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The Arizona Banker

Banking On Inclusion: America's Banks Embrace Bank On Movement

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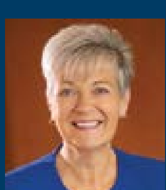

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Banking On Inclusion:
America's Banks Embrace Bank On Movement

By Rob Nichols, President and CEO
American Bankers Association

AMERICA'S BANKS HAVE A LONGSTANDING COMMITMENT to helping reduce the number of unbanked and underbanked individuals and families in the U.S. July marked a major milestone in that endeavor, with an announcement from the Cities for Financial Empowerment Fund that the number of Bank On-certified deposit accounts now available has surpassed 100. At the time this column was written, it was up to 114.

As you may recall, nearly a year ago, I challenged banks of all sizes to offer Bank On-certified products, designed to promote access to financial services to the roughly 5% of U.S. households that remain unbanked. To receive Bank On certification, the account must meet specific standards, including low costs, no overdraft fees, robust transaction capabilities via a debit or prepaid card, and free online bill pay. The certification is free and the process is simple.

When I issued that challenge in October 2020, there were 43 banks offering accounts that were Bank On-certified. Today, there are more than 90, with plenty more in the process of obtaining certification. In particular, we've seen a significant uptick in the number of community banks offering Bank On-certified accounts. This is partly due to ABA's efforts to engage with 20 of the nation's core technology providers – including Fiserv, FIS, Jack Henry and Associates, and Finastra – and encourage them to simplify the process for their bank clients to create and offer these critical products.

Today, Bank On accounts are available in more than 32,500 branches in 99 out of the 100 largest metropolitan markets and all 50 states. They have received plaudits from bank regulators and policymakers alike – and for a good reason. Research suggests that the initiative is working as intended: according to the Federal Reserve Bank of St. Louis, 75% of consumers opening Bank On certified accounts were new customers for that bank. Additionally, while these accounts have widespread appeal, CFE Fund reports that customers opened close to 60% of Bank On certified accounts in communities with 50% or more people of color.

The importance of having a banking relationship has never been more apparent than during the COVID-19 pandemic. From obtaining

Paycheck Protection Program loans to receiving economic impact payments quickly, countless stories speak to the benefit of having a trusted banking partner – and the disadvantages of not having one.

"For a long time, we'd known that we have consumers that don't have bank accounts in our market. It could be for cost; it could be for convenience. There could be a lot of reasons. The stimulus checks brought the issue to light a little more," says Gary Kleer, CEO of First Bank Richmond in eastern Indiana, whose bank recently had its Easy-Fit Checking Account Bank On-certified. "When we saw this initiative being offered, we decided to get on board so that we could offer our consumers a more safe and affordable way to handle their money."

As we strive for a more equitable and inclusive society, one of the most constructive ways banks can help move the needle is to ensure that every American has the opportunity to access the banking system. That's why the Bank On certification is so important – it signals to those who may be hesitant to come in the door and start that banking relationship that the bank offers a product they can trust to meet their needs.

Many banks are already offering checking account options to meet Bank On standards – but it's time to go the extra step and get them certified – for free – with the Bank On seal of approval. If you haven't yet, I encourage you to visit aba.com/BankOn to learn more about the Bank On movement, how to certify an account product and why other banks were motivated to get involved. ABA staff is available to meet with your bank about the Bank On process and answer your questions; reach out anytime through our dedicated inbox: bankon@aba.com.

As we strive for a more equitable and inclusive society, one of the most constructive ways banks can help move the needle is to ensure that every American has the opportunity to access the banking system.

Together, we can bring more Americans into the banking system — a crucial step toward ensuring economic prosperity for all.

Rob can be reached by email: nichols@aba.com.

AzBA's Annual August Congressional Roundtable

Paul Hickman discussing banking priorities with Congressman David Schweikert.

UNDER THE COPPER DOME

2021 Session Recap and Political Update

By John Fetherston

ON JUNE 30 AT 4:54 P.M., THE FIRST REGULAR SESSION OF the 55th Arizona Legislature adjourned Sine Die. Lasting 171 days, this year's session clocked in as the state's third-longest and threatened to continue into the new fiscal year starting July 1. After almost two months of negotiating, however, a budget deal was struck, and policymakers wrapped up this year's work.

So what ended up in the budget? With the state facing an almost $4 billion surplus, there was plenty of money to spend and even more disagreement on how to spend it. Eventually, though, legislative Republicans and the Governor agreed on a $12.8 billion package that includes the largest tax cut in state history. These cuts reduce income taxes across the board and cap at 4.5%, the rate paid by the highest earners. The tax package also included a reduction in the commercial property assessment ratio. Democrats objected to the tax reductions, the bulk of which will benefit wealthier Arizonans, and a coalition of liberal and education-related groups are preparing a voter referendum on the issue. In addition to the tax cut, the budget package pays down a significant amount of state debt and invests heavily in K-12 and higher education, public safety, transportation and more.

Beyond the budget, legislators passed significant policy changes in the areas of sports gambling, COVID-related business liability protection and election reform. Governor Ducey also called the legislature into a special session, running concurrently with the regular session, to appropriate $100 million toward a wildfire relief plan. This bipartisan effort boosted funding to address the fires raging across the state and to support suppression and recovery efforts.

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Even with the 2021 session over and the next election more than a year away, the 2022 election cycle has begun in earnest. As of this writing, there are seven candidates officially running for Governor, five in for Attorney General, and four Republicans running to challenge Mark Kelly for the U.S. Senate seat. The recent announcement of cuts to Arizona's Colorado River allocation highlights one of the major challenges facing Arizona's leaders. How will these candidates respond? What other issues will dominate the political conversation over the next year?

Only time will tell.

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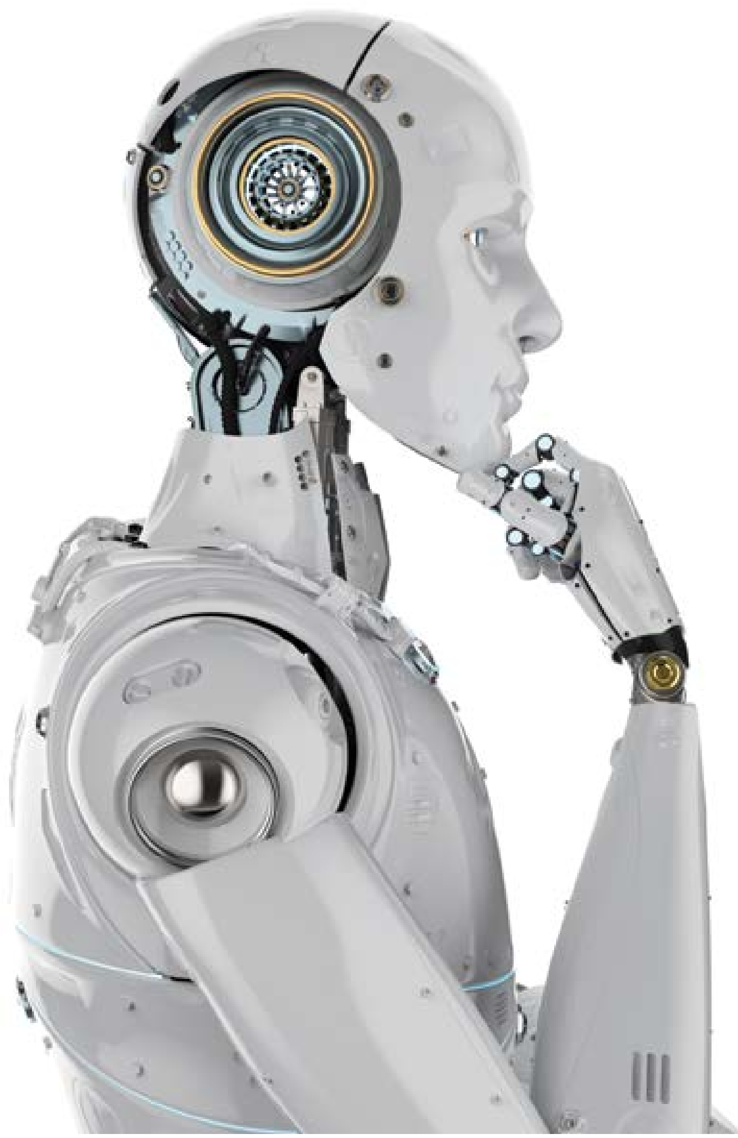
Networking Opportunities

Attendees will have opportunities to gather in appropriately sized groups for drinks & dinner at various locations throughout the camelback Corridor

Interested in Cutting Customer Service Costs By 30%? Let's Chat.

By Neal Reynolds, President, BankMarketingCenter.com



ROBOTS HAVE BEEN DEMONIZED FOR A LONG TIME — and understandably. Hard to believe, but it's been 50 years since HAL, the spaceship's computerized brain, threatened to kill the Discovery One astronauts in the film "2001: A Space Odyssey." It's one of the earliest films that I can remember that warned us about how artificial intelligence could very well be "an experiment gone horribly wrong."

In years since, robots have continued to be characterized as malevolent, destructive, emotionless job-stealers. Manufacturing jobs would disappear as robots could work much more efficiently, safely, accurately, and less expensively than human beings. In the meantime, their view of the world – one, of course, where robots ruled – would supplant that of their creators; they'd revolt against the human race and take over the world.

My, how times have changed. The kind of thinking (aka artificial intelligence) that made HAL a monster is exactly the kind of thinking that today's community banks are utilizing to supplement their service to customers.

Until now, customer service was largely built on human interaction. Whether a mega financial institution or a community bank, the standard for quality customer service is extraordinarily high. Customer service representatives must be patient, efficient, knowledgeable, and quick to solve customer complaints without a hitch. Maintaining this high standard is labor-intensive and certainly not cheap. And during these pandemic days, finding and keeping individuals who can deliver this type of service has become almost impossible.

So, say hello to CHATBOT!

Okay, what exactly is a chatbot? The latest tactic in "conversational marketing," a chatbot is a "software robot" that chats with customers on your various customer experience touchpoints such as websites, messaging apps, and devices. A chatbot mimics conversation through text (e.g., 1800flowers.com) or voice (e.g., Alexa). If you've just spoken to your Google Assistant, well, you've just chatted with, in effect, a chatbot.

Are people really using chatbots?

Absolutely, and there's plenty of consumer research to prove it. Recent research from Survey Monkey and Drift shows that "only 38% of consumers actually want to talk with a human when engaging a brand. This isn't to say they always prefer chatbots, but it highlights just how many ways there are to get answers today that don't involve live

Chatbots can learn and evolve, as well. IBM's Watson, for instance, "uses machine learning algorithms and asks follow-up questions to better understand customers and pass them off to a human agent when needed." Pretty clever, isn't it?

human conversation – text messaging and self-service portals, just to name a few."

Chatbots can learn and evolve, as well. IBM's Watson, for instance, "uses machine learning algorithms and asks follow-up questions to better understand customers and pass them off to a human agent when needed." Pretty clever, isn't it?

According to an Aug. 13, 2021, article by tech consulting firm CapTech, "back in 2019, 40% of consumers in the U.S. were using chatbots to shop with retailers. In addition, 77% of customers said chatbots will transform their expectations of companies over a five-year span." The article goes on to say that "aside from meeting consumers' needs … there are other advantages to chatbots … Businesses spend over $1.3 trillion per year to address customer requests, and chatbots could help reduce that cost by 30%. In fact, virtual customer assistants help organizations reduce call, chat, and email inquiries by 70%, while 90% of businesses report recording large improvements in the speed of complaint resolution."

In closing, a chatbot might seem like a small contribution to your ability to service customers, but there are certainly big benefits to be realized for the banks that use them. Just be careful if it starts asking for a salary increase and better benefits.

About Bank Marketing Center
Here at BankMarketingCenter.com, our goal is to help you with vital, topical, and compelling communication with customers and messaging to help you build trust, relationships, and revenue. Visit bankmarketingcenter.com, or by phone at 678-528-6688, or email nreynolds@bankmarketingcenter.com.

Four Critical Reminders to Transition from LIBOR to SOFR

TIME IS TICKING AWAY WITH LIBOR'S discontinuation, and regulators are urging financial institutions to act now to ensure a smooth transition. While we have been reporting on this since the announcement of LIBOR's cessation was made, it is increasingly important to get preparations in order.

As bankers know, LIBOR has been the most widely used benchmark for floating rate transactions. So, community banks will need to be diligent in uncovering all areas of exposure. Although the derivatives markets account for an estimated 95% of the total exposure volume, USD LIBOR is also the reference rate in several trillion dollars of corporate loans, floating-rate mortgages, floating-rate notes, and securitized products. Specific to community banks, LIBOR may be used in some loan products, as well as tied to interest-rate hedges.

LIBOR has already been discontinued in some global markets, while the U.S. extended its end date to mid-2023, due to disruption from COVID-19. Many financial institutions continue to take a wait-and-see approach and have delayed starting on the transition. Some bankers may think they still have plenty of time to address the issue or that there will be more guidance coming from government agencies on the transition. However, it is prudent to act sooner rather than later. Furthermore, regulators have emphasized that entering into new LIBOR exposures after 2021 would create safety and soundness risks and they would examine institution practices accordingly.

As we move closer to the sunset date for LIBOR, the below four reminders become more critical to get you where you need to go for the smooth transition from LIBOR to SOFR.

Reminder 1: Assess your LIBOR cessation exposure risk. Management should consider all applicable risks, such as operational, legal, compliance, strategic, and consumer risks, when conducting LIBOR cessation preparedness assessments. While we have noted this in previous articles, it is the key to proper transitioning. To assist with that effort the OCC has introduced a Self-Assessment Tool for Banks. This tool can be used to analyze:

- The appropriateness of a LIBOR transition plan
- Management's execution of the transition plan
- Related oversight and reporting

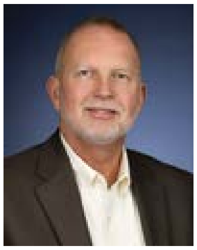
Reminder 2: Create a tailored plan. This needs to address the specific risks and exposure. Some common steps in a preparedness plan include modifying contracts to include "fallback" language, addressing operational risks, and communicating with affected customers and third parties.

Reminder 3: Devise a solid timeline for transition. The Federal Reserve continues to emphasize that financial institutions should stop writing contracts using LIBOR by the end of 2021. After that, the one-week and two-month LIBOR rates will no longer be published. Also, agencies have issued recommendations that LIBOR assessments and cessation preparedness plans should be at near completion with appropriate management oversight and reporting before the end of 2021.

Reminder 4: Staying on track. Once the assessment, plan, and timeline have been done, it is important to review these regularly. Management should assess whether the progress with preparedness is sufficient for meeting transition deadlines and adjust as needed.

We know how important it is to stay on track since we are preparing for the transition from LIBOR to SOFR as well.

To continue this discussion on LIBOR's transition or for more information, please contact Jay Kenney.



Jay Kenney SVP & Southwest Regional Manager for PCBB. He can be reached at jkenney@pcbb.com.

Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes: cash management, international services, lending solutions, and risk management advisory services.

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The Black and White of TRID Timing

By John Berteau

THERE ARE SO MANY WAYS TO VIOLATE TRID. Mastering the content requirements (knowing what to put where) is difficult for even the most seasoned compliance professional and is the source of numerous violations. Conquering the timing requirements (knowing when to give what) seems to be a much easier assignment, but it too causes numerous violations. When it comes to what information to include in disclosures and in which section, there are many gray areas, too much, in fact. However, the regulations are a lot more black and white when it comes to giving the disclosures.

Let's face it, TRID is difficult. First, even the name is challenging: TRID is an acronym made up of other acronyms. TRID is short for TILA-RESPA Integrated Disclosures. TILA is an acronym for the Truth in Lending Act, and RESPA is an acronym for the Real Estate Settlement Procedures Act. Second, many things related to TRID are conditional: the definition of "application" differs from most other regulations. There are multiple definitions of "business day," and the regulations do not even address every common scenario, let alone every conceivable scenario. Third, the requirements are spread out: be sure to check the regulation, the commentary, the published guidance, any FAQs, and the occasional final rule preamble if you want to understand a requirement the best you can.

If you've read this far, then you should know that the TRID requirements are largely about giving an applicant two "named" disclosures: the Loan Estimate and the Closing Disclosure. The Loan Estimate is a reliable estimate of costs provided early in the process to loan applicants to allow them to shop around for the best loan. The Closing Disclosure is a detailed listing of costs given just before closing to let the applicant know the confirmed cost of credit.

In order for an extension of credit to be subject to the TRID requirements, it must be all of the following: 1) closed end, 2) made to a consumer, 3) for a consumer purpose, and 4) secured by real property. Once you've determined that your extension of credit is subject to the TRID requirements, the clock may have already started.

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The Loan Estimate (Contents: 1026.37; Timing 1026.19(e))

The clock on the TRID timing requirements begins as soon as the bank receives an "application," which is defined specifically as submitting the applicant's name, income, Social Security number, collateral property address, estimated value of the collateral property, and the loan amount requested. Once a bank has received all six pieces of information, the clock has started, and the bank is required to send the applicant a copy of the Loan Estimate within three business days. For this purpose, a business day is any day that the bank is open for carrying on substantially all of its business functions. This means some banks will count Saturdays for this window to send the Loan Estimate, and others will not. The regulations do not require that the initial Loan Estimate be received by any particular number of business days, so any questions of the receipt of the Loan Estimate are almost always relative to loan closing.

The bank is only required to honor the estimates given on the Loan Estimate for 10 business days, after which the Loan Estimate expires. If the applicant decides to proceed after expiration, it is up to the bank to honor the existing estimates or provide an applicant with a new Loan Estimate with new estimated costs. Expiration is determined using the definition of business day, including Saturdays for some banks but not for others.

Occasionally a fee will need to be increased due to inaccurate information relied on by the bank when issuing the Loan Estimate. This situation is referred to as a changed circumstance, change in circumstance, or change of circumstance. Regardless of what it is called when this occurs, for the bank to pass this increase off to the applicant, the bank must send a revised Loan Estimate within three business days of learning of the increase in the fee, using the definition of business day.

For the purposes of loan closing, any revised Loan Estimate must be received no later than four business days prior to loan closing. This definition of business day includes all calendar days other than Sundays and legal public holidays. This is sometimes called the "specific definition of business day." However, since this is a receipt requirement and not a sending requirement, it is important to point out that a TRID disclosure is considered to be received three business days after it is sent, using the definition that includes all calendar days other than Sundays and legal public holidays.

The Closing Disclosure (Contents: 1026.38; Timing: 1026.19(f))

Before closing a loan, the bank must send the Closing Disclosure to the applicant. The closing disclosure must be received at least three business days prior to loan closing, using the definition that includes all calendar days other than Sundays and legal public holidays.

If there is a change to the loan such that the APR becomes inaccurate, there is a prepayment penalty added, or there is a change in loan product, the bank is required to provide a revised Closing Disclosure to the applicant. This Closing Disclosure must be received at least three business days prior to closing, using the definition that includes all calendar days other than Sundays and legal public holidays.

After closing a loan (but within the 30 calendar day period following closing), an event in connection with closing causes the Closing Disclosure to be inaccurate, and the inaccuracy results in a change in the amount paid by the consumer, the bank must send a copy of the revised Closing Disclosure no later than 30 calendar days after discovery of the inaccuracy.

If the bank discovers a non-numeric clerical error within the 60 calendar day period following the loan closing, the bank is required to send a copy of the revised Closing Disclosure no later than 60 calendar days after loan closing.

If the amount paid by the consumer exceeds the amount indicated on the Closing Disclosure, the bank must provide a refund, and a revised Closing Disclosure, to the consumer no later than 60 calendar days after the loan closing.

John S. Berteau serves as Associate General Counsel for Compliance Alliance. He has nearly fifteen years of combined experience in the financial services industry. At Hancock Whitney Bank, he worked in the field of environmental risk management and compliance (CERCLA/RCRA/Wetlands). At Alorica, the nation's fastest-growing BPO, John worked in tandem with some of the largest banks in the U.S., helping to evaluate financial risks. He holds Bachelor's and Master's Degrees in History from the University of New Orleans, a Juris Doctorate from Loyola University New Orleans and is a licensed attorney in the State of Louisiana. In addition to being one of our featured authors, John has recently taken over the editor role for C/A's Access magazine. As a hotline advisor, John helps C/A members with a wide range of regulatory and compliance.

Digital Banking: Facing Operational Challenges and Strategic Opportunities

By Robert Vandenbergh

DIGITALIZATION CONTINUES TO change the way financial institutions interact with clients. Lower levels of face-to-face contact, combined with higher expectations related to turnaround times as well as digital channel data volume, have created unprecedented operational and financial challenges for banks and credit unions. Additional digital-related pressures that demand management focus include increased card-not-present transactions, requirements for new KYC solutions, higher levels of fraud, and staff-related issues ranging from remote workforce oversight to recruitment and training.

Consumer and business customers have embraced the digital environment for information transfer, efficient inquiry and a broad range of transactions. The marketplace was primed for these changes, as the technology necessary to transfer information digitally has long been available in homes and small businesses. Digitalization has made some services not previously available on a large scale accessible to a much broader demographic. Information once captured by individual business units and siloed at financial institutions is now available for application across a growing inventory of financial products and services.

Over the past 18 months – driven primarily by pandemic-related market factors – many financial institutions and their vendor partners have accelerated the timelines for developing their digitalization and automation capabilities. Given the rapid implementation of those solutions, it can be beneficial to identify some of the challenges and opportunities that currently exist.

Two Operational Challenges Related to Digitalization

In today's banking environment – which requires specific skills sets to support rapid response, accuracy, compliance and frictionless customer experience – the value of the generalist has been diminished, and there is now a premium on operational specialists. The demand for those individuals, however, currently exceeds the supply in many areas. At least in the short term, this requirement may be best supported by a combination of experienced third-party partners to ensure that cybersecurity, fraud mitigation

Another operational challenge related to digitalization involves data integrity. Financial institutions must ensure that incrementally larger volumes of client data ingested into the system have proper validation, appropriate internal user rights, and necessary data security and privacy controls.

and technology innovation are delivered at appropriate levels.

Another operational challenge related to digitalization involves data integrity. Financial institutions must ensure that incrementally larger volumes of client data ingested into the system have proper validation, appropriate internal user rights, and necessary data security and privacy controls. While most organizations have managed this function well in the past, increased volumes of data are likely to tax existing resources. Specialized tools, including optical character recognition, may be beneficial to verify and catalog this information. Third-party partners can provide temporary or permanent solutions for both staffing or technology-related requirements and may also help to keep incremental costs in line.

Two Strategic Opportunities Related to Digitalization

Increasingly, consumer clients are applying enhanced budgeting and personal financial management (PFM) tools. To date, those tools have been reactive and static; but with effective collection and utilization of digital data, they can be dynamic and valuable. Ideally, financial institutions should offer timely and appropriate products such as PFMs without requiring customers to provide duplicate information that has been previously obtained or stored. Data warehousing tools are available to facilitate that convenience.

Digital data can help deliver a positive customer experience only if it is available to quickly and accurately resolve client requests, inquiries, and disputes. Whether the customer interaction involves an automated attendant or live support, having a complete understanding of the client relationship and specific transactions is essential for a successful, frictionless outcome.

Another significant digital opportunity involves small business relationships. Digitization of inbound and outbound information has created new ways for financial institutions to expand their role as trusted advisors. Most small-business owners have multiple responsibilities and employ knowledgeable third parties to assist them with tasks ranging from accounting to payroll and benefits. Financial institutions can provide small business clients with cost-effective and targeted information related to those functions to solidify and expand those relationships. Cash management solutions, for example, are no longer exclusively for larger clients; now can be made available efficiently to a broader client base. Online banking is a useful platform to deliver those meaningful tools to your small business clients, as a consolidated view on an ongoing basis would be an appreciated service by most small-business owners.

In summary, interaction with clients in a digital environment can increase access to data across a broad range of applications; lower servicing costs; and free up employee time, allowing them to focus on higher valued tasks. A regular review of your financial institution's existing digital tools and skillsets, as well as new opportunities that arise, is the best way to ensure healthy and long-term relationships with clients and to maintain competitive standing.

Robert Vandenbergh is a Strategic Advisor for Quinte Financial Technologies. He has nearly four decades of banking experience and previously served as Regional President and Chief Operating Officer of a $6.5 billion bank holding company in the Northeast.

Digital Personalization:

33% Say It's Not Worth the Risk.

By Neal Reynolds, President, BankMarketingCenter.com

THE PRESSURE ON BANKS TO REALLY STEP UP THEIR DIGITAL experience game is, as we all know, greater than ever. Branch banking, according to pundits, is probably going away. "Probably" because, honestly, no one really knows, right? It sure looks like it, however.

That being the case, where does that leave banks? With a huge incentive to ramp up their digital experience through personalization.

Also, according to pundits, most banks are offering only the basics in this channel. And why is that? There is no doubt that personalization is a big deal in customer engagement. Having that deep understanding of each customer's unique needs, driven by data and analytics and aided by machine learning, is every marketer's dream. That understanding of exactly what a customer is thinking, feeling and needing forms the very bedrock of any solid, strategic marketing effort.

According to the Boston Consulting Group (BCG), "a majority of people who are either open to or actively mulling changing banks would consider banking with a tech company – such as Amazon, Facebook, or Google – if they could. This is not surprising because such companies have spurred a desire for more customized interactions and fostered a willingness to trade data for a better experience." BCG goes on to say: "Several consumer brands have shown the way forward. Netflix uses personalization techniques to make movie and series recommendations. Yet while many financial institutions are conceptually on board and heavily investing, the Netflix of banking has yet to emerge. The main reason is that true end-to-end personalization requires developing new muscles – such as strong cross-channel offerings, cross-enterprise collaboration, a single view of the customer, and a new technology ecosystem – all of which are difficult to build." Agreed, for the most part. Is receiving a purchase recommendation from Amazon or Netflix the same as getting one from your bank? I'm not convinced. When Netflix tells me that I might be interested in a certain program because it somehow aligns with one I'd watched previously, I have no concerns about data sharing and privacy. The kind of personal data that a bank needs to personalize one's digital experience is far different from the data that Netflix uses to recommend their latest docuseries.

I think it might have been one of those satirical commercials done by Saturday Night Live a while back; I'm not sure. But what I do remember was their lampooning of banks using personal data for marketing purposes. At one point in the faux commercial, which featured a young couple, the man receives a series of SMS messages from their bank. The messages are fairly innocuous at the start but become progressively more disconcerting. The first text seems ordinary enough: "We hope you're enjoying the new truck you purchased with one of our auto loans." When it's followed shortly afterward by, "we've noticed that you made a large purchase at the grocery store just the other day … having a party?" The couple gets a bit concerned. By the last message, they're totally creeped out: "We have the loan you need when you're ready to decorate that baby room. Congratulations." The gag, of course, is that the couple doesn't know they're pregnant, yet their bank somehow does.

Granted, this is a bit of hyperbole, but it does point to the fact that monetizing consumer data can pretty quickly run afoul of the consumer's desire for privacy. Consumers want the convenience of products and services being brought to their attention based on their "buyer journey" and purchasing habits. Still, they're definitely conflicted about how much of their personal information is needed to make that happen.

A Cognizant (https://cognizant.com/insightswhitepapers/putting-the-experience-in-digital-customer-experience-codex1180.pdf) white paper on the subject states when it comes to digital experiences, "critical customer interfaces should be reexamined in an era when Starwood Hotels allows you to check in and open the door to your room with your SmartPhone. Without making sound decisions over the coming months, many may be left struggling to catch up to digital winners."

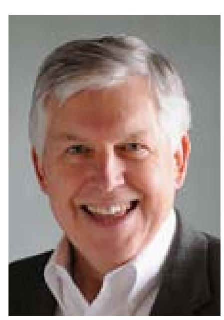
Again, can a bank's digital experience be equated with the ability to open a hotel room door without "hassling" with a key? What if you received a text or email from your bank saying: "Your oldest daughter is nearly 28 years old. Shouldn't she be getting married soon? Maybe you should consider one of our HELOCs for that reception." Or, better still, "Is everything okay at home? Over the past two weeks, you've spent $187.50 at the liquor store."

So, are banks "way behind" companies like Netflix and Amazon in offering a personalized experience? I'm not sure that we're comparing apples to apples here. Yes, banks do need to do a better job of anticipating customer needs and engaging them across all channels with "the right message at the right time," but it does make sense that they tread lightly here. Research from Epsilon indicates that a substantial percentage of consumers want and expect personalization:

- 90% of consumers feel that personalization is "very/somewhat" appealing.
- 80% of consumers are more likely to do business with a company that offers personalized experiences.

However, the research indicates this as well: "Despite consumers' growing comfort with (and demand for) personalized interactions, a significant percentage of consumers are still protective of their personal information." Twenty-five percent of consumers see getting personalized offers as "creepy," and 32% say that getting personalized experiences is not worth giving up their privacy. More than one-third (36%) feel that companies don't do enough to protect their private information.

BCG estimates that for every $100 billion in assets that a bank has, it can achieve as much as $300 million in revenue growth by personalizing its customer interactions. Moving forward, the lion's share of that interaction will be digital. Banks will certainly appreciate the $300 million in revenue growth, but they're smart to take a thoughtful approach to try to be the next "Netflix bank." After all, isn't personalization about listening to, understanding, and responding to the wants and needs of customers? Those who are listening are, in my opinion, being justifiably cautious.



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How Community Banks Can Prepare for CECL Changes

By Risk Management Solutions Group

The FASB's new credit loss model is one of the most significant accounting changes in recent history. The time to act is now – here is how you can prepare and comply.

IN JUNE 2016, THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) issued a new expected credit loss accounting standard, which introduced an updated method for estimating allowances for credit losses. The Current Expected Credit Losses methodology (CECL) applies to all banks, savings associations, credit unions and holding companies.

If your institution has not yet adopted CECL, now is the time to refresh yourself on the fundamental changes and — most importantly – to start planning.

What is CECL?

The impairment model introduced by the CECL standard is based on expected losses rather than incurred losses. With that, an entity recognizes its estimate of lifetime expected credit losses as an allowance. CECL also strives to reduce complexity by decreasing the amount of credit loss models available to account for debt instruments.

This change was under discussion for many years before its issuance, with the impacts of the global economic crisis highlighting the shortcomings of the Allowance for Loan and Lease Losses (ALLL) framework. FASB concluded that the ALLL approach delayed recognizing credit losses on loans and resulted in insufficient loan loss allowances.

"There are a lot of decisions that need to be made. By starting as early as you can, you avoid any roadblocks in getting CECL implemented by the deadline."

– Brian Lewis, RMSG Senior Risk Advisor

Differences between the previous and the new standards

Previous	New
Loans/leases (could be other valuation reserves)	All debt instruments carried at amortized cost (not those at fair value like AFS securities)
Does not apply to HTM investments	Applies to HTM investments
Threshold = probable loss	Threshold = expected loss
Reporting period focused (“incurred”)	Reporting period + forecast (“life of the asset”)
Individual assets (specific reserves) + pools at historical loss	Pools of assets with similar risk characteristics + historical loss adjusted for reasonable/ supportable forecast period
Quantitative (data-driven) and qualitative (Q-factors)	Shifts focus to qualitative (adjustments based on reasonable forecasts) + quantitative

How will CECL impact my institution?

Adopting the new standard will influence internal controls and information likely not previously integrated into financial reporting efforts. In other words, the scope of CECL is far-reaching — spanning corporate governance, modeling, credit analysis, technology and others. Additionally, CECL affects all entities holding loans, debt securities, trade receivables and off-balance-sheet credit exposures. In short, it will have significant implications for operations at most financial institutions.
How to proceed toward CECL transition

The time to get started — if you have not already — is now. This is a significant change with extensive effects and potential risks. Careful — and early — planning is critical. Here are nine key steps institutions can take to take to achieve CECL compliance:

1. Identify functional areas (such as lending, credit review, audit, management, and board) that need to participate in the transition project/implementation and ensure those working in these areas are familiar with the new standard
2. Determine your effective date and whether to adopt early
3. Make a project plan and timeline
4. Discuss the plan and progress with all stakeholders as well as your regulator
5. Determine the ACL estimation method/methods that may be used
6. Identify available data and any other data that may be needed
7. Identify potential system changes
8. Evaluate and plan for the potential impact on regulatory capital
9. Have a straightforward, well-understood process

Finally, it’s necessary to take a holistic view to ensure a smooth transition, including:

- Built-in testing for data integrity and method estimation validation
- Update other bank policies and reports so they are consistent with processes
- Consider running parallel with the ALLL to evaluate risks
- Back-test as part of supporting modifications and improvements

What are the implementation timelines?

This standard was effective for many institutions by Dec. 2019, and all others will need to comply by March 2023. These dates are based on the Public Business Entity (PBE) status for institutions. Early adoption was allowed for any institution after Dec. 2018.

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