

Challenger Safety in Risk Management

A Pillar of Effective Oversight for Banks and Credit Unions

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Challenger safety isn't just a cultural bonus—it's the backbone of effective risk management. When compliance officers feel empowered to speak up, institutions can safeguard against disasters before they

In the highly regulated and complex world of financial institutions, risk management is crucial for ensuring long-term stability and compliance. For banks and credit unions, fostering a culture of challenger safety—where professionals feel safe to raise concerns and challenge the status quo—is essential to managing risks effectively.

What is Challenger Safety?

Challenger safety is the final stage of psychological safety, a concept developed by Timothy R. Clark. It refers to an environment where individuals feel empowered to speak up, ask hard questions, and propose changes without fear of punishment or backlash. For banks and credit unions, challenger safety is not just an abstract concept but a critical tool for maintaining regulatory compliance, safeguarding reputations, and avoiding financial risks.

The four stages of psychological safety are:

- **Inclusion Safety:** This is the foundational stage, where individuals feel they belong and are accepted as part of the team. Inclusion safety meets the basic human need to connect and belong, allowing individuals to bring their authentic selves to work without fear of rejection.
- **Learner Safety:** At this stage, people feel safe to ask questions, make mistakes, and learn without fear of negative consequences. Learner safety supports a growth mindset, encouraging curiosity and continuous improvement.

- **Contributor Safety:** Here, team members feel safe to contribute their ideas and skills to the group. They are empowered to make a meaningful impact and share their expertise without the fear of being judged.
- **Challenger Safety:** In this final stage, individuals feel safe to challenge the status quo and bring up critical questions or dissenting views. Challenger safety allows people to propose changes, give feedback, and encourage innovation, knowing they won't face retaliation for doing so.

Why It Matters for Risk Professionals

Risk professionals, such as compliance officers, internal auditors, and credit risk managers, are at the frontline of identifying vulnerabilities in a financial institution's operations. However, if they do not feel safe challenging decisions, raising red flags, or addressing compliance issues with senior management and the board, risks can go unchecked. Without challenger safety, an institution might miss critical issues related to anti-money laundering (AML), credit risk exposure, or data breaches—any of which could lead to fines, reputational damage, or even failure of the institution.

How Culture Shapes Challenger Safety in Financial Institutions

A culture that prioritizes psychological safety encourages open dialogue and transparency. Senior management and board members need to actively solicit feedback, welcome critical questions, and provide "air cover" for professionals to voice concerns. Risk professionals should be empowered to challenge decisions at all levels of the organization, knowing that their input is valued and will not lead to negative repercussions.

For example, if a compliance officer identifies a gap in anti-fraud measures, they must feel secure in raising this with executives, even if the suggested improvements require costly changes or challenge long-standing practices. When challenger safety is embedded into the institution's culture, such concerns can be addressed proactively, avoiding reactive measures or regulatory penalties later.

The Risks of an Unsafe Environment

In a culture where challenger safety is absent, risk professionals may hesitate to raise issues for fear of being ignored, penalized, or even ostracized. This can lead to disastrous consequences. Unaddressed risks can snowball, resulting in regulatory fines, operational breakdowns, or costly legal battles. For instance, the 2008 financial crisis exposed how a lack of challenger safety contributed to systemic failures in risk management, as key professionals and whistleblowers were often dismissed or marginalized.

Moreover, if risk professionals feel they cannot raise issues with the board or management, it creates a toxic work environment where employees may disengage, leading to high turnover rates among critical staff. This is particularly harmful in financial institutions where institutional knowledge and expertise are vital to maintaining effective oversight and compliance.

Conclusion: Challenger Safety is Non-Negotiable

For banks and credit unions, fostering a culture of challenger safety is non-negotiable for effective risk management. A healthy organizational culture empowers risk professionals to raise concerns early, helping the institution stay compliant, innovative, and resilient in a fast-evolving financial landscape. By ensuring that every voice can be heard without fear of reprisal, financial institutions can mitigate risks and safeguard their long-term success.

For more reading:

[The Role of Psychological Safety in Diversity and Inclusion](#) Psychology Today

[The 4 Stages](#) LeaderFactor



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