include rules related to diversity, equity, and inclusion (DEI) and environmental, social, and governance (ESG) initiatives, narrowing the scope of federal regulatory involvement in these areas.

**Executive Orders (EO)/Presidential memoranda**
Executive Order 14192 mandates that for every new regulation issued, 10 existing ones must be identified for eliminated. A subsequent presidential memorandum directs agencies to repeal unlawful or overreaching regulations, referencing recent Supreme Court decisions, such as Loper Bright v. Raimondo, and authorizing final rule repeals without public comment under the “good cause” exception of the Administrative Procedure Act.

Altogether, these developments are redefining the compliance environment, placing greater pressure on institutions to evaluate internal controls and proactively respond to shifting expectations, even in the absence of clear federal guidance.

Periods of deregulation tend to follow a familiar pattern: as oversight recedes, institutions are trusted to manage risk responsibly, opening the door to innovation and accelerated growth. While some navigate this effectively, others treat deregulation as a green light for unchecked risk-taking, often overlooking the long-term consequences. When those risks result in failures, taxpayers bear the cost, and a new wave of regulation follows.

It's a recurring cycle, but one that disciplined risk management and strong board accountability can break.



# Learning from the past: Use cases

To better understand where today's deregulation may lead, it's important to examine how similar cycles have played out in the past. History consistently shows that while deregulation can foster innovation and short-term growth, without strong internal oversight, it also opens the door to excessive risk.

The following historical examples illustrate this cycle and offer valuable context for boards and compliance leaders navigating today's landscape.

*"Some institutions thrived during these same periods by understanding the risks tied to innovation and managing them with discipline."*

### Case #1: Savings and loan crisis of the 1980s

- **Background:** Deregulation of the savings and loan (S&L) industry loosened investment restrictions and broadened lending standards, which — combined with oversight — created an environment ripe for risk-taking and fraud.
- **Effect:** Institutions engaged in speculative investments, and moral hazard became rampant, as individuals were insulated from the full consequences of the risks they took.
- **Result:** Over 1,000 banks failed. Taxpayers ultimately bore the $210 billion cost of resolving the crisis, prompting Congress to enact the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which reformed the S&L banking system and the real estate appraisal industry.

### Case #2: Financial crisis of 2008-2009

- **Background:** Decades of deregulation, including the repeal of Glass-Steagall via the Gramm-Leach-Bliley Act, blurred the lines between banking, securities, and insurance activities. The rise of complex financial instruments further obscured risk.
- **Effect:** Predatory lending and subprime mortgages were packaged into products like mortgage-backed securities and collateralized debt obligations. These risks were widely underestimated until the housing bubble burst.
- **Result:** The crisis triggered massive bankruptcies, fire sales, and bailouts totaling $700 billion. The Dodd-Frank Act was passed in response, reshaping financial regulation and oversight frameworks.

### Case #3: Bank failures of 2023

- **Background:** In 2018, key provisions of the Dodd-Frank Act were eased, reducing oversight for some banks. This prompted them to rapidly grow their uninsured deposits and take on exposure to volatile sectors like crypto.
- **Effect:** When the crypto bubble burst, deposit flight exposed structural vulnerabilities and gaps in regulatory supervision. Moral hazard and governance failures resurfaced.
- **Result:** The collapses of Silicon Valley Bank and Signature Bank marked the second-, third-, and fourth-largest bank failures in US history. The resulting bailout cost taxpayers over $40 billion. Despite this, no new regulations have been enacted, which signals a continuation, not reversal, of deregulatory momentum.

All three cases reflect a pattern: deregulation often precedes institutional failures when risk is not properly managed. However, they also show that some institutions thrived during these same periods by understanding the risks tied to innovation and managing them with discipline. That's the challenge and opportunity that risk and compliance teams face today.

# Identifying the risks: Five root causes of regulatory failure

Regulatory failures, across decades, often stem from the same foundational breakdowns. Presented below are five recurring root causes institutions must monitor — each paired with early warning signs, diagnostic questions, and internal considerations that reflect the lens of regulators, boards, and prosecutors. These insights are designed to help you spot emerging risks before it's too late.

**Inadequate risk management**
Inability to accurately assess aggregate risk exposure across business lines

**Excessive leverage**
Using short-term funding to hold long-term, illiquid assets

**Fraud**
Cultural pressure and weak oversight can allow unethical behavior to flourish

**Lack of transparency**
Limited internal understanding of risk, despite formal disclosures

**Risky lending practices**
Exposure to credit losses due to weak underwriting and lack of portfolio diversification

| | Red flags/early signals | Self-check questions | Boardroom considerations | DOJ lens |
|---|---|---|---|---|
| **Inadequate risk management**  | • Fragmented risk reporting across departments<br>• Overreliance on outdated risk models or assumptions<br>**Siren:** Missed or incomplete internal audit findings | • Are our risk models frequently updated with current market data and stress scenarios?<br>• Do we have enterprise-wide visibility into risk exposure, or are we operating in silos? | • Do we receive a unified, digestible risk dashboard regularly?<br>• How do we challenge and validate management's risk assessments? | • Can the board demonstrate that it asked for, and understood, information about enterprise-wide risks? |
| **Excessive leverage**  | • Sharp growth in loan-to-asset ratios<br>• Funding mismatches and shrinking liquidity buffers<br>**Siren:** Inadequate capital held against new riskier lines of business | • Are we maintaining liquidity and leverage ratios above regulatory minimums?<br>• Are we funding sources diversified and stress-tested under worst-case conditions? | • What are our most significant asset-liability mismatches?<br>• Are we tracking leverage growth across high-risk portfolios? | • Did the board probe how aggressive growth is being funded and whether the balance sheet is sustainable? |
| **Fraud**  | • High frequency of policy exceptions or override approvals<br>• Anonymous hotline complaints or whistleblower reports<br>**Siren:** Lack of documented approval trails or inconsistent reconciliations | • Do we proactively analyze compliance trends and suspicious patterns?<br>• Are staff encouraged and protected when escalating concerns? | • What is our fraud response framework, and how frequently is it tested?<br>• Have any concerns been raised through whistleblower channels in the past 12 months? | • Has the board ensured a mechanism exists for confidential reporting? Has it followed up on red flags or repeated patterns of misconduct? |
| **Lack of transparency**  | • Use of complex financial products with limited oversight<br>• Late or vague disclosures to regulators or investors<br>**Siren:** Lack of consistent internal understanding of business line risks | • Are complex business models adequately explained across the three lines of defense?<br>• Are our disclosures timely, accurate, and benchmarked against peers? | • How do we validate transparency in areas such as pricing models, liquidity assumptions, or counterparty exposure?<br>• Have we ever asked for an external review, or internal risk communications, or disclosures? | • Can the board demonstrate that it demanded full transparency from executives? Were any efforts made to conceal or obscure material risks? |
| **Risky lending practices**  | • Declining underwriting standards<br>• Rapid growth in specific high-risk sectors<br>**Siren:** Increase in delinquencies or internal exceptions of lending policy | • Are we tracking loan growth against risk tolerance and concentration limits?<br>• How often do we re-test our credit criteria against market changes? | • Are we seeing shifts in lending policy, and are they being scrutinized appropriately?<br>• What is our credit concentration in high-risk sectors and how is it trending? | • Was the board asking for evidence that credit standards were consistent with stated policies and risk appetite? |

These five root causes have been central to some of the most significant regulatory and financial failures in recent history. Recognizing their early indicators and strengthening internal awareness across risk and compliance teams can help institutions stay ahead of scrutiny, especially in today's deregulated environment. Proactive oversight usually begins with knowing where to focus attention.

# Building resilience: Strategies for managing risk proactively

Having examined the root causes behind regulatory breakdowns, from fragmented risk views to cultural blind spots, the next step is to define what resilience looks like in practice. Mitigating risk in a deregulated era demands more than surface-level compliance; it requires institution-wide alignment around governance, strategy, and execution.

The following strategies have emerged as non-negotiable imperatives for organizations seeking to navigate a shifting regulatory landscape with clarity and confidence.

### Embed strong governance and culture

Resilience starts with leadership. Boards and executive teams must set a consistent, risk-aware tone — one that informs daily decision-making, not just policy. Institutions that integrate risk culture into compensation, governance, and performance expectations are better equipped to detect problems before they escalate.

*Consider: Tying executive incentives to how profits are earned, not just how much is earned.*

### Enhance risk assessment and stress testing

Stress testing should be a routine discipline, not a reactive exercise. Regularly assess your institution's exposure to adverse scenarios such as market volatility, liquidity crunches, or cyber threats.

*Consider: Running reverse stress tests to identify the precise conditions that may threaten your capital or liquidity; and then building buffers accordingly.*

### Maintain robust reporting and transparency

Inconsistent data leads to misaligned decisions. Ensure boards and senior leaders receive timely, comprehensive risk reports that connect exposures across business lines.

*Consider: Harmonizing assumptions between departments (e.g., treasury and trading) to avoid blind spots and reduce operational disconnects.*

### Preserve capital and leverage buffers

In an era of relaxed regulatory environment, conservative financial management becomes a strategic advantage. Staying well above minimum capital and liquidity thresholds allows for greater agility when facing shocks.

*Consider: Reviewing funding models and liquidity cushions through the lens of today's market dynamics, not yesterday's assumptions.*

### Strengthen controls and oversight

Even amid innovation, operational discipline remains vital. Strengthen internal controls and increase oversight in high-risk areas such as lending, trading, and payments.

*Consider: Encouraging internal escalation and protecting whistleblowers, as silence is rarely a sign of safety.*

### Track the changing regulatory landscape

While federal oversight may loosen, state-level scrutiny continues to intensify. Maintain a clear view of emerging obligations across jurisdictions.

*Consider: Establishing a team or process to monitor developments and assess their impact on business lines and control frameworks.*

### Engage regulators proactively

Proactive communication with regulators signals a commitment to transparency and accountability.

*Consider: Sharing risk model updates or remediation efforts in advance, even informally, to demonstrate ongoing vigilance.*

### Foster ethical decision-making

Decision-making frameworks should reward prudence, not just performance. Align incentives with sustainable, risk-adjusted outcomes across business functions.

*Consider: Requiring second-line input on key strategic moves, such as launching new products or entering unfamiliar markets.*

Ultimately, resilience isn't just about avoiding risk. It's about responding faster, smarter, and with integrity to survive and lead in a deregulated era. Institutions that adopt a disciplined, forward-looking approach to governance, oversight, and ethics will be best positioned to weather this cycle — and emerge stronger.

*"Resilience isn't just about avoiding risk. It's about responding faster, smarter, and with integrity."*

# Conclusion

Periods of deregulation may ease external scrutiny, but they also heighten the internal burden of responsibility. As deregulation reshapes the financial services industry, institutions have a critical opportunity to reassess how risk is managed, communicated, and integrated across the organization. Those that use this moment to streamline oversight and strengthen governance will be better positioned to navigate what comes next.

The takeaways outlined here aim to spark meaningful dialogue among boards, leadership, and control functions. Overlooking even one area can invite reputational, operational, or legal risk. But with stronger alignment, proactive risk management, and a culture of accountability, institutions can turn uncertainty into strategic advantage.

Resilience means more than reacting to risk — it's about building the internal strength to adapt with clarity. Institutions that lay the groundwork today will be better equipped for tomorrow's challenges.

Explore how Wolters Kluwer can support your institution through today's deregulation landscape.

**Visit our site to learn more →**

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