Trusting The Cheating Internet

by Steve Brown

We must admit to at least a little amusement regarding the data breach of the illicit matchmaker Ashley Madison. The site was created for married people looking around for extracurricular activities, and who assumed that they could do so confidentially. What these customers found out the hard way, is that like most databases, it was possible for hackers to get in. Even worse for the users, in this case the hackers have published the client list. As your mom always said "cheaters never prosper." What is surprising is how many users of the site used work email addresses or their regular personal email addresses, rather than creating a pseudonym and email address for such activities. It is estimated that Ashley Madison has 32mm accounts with about 10mm of them in the US.

Being bankers, we thought first about the economic ramifications of the data hack and came to the conclusion that it could turn out to be an economic stimulus. Just think of the flowers, expensive chocolates and evenings in restaurants that will come as a result of a spouse getting caught. On the other hand, if the data release creates a surge of divorces, lawyer fees will surge and studio apartments will be rented.

Given the possibility of a surge in divorces, maybe it's a good time to review what banks should do regarding accounts for divorcing couples, in case one spouse decides to empty an account and clean out the other. There are specific rules here, so bankers should brush up on them regardless of any data breach inspired upsurge. For instance, as soon as an institution is notified that a party who holds a joint account has filed for divorce, withdrawals from those accounts are likely to be restricted with an Automatic Temporary Restraining Order (ATRO). An ATRO creates restrictions that prevent either party from altering the financial status quo once a divorce action begins. An ATRO prohibits either spouse from selling, transferring or borrowing against property, from borrowing against or selling life insurance of the other spouse, from modifying beneficiaries on accounts (including IRAs and retirement accounts) or insurance policies, from changing bank accounts, and finally from destroying or hiding assets. The ATRO may be accompanied by a Summons of a Petition for Dissolution. Both documents remain in effect until the final judgement on the divorce is signed by the court.

Divorce laws differ between states and in some states like NJ and SC an ATRO is rarely seen. Regardless of the document though, banks should take great care when notified of a divorce. If your bank receives an ATRO but not everyone in the bank is notified and as a result, and allows one of the prohibited actions to occur, it could mean liability for the bank. Therefore it is very important that your bank looks closely at the policies and procedures in place and trains staff in what should happen in the event of a divorce.

Interesting to note, the rules are different in the case of the death of an account holder; joint accounts with rights of survivorship are the only place survivors can access money (and other accounts must be frozen). It's the opposite in the case of divorce, where the danger lies in the joint tenants account. So death and divorce have opposite effects regarding access to funds - danger for the bank in the case of divorce if there is a joint account, danger for the bank in the case of death for all accounts except those held in joint tenancy.

Regardless of the final economic outcome from the Ashley Madison data breach, people will probably consider a great deal more carefully what they share on the internet. The other element underlined here is that it seems any database is hackable. All that is necessary is sufficient motivation on the part of the hacker.

BANK NEWS

Strategic Planning

The FDIC indicates it will look for strategic plans to be maintained and consistent with the present conditions of the institution, the regional economy and the local competitive environment among other factors. Assumptions should take this into account.

Online Banking

A Fed survey finds that as of the end of 2014, 15% of online banking customers accessed the service using their mobile phone.

Wearable Technology

Bankers tracking wearable technology as you seek to potentially upgrade product and service offerings or delivery channels over time may be interested to note the findings of a new report by IDC. The report finds Fitbit still ranks supreme with 4.4mm units shipped in Q2 vs. 3.6mm for the Apple Watch. Further down the pecking order in 3rd position was Chinese company Xiaomi with its Mi Band (3.1mm devices).

Mobile Deposit

A Fed survey finds about 50% of mobile banking users had deposited a check by taking a picture of it with their phone as of the end of 2014.

Loan Classifications

The FDIC indicates loan classifications are used to express "different degrees" of the "risk of nonpayment." They identify loan categories of "pass" (including watch) and "special mention" as not adversely classified; while categories of "substandard" "doubtful" and "loss" as adversely classified.

Economy

The current expansion is 7Ys at this point, about 16 months beyond the average. While no one expects a downturn any time soon, bankers should take note and have contingency plans if things begin to soften up in the coming years.

Watch List

The FDIC indicates loans flagged as "watch" are so identified because they "warrant the special attention of management." They indicate these loans have adequate security as to principal and interest, but are potentially weak and vulnerable to credit risk (but not enough to warrant being classified "substandard").

Generations

Surveys can vary, but most label the generations as Greatest (pre 1928), Silent (1928 - 1945), Boomers (1946 - 1964), Gen X (1965 - 1980) and Millennials (1981+).