# Do Your Due Diligence and KYC

by Steve Brown

Trolling the internet the other day, the absurdity of a banner ad that we've seen numerous times caught our eye. It asked whether the reader wanted to retire comfortably and had a picture of a gentleman sitting on a beach viewing an awesome sunset

(not this picture). Well DUH, we thought, no thanks but we would prefer to retire in complete misery. This sort of thing is exactly why the world of personal finance is filled with stories of investors who made bad decisions. They may have taken the advice of a friend or simply followed an advertisement that promised easy riches. Much to the surprise of the gullible investor, many times it turns out later that when things sound too good to be true, they almost always are too good to be true. Yet, as humans we have psychological issues that make us susceptible to these things, so history repeats over and over.

To help banks avoid issues in the future, we point to a recent news story surrounding a twice-convicted fraudster. This individual did not even bother to use an alias when starting a new investment advisory business, so checking them out was simple. All a prospective investor had to do was type the person's name into Google and prior convictions would have jumped to the front page. If investors had just done this, they could have avoided problems that ultimately surfaced due to this scam.

To see how bad things are, consider these statistics by the Financial Industry Regulatory Authority (FINRA) around investment fraud. It found 70% of the victims of fraud acted primarily based upon the recommendation of family or friends. Further, 1 in 8 failed to check for a criminal background and 1 in 7 did not check securities licenses or registrations.

Banks too use products and services from many different providers and choosing them carefully can be very important to overall safety and soundness. Auditors, consultants, securities brokers and others can make sense to check, but there are others, so think about your risk and then start the process.

To begin, our advice is to go high level and start with a simple Google search. Look into the firm or the individual to see what pops up. Spending 5 to 10 minutes doing some quick searches on the companies you do business with and the people they employ can surface things you need to know about or oddities you might want to better understand. Then, if anything does surface, get the main company phone number off the website and ask to speak to the head of compliance to try and get answers. If you can't get comfortable, move on.

Next, make sure you have a set of standardized procedures and processes to conduct due diligence on people and companies you are considering or already using. Most bankers probably think this is already handled, but there are plenty of instances where issues have arisen later, so do your own due diligence and do so consistently to be sure.

After the Google search, determine if any people or companies that interact with you have licenses and double check with the licensing entity to be sure there are no issues. This is a simple step, but one that is too often ignored. Here, you might try the Better Business Bureau, state agencies, government agencies and regulatory bodies to see what you can find.

Be sure to also conduct a periodic review of business relationships because things change over time. Then audit everything now and again to identify any potential conflicts.

Finally, step back and periodically ask whether doing business with a given provider is in the best interests of your bank. If it is a competitor, ask why you are doing business with them. Ask questions, challenge assumptions and always think about how to protect your franchise. Competitors may be good at something, but they are still competitors and they are there to win. While doing business with some competitors may seem unavoidable, it should be just that. Times are tough, so you must fight even harder not to directly or indirectly help any competitor if it can be avoided. Change is challenging, but it is just prudent to periodically review all relationships to see if anyone surfaces that competes directly with your bank. If so, maybe it is a better long- term choice to use someone who doesn't.

In the end the answer is KYC! We aren't talking about Know Your Customer, but rather applying it to "Know Your Coverage, Know Your Counterparty and Know Your Competitor."

## BANK NEWS

**M&A**

Bank of Marin (CA) will buy the parent of the Bank of Alameda (CA) for $32.7mm in cash (49%) and stock (51%).

**M&A**

Bank of San Antonio ($354mm, TX) will buy insurance company Luhn-McCain for an undisclosed sum. Luhn does property & casualty insurance & employee benefit solutions for businesses.

**M&A**

United Labor Bank F.S.B. ($269mm, CA) will buy Union Savings Bank ($62mm, NM) for $5.9mm in stock.

**M&A**

Prosperity Bank ($15.1B, TX) will buy the parent of First Victoria National Bank ($2.4B, TX). Prosperity will issue 5.6mm shares of stock and $91.3mm in cash to acquire all outstanding shares.

**M&A**

Reuters reports Intuit will sell Intuit Financial Services to private-equity firm Thoma Bravo LLC for $1.03B. Intuit Financial The division provides mobile and online banking software to banks and credit unions.

**Ratings Cut**

S&P cut the credit ratings of Credit Suisse, Barclays and Deutsche Bank to A from A+, citing greater regulation and uncertain market conditions.

**Workplace**

A Gallup survey finds only 30% of people are engaged and inspired at work vs. 28% in 2010. Meanwhile, 52% are not particularly excited and 18% are actively disengaged.