

DEALING WITH REGULATORY TECHNOLOGY CONCERNS

by [Steve Brown](#)

Today we continue our theme about what potential gifts you might want to consider giving to someone during this holiday season. Because you are a community banker, you are surely busy, so to help in this area, we move on from the Top 5 books overall on the New York Times best seller list and drop down one level to see what titles make up the top business books. Admittedly, these selections are for those who love to crunch numbers, enjoy the business and financial world or are just trying to figure out what the heck the fiscal cliff means to them, so you will have to be selective when giving here. Currently, the Top 5 financial books on the best seller list include (in order): 15 Invaluable Laws of Growth by John C. Maxwell; Bull by the Horns by Shelia Bair; The Power of Habit by Charles Duhigg; Steve Jobs by Walter Isaacson and Thinking, Fast and Slow by Daniel Kahneman. While Cyber Monday is over, giving a good business book to someone is always a good deal (because at least to us, most are interesting).

Speaking of interesting things, we were recently pulled in by a survey in the Nov. issue of ICBA magazine. It was a one page graphic of a community banker thinking about the five IT issues that worry them the most from a survey. Those issues were complying with regulation (82%); protecting data and infrastructure (65%); systems availability and recovery (53%); and a tie (at 52% each) for detecting and mitigating fraud and managing the pace of technological change. These all make perfect sense given the pervasive nature of technology in banks. To deal with regulatory concerns, it is important to understand that regulators view technology governance as an integral part of enterprise risk management and a critical element that supports bank strategic plans and objectives. As such, regulators expect banks to proactively manage this risk. To do that, bankers need to understand how technology can impact risk; where the bank is reliant on third parties; how and where the bank connects externally; where confidential information is stored and accessed; how data integrity is assured and many other factors. The list is extensive, but these are some key areas of concern. At a high level, technology in the regulatory world falls under operational risk management. That makes some sense because technology is embedded in operations of the bank and it can impact such risks as credit, compliance, strategic, reputation and market, to name a few. As such, technology management must take a holistic, bank-wide view. It should be incorporated into the strategic planning process and be aligned with the business goals. It must also be managed continually to make sure technology risk exposures remain at acceptable levels. To make sure regulatory risks are addressed, a proper structure for the technology group is crucial. For most community banks, this all begins with the role of the Chief Information Officer (CIO). The CIO typically has the responsibility to make sure technology systems meet the needs of the bank, risks are mitigated and policies and procedures are followed. The CIO is generally responsible for key technology initiatives; deals with strategic technology issues; handles bank technology architecture and supports the technology needs for each line of business. The CIO also heads up the IT steering committee, is a member of senior management and usually reports directly to the CEO. Depending on the person and the bank, the CIO can also sometimes assume the role of Chief Technology Officer (CTO). Different than the CIO role, the CTO is primarily focused on development of new technologies; supporting and enhancing products being sold to customers; staying on top of evolving or new technologies; focusing on tactical

execution; improving efficiencies and maximizing the value of technology investments. Like choosing a gift during the holiday season, ensuring regulatory compliance at all times is never easy. However, at least in the area of technology, having a strong group structure, aligning technology with business units and supporting strategic objectives are all good ways to boost your odds for success.

BANK NEWS

TAG Expiration

A survey of the Association for Financial Professionals finds 77% of respondents say safety of principal is the most important factor they consider when making cash investment decisions, followed by liquidity (21%) and then yield (2%). When TAG insurance on noninterest bearing deposits expires at the end of this year, small businesses could pull billions of dollars out of community banks and shift them to banks deemed "too big to fail" or money market mutual funds (investors see them as "safe" despite the fact they can break the buck). No one knows for sure, but the impact could be a significant one for community banks so be prepared.

Clean Switching Only

The regulatory agencies have issued a statement under Dodd Frank section 612 that imposes restrictions on conversions of banks from one regulator to another. The rule basically states that any bank under any formal or informal order, agreement, directive or other document enforceable under 12 U.S.C. 1818 would not be allowed to switch except in rare circumstances. If you have any sort of moderate to large regulatory problem, you will have to fix it first before you will be allowed to change your bank charter to any other one it would appear.

Big Fine

UBS was fined \$47.6mm by Britain's Financial Services Authority (FSA) and placed under extra scrutiny by Swiss regulators, over losses from a rogue trader (Kwaku Adoboli) of \$2.3B that occurred last year. The FSA cited UBS, saying the bank had "seriously defective" risk control systems.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.