COLORADO Banker

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OVER A CENTURY: BUILDING BETTER BANKS — HELPING COLORADANS REALIZE DREAMS

How to Market and Grow Your Bank Online:

Five Essential Steps to Go Digital

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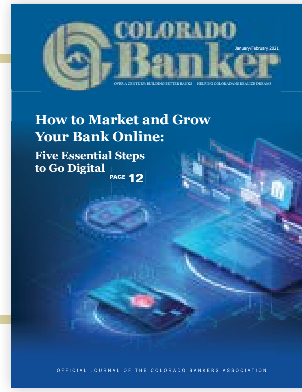

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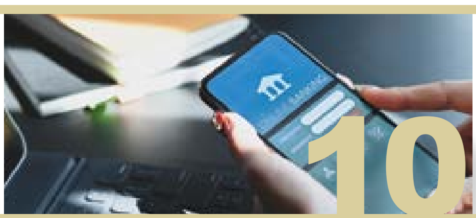


A WORD FROM CBA

A Note From Our CEO as We Step Into 2021

BY DON CHILDEARS, CHIEF EXECUTIVE OFFICER, COLORADO BANKERS ASSOCIATION

Goodbye to 2020! While there were positive achievements, it brought us plenty of headaches. We only hope that 2021 is a better year.

Positive events in 2020 included Colorado banks' phenomenal performance in the PPP program, lending $10.4B to 110,000 Colorado businesses — most of it done in about 10 days in April. You found ways to work through the COVID restrictions to serve your customers well under ever-evolving rules. We all found efficient and workable ways to communicate — like Zoom, although we're sick of it. We successfully advocated for de minimis forgiveness of PPP debt for small borrowers, and we were able to postpone issues like TDR and CECL. CBA's output went up tenfold in March-May, and we had numerous meetings with members of Congress and regulators because that's what banks needed.

Of course, we're delighted with the January 2020 announcement of CBA's succession plan as Jenifer Waller became CBA President Jan. 1, 2020, with me being CEO through 2022 and Jenifer becoming president and CEO on Jan. 1, 2023. We also take great pride in the tremendous energy and focus and the results produced by our hard-working team of Jenifer, Amanda, Lindsay and Brandon. And we very much thank our board and Government Affairs Committee for excellent guidance, and especially Nathan Ewert, Mike Brown, Mark Hall and Joanne Sherwood. CBA is well positioned for the future.

2020 frustrations we hopefully can put behind us include COVID itself, ranging from the March 23 start of social distancing and restricted access to brain-tickling COVID tests. We endured chaos as SBA/Treasury frequently changed rules for PPP. We fear a repeat of that turmoil with the new PPP adopted days ago by Congress. Amid COVID restrictions that closed or limited branches, banks successfully processed voluminous ACH payments and checks for stimulus payments to many Americans, and we're gearing up for a repeat of that challenge later this month. Bankers' meetings and conferences were canceled in huge numbers, and Zoom often replaced those. CBA had used Zoom for years, allowing us to operate smoothly as we transitioned webinars, our annual meeting, conferences, CBA's Washington Visit and our Advocacy program to remote sessions.

The legislature got a Supreme Court decision allowing it to recess until later in the year. That, coupled with social distancing and remote access, made lobbying for you a whole new challenge for CBA, but we prevailed on banking issues. Thankfully, we all survived the ordeal as American politics and civil conduct were put to an extreme stress test. Colorado's liberal use of ballot initiatives brought big challenges this year with paid family medical leave, among others.

Delays and complications hampered progress in CBA's drive for new efficiencies from a multistate cooperative effort for bankers associations by our partner, the Common Sense Institute's analysis of public policy options and in canceled sessions of graduate banking schools.

In 2021, we will adjust as needed to continued COVID complications, as we hope the vaccines work and return us to "normal" whenever and wherever we can. Thank you for all you do for your customers, communities and industry. There are many things for which we are thankful. No matter what happens next, CBA is here to help in every way we can. ■

CHAIRMAN'S MESSAGE

Diversity Helps Banks Meet Community Needs

BY NATHAN EWERT, REGIONAL VICE PRESIDENT OF FNBO (FIRST NATIONAL BANK OF OMAHA) FOR COLORADO AND WESTERN NEBRASKA 2020-2021 CBA CHAIRMAN

As I write this message, we are coming up on a year since the COVID-19 Pandemic began, bringing with it not only a health crisis but a financial one, too. Looking back over the past 12 months, it is hard to wrap one's mind around all that our country has endured.

But we have much to be hopeful about, as well. As Americans have begun rolling up their sleeves for vaccines, bankers have rolled up their sleeves to facilitate support for their communities.

As an industry, we can be proud that we came through with flying colors when our mettle was tested. We have been part of the solution every step of the way, not only proving our worth but demonstrating our unwavering dedication to our customers and our communities. We have further solidified that commitment by responding to the call to affect our industry's demographics' real change.

Last year, CBA launched a Diversity and Inclusion Council, working toward developing new Colorado banks' resources to diversify the state's industrial workforce.

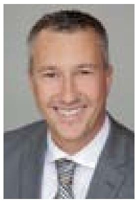
We know that a variety of perspectives can only help our banks meet the needs of the communities they serve — and we know it is important for Colorado institutions to reflect and represent those communities and customers. A CBA education program is in development to expand the council's communication to the greater industry across the state and allow bankers to share ideas, success stories and resources to improve diversity and inclusion-related efforts in banks' hiring and retention practices. I encourage each of you to take advantage of this important opportunity.

The council is led by a fellow CBA board member, Mbiyu Chisholm, a banker with Chase Bank. I believe he captured our industry's intention perfectly when he said, "This (council) is looking to bring about change, beginning with our Colorado community. Diversity and inclusion are done through empathy, education and engagement, and reinforced through tangible actions and consistency of message."

I am gratified by our industry's willingness to embrace change. I am heartened by how personally Colorado bankers take their role in the state's economy and their customers and communities' well-being.

In the words of the late Supreme Court Justice, the Hon. Ruth Bader Ginsburg, "Real change, enduring change, happens one step at a time."

We know there is much work to be done, and it won't happen overnight. But our customers can "take it to the bank" that we are willing, ready and able to do it. ■



Nathan serves as Regional Vice President, responsible for leading teams that work with businesses in eastern Colorado and western Nebraska. His primary role is to fulfill client needs quickly and efficiently. He focuses on building relationships that last. In his experience, this is the best way to understand customer needs and to proactively help them meet their financial and life goals.

FEATURE ARTICLE

BSA/AML Compliance Strategies in a COVID-19 Environment

BY ELIZABETH K. MADLEM, VICE PRESIDENT OF COMPLIANCE OPERATIONS

The formal study of risk management has been around since World War II and involves learning how to identify, assess and manage financial risks for an organization. It has long been associated with market insurance, protections from accidents and use of derivatives. It evolved into contingency planning, analyzing various risk prevention activities and portfolio management. Operational and liquidity risks emerged as a formalized concept in the 1990s as financial institutions intensified their market risk and credit risk management activities. Risk management has become a corporate affair — it is a major player in an institution's management and monitoring policy decisions. The concept of risk began to cover pure risk management, technological risk management models and operational risk. And as the identification of new risks emerged, so did an expanded concept of operational risk.

Fraud risk is a form of operational risk. It is the risk to current or projected financial conditions and resiliency arising from inadequate or failed internal processes or systems, human error or misconduct, or adverse external events. Fraud historically has been known to increase during disaster-related events. The unprecedented COVID-19 pandemic is no exception to this increase. Fraud can be characterized as an international act, a misstatement or omission to deceive others with the sole purpose of a victim suffering a loss or a perpetrator achieving a gain. It can be internal or external, but the key takeaway with fraud is that financial institutions subject to the Bank Secrecy Act are mandated to upkeep an anti-money laundering compliance program and process.

Meeting BSA and AML obligations during a pandemic has proven challenging. It has forced financial institutions to adopt a new "business-as-usual process" that magnified challenges for financial crime management programs within institutions of all asset sizes.

Financial institutions, despite any differences in scale, are all facing work from home shifts, evolving customer behaviors and expectations, along with a rise in pandemic-related fraud patterns. The combination of financial and health risks opens vulnerabilities and creates more opportunities for fraudsters. The Agencies recognize that the current environment is (1) unprecedented and (2) requires flexibilities. Back on March 16 2020, FinCEN released a statement to financial institutions regarding the impact of the COVID-19 pandemic. It encouraged financial institutions to communicate their concerns related to the pandemic and to, above all things, remain alert to any illicit financial activity. It encouraged financial institutions that had concerns over potential delays in filing any required BSA reports (CTRs and SARs) to contact FinCEN and their functional regulator as soon as practicable.

Second, FinCEN outlined the emerging trends connected with COVID-19: impostor scams, investment scams, product scams and insider trading. Financial institutions are reminded to review FinCEN's 2017 advisory FIN-2017-A007 for descriptions of other relevant typologies, which included benefits fraud, charities fraud and cyber-related fraud. Entering "COVID19" in Field 2 of the SAR-template when reporting suspicious transactions linked to COVID-19 was highly encouraged. But key pressure points continued to emerge in the new environment for financial institutions. Not only were financial institutions required to identify fraudulent and potentially suspicious activity outside of normal trends, but they also had to detect disaster-related fraud, increase their protection of elderly customers and report on COVID-19 trends and losses. This is not to say financial institutions have not risen to the challenges.

FinCEN's April 3, 2020 notice encouraged financial institutions to "consider, evaluate, and, where appropriate, responsibly implement innovative approaches to meet their BSA/anti-money laundering compliance obligations." Institutions have considered the health and safety of their employees and customers. They have maintained the financial system's stability, managing and mitigating the risks of money laundering and fraud losses. But what considerations should financial institutions continue to focus on as they navigate BSA/AML compliance?

1. **Contingency Plans** — Financial institutions need to be anticipating best and worse case scenarios. How will the financial institution reestablish its BSA/AML program and obligations once pivoting from remote work and returning to normal? If the pandemic continues, what longer-term necessities and measures need to be taken to maintain or increase its BSA/AML practices?

2. **Customer Due Diligence** — COVID-19 has transitioned much more rapidly than an organic migration to an online presence. Customers are expecting banks to go even more digital via their online channels. This has not been without changed expected activity for both individuals and businesses. Has an institution increased its daily transaction limits to meet increased demands for additional cash? Has cash hoarding strained a bank's CTR filings? Did the organization experience an increase in false positives for fraud due to changing customer behaviors? Financial institutions need to continually evaluate their programs to grab control of the challenges and added workload to its BSA/AML staff.

3. **Risk Assessments** — No longer something for larger or more complex financial organizational structures, the need for risk assessments has increased. Customers have changed the scale of their operations. Programs like the Paycheck Protection Program under the CARES Act have flooded lending and operations divisions within the bank, which inhibits adequate oversight. Risk assessments need to be reassessed on both a customer base and organizational level to re-consider customer relationships' nature and purpose, continue developing customer risk profiles, and reassess bank operational systems and controls. This was reemphasized in the update to the FFIEC BSA/AML Examination Manual released April 15th.

4. **Coordination and Communication** — Identifying logistical challenges is one aspect; effectively communicating them to bank staff is another. Internal communication is essential. Impactful and cohesive running of compliance teams will aid financial institutions in minimizing the challenges of administering an effective BSA/AML compliance program during a pandemic. A risk-based approach with diligent adherence to a bank's BSA obligations will define compliance problem areas and assist financial institutions in mitigating their risks.

5. **Technology** — FinCEN's April guidance encouraged financial institutions to be innovative through the deployment of "novel technologies." While this encouragement has many possibilities, it does create challenges for financial institutions. Banks still must maintain prudent evaluations whenever implementing innovative approaches to current BSA/AML processes. Financial institutions need to maintain robust oversight of their vendor management relationships with third-party providers, especially as it relates to BSA/AML program implementation. Safety and soundness and consumer protection are heavily impacted by technology, increasing a bank (and regulator's) focus on monitoring.

The COVID-19 pandemic has introduced or increased emphasis on a risk-based approach to BSA compliance. It has supported flexibilities as promulgated by FinCEN and other agencies. While regulators have highlighted the difficulties realized or otherwise by financial institutions, little reassurance or solutions have been offered. For this reason, financial institutions need to consider, evaluate, and determine what a risk-based approach means for their institution. Criminals are luring targeted, vulnerable individuals and companies with an even stronger virtual presence. These attempts aim to undermine the bank's due diligence and "know your customer" processes within a remote environment. It is imperative that financial institutions review FinCEN and other Agencies' releases on advisories highlighting common typologies used in fraud, theft and money laundering activities related to the pandemic. The significant increase in online and digital transactions coupled with cyberattacks and related fraud will continue to impact remote platforms and processes. Understanding the new and expanding definition of fraud risk will force financial institutions to remain diligent with BSA/AML controls and procedures related to the pandemic. ■

Elizabeth K. Madlem, Vice President of Compliance Operations.

Elizabeth is the Vice President of Compliance Operations and Deputy General Counsel at Compliance Alliance. In the past, she served as both the Operations Compliance Manager and Enterprise Risk Manager for Washington Federal Bank, a $16 billion dollar organization headquartered in Seattle, Washington.

She has industry expertise and real-world solutions surrounding bank-enterprise initiatives and knowledge of contract law and bank regulatory compliance. An attorney since 2010, Elizabeth was a Summa Cum Laude, Phi Beta Kappa, Delta Epsilon Sigma graduate of Saint Michael's College in Burlington, Vermont, and a Juris Doctor from Valparaiso University School of Law in Indiana.

As the Vice President of Compliance Operations, Elizabeth oversees C/A's day-to-day operations of the Hotline, as well as leading our Education initiatives. Elizabeth plays an important part in all operational areas of Compliance Alliance.

Trying to Market in a Pandemic? See What the Experts Say

BY NEAL REYNOLDS, PRESIDENT, BANKMARKETINGCENTER.COM

What budget is the first to get slashed in an economic downturn? As we all know, it's marketing. As a former ad agency guy, I have lived through many a downturn. We always knew that we were the first to lose our jobs when times started to get tough. And, when times began to improve, we were always the last to return to work. There's an old agency metaphor for spending money in a downturn. We said it was "like shooting at ducks that aren't there." Well, right now, a lot of banks are looking to save their No. 2 Steel for another day.

But perhaps they're not ready to give up entirely on bagging a few. I found Bill Streeter's recent post on The Financial Brand[1] both informative and, well, a bit encouraging, even though the challenge he addresses is that of "pinched budgets plus a tougher competition."

Why do I find it encouraging when we're talking about an industry being in somewhat of an "unenviable position?" Because I think I can help. Bill goes on to say: "New marketing technology can bring efficiency, which helps with budgets, but you can't just snap your fingers to get there. It requires investment in software and talent."

I couldn't agree more.

While a "new marketing technology" deficit is one of them, there are a handful of issues banks face when it comes to marketing in today's economic turmoil. The Financial Brand interviewed Chandramouli Venkatesan, Market Development Executive in Capgemini's Financial Services and Capital Markets, who pointed out some additional issues. "Multiple touch points to execute a campaign, lack of standardization of campaign components and manual handling of data should be solved by a marketing resource management solution," he said. "The problem is that many of these software tools are out of date." He goes on to state that talent is a tougher challenge. "To have an agile marketing team, an institution needs a blend of expertise in digital marketing technology, data, marketing and creative," says Venkatesan. He acknowledges that external help will likely be needed.

And this is where I think we can help. For those of you who aren't familiar with bankmarketingcenter.com, we currently work with 20 state bankers associations and over 300 banks, helping them address the challenges faced by their marketing teams. Our partner banks have access to several thousand professionally designed layouts — created by agency trained, financial services industry professionals — ranging from social media messaging, banner ads and in-branch signage to print and radio advertising. With unlimited access to millions of Getty Images, as well as the ability to customize copy and colors, banks can personalize these marketing materials quickly and easily, saving valuable time and money. When Jim went on to say that "it is becoming increasingly challenging to deploy modern marketing with legacy talent, skills and mindset … and that most financial institutions will be better advised to partner with specialty organizations to provide the needed skills," I said to myself, he is exactly right. And that is what we've been trying to do with bankmarketingcenter.com.

If ever there were a time when you should be making use of every marketing communication tool at your disposal and being as efficient about the process as possible, this is it. As a financial institution, a trusted institution, you must keep your customers abreast of important economic developments, as well as the products and services that you can offer to help them navigate those developments. And you need to use every available tactic to do so: Social posting, advertising, newsletters, email, webinars and direct mail.

While there may be fewer ducks to shoot at, that doesn't mean you stop duck hunting entirely. It means that you have to get better at it. ■

[1] https://thefinancialbrand.com/102640/covid-pandemic-bank-marketing-innovation-digital-channels/

Neal Reynolds, President, BankMarketingCenter.com

About Bank Marketing Center

Here at BankMarketingCenter.com, our goal is to help you with that vital, topical and compelling communication with customers, messaging that will help you build trust, relationships and, with them, your brand — messaging that you can customize to meet your needs in just minutes.

To view our marketing creative, both print and digital, visit bankmarketingcenter.com. Or, you can contact me directly by phone at (678) 528-6688 or email at nreynolds@bankmarketingcenter.com. As always, I would love to hear your thoughts on this subject.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How CFIs Can Remain Relationship-Focused in a Digital World

BY KYLEE WOOTEN, ABRIGO

A relationship-based, community focus in a digital world

Banking technology and digital offerings have long been associated with millennials and Gen Z's preferences, but the coronavirus has quickly reshaped banking behaviors. Since the coronavirus outbreak, almost half of banking customers have reported changing how they interact with their financial institutions, leveraging new channels like online and mobile banking, according to an FIS survey. These findings are true among all generations surveyed. Community financial institutions, which have traditionally leaned into relationship-based banking and in-person interactions, are now trying to solve how to maintain their hallmark community focus in an increasingly digital world.

"We've always wanted customers, over time, to transition to more of our digital or electronic connections because it's just such an affordable delivery channel," said Tom Hershberger, president and CEO at Cross Financial, during a podcast with Abrigo. Without the ability to have face-to-face branch interactions due to the coronavirus, it became imperative for financial institutions to serve customers effectively through digital channels. In today's environment, digitalization isn't just a nice-to-have — it's a necessity.

Balancing digitization and personal service

Community financial institutions must strike the right balance between digitalization and personal service. This is fairly new territory to many institutions, however. In Abrigo's 2020 Business Lending Readiness Survey conducted in late Q4 2019, community financial institutions revealed numerous ineffective, poorly automated areas within their banks or credit unions, including manual data entry, re-keying customer information innumerable times, and using Excel spreadsheets to manage the borrower pipeline.

One reason some community financial institutions may be reluctant to adopt more digitalization is due to the belief that it leads to a more impersonal customer experience. However, as we saw in the Paycheck Protection Program (PPP), digitization allows community financial institutions to automate many lending areas that bog lenders down. It enables a quicker turnaround to get money into the borrowers' hands faster. The PPP exposed many areas where technology excelled over traditional processes, freeing up lenders' time spent on manual processes for more value-added services for clients. Financial institutions that acted quickly to help their community businesses were highly appreciated for their goodwill and swift action during this challenging time.

Community financial institutions' experience with PPP technology also translates to other areas of lending. While it may take a while to return to "normal," financial institutions can use this time to determine ways technology can create efficiencies in their current lending processes and reimagine customer interactions moving forward.

Capitalizing on PPP innovations for a better experience

To reduce the need for face-to-face engagement during the initial PPP application window, some community financial institutions leveraged technology that enabled their bank or credit union to develop a "digital branch." These institutions used customer-facing innovations such as online loan applications, electronic signature capabilities, and remote document upload features to allow borrowers to complete PPP applications online at their convenience. Furthermore, technology on the back end of PPP lending enabled financial institutions to streamline underwriting and decisioning the deluge of borrower applications by eliminating duplicative data entry and automating key processes. The efficiency gains from the PPP technology allowed borrowers to access their much-needed funds more quickly. While this might have been the first time many community banks and credit unions have seen returns on a digitization investment, these same automation and efficiency gains can be found in other end-to-end lending solutions.

Many financial institutions recognize the important role technology plays in weathering the current crisis and driving future growth. For example, in June, Celent's Corporate Banking Digital Channels Survey found that 41% of corporate banking executives are increasing investments in digital channel solutions, and 29% are accelerating projects. Technology is vital for an expanding institution, said Andrew Reid, executive vice president and chief credit officer of The Bank of San Antonio, to Abrigo in a recent white paper.

> One reason some community financial institutions may be reluctant to adopt more digitalization is due to the belief that it leads to a more impersonal customer experience.

"If you want to grow, you'd better have it," Reid said. "Banking's pretty black and white; it's about loans and deposits, and if you're making loans and deposits, you're growing, and if you're not, you're not growing. And so what distinguishes banks today is service and technology. We built this bank around service with technology and being able to deliver, and technology-wise we can compete with anybody."

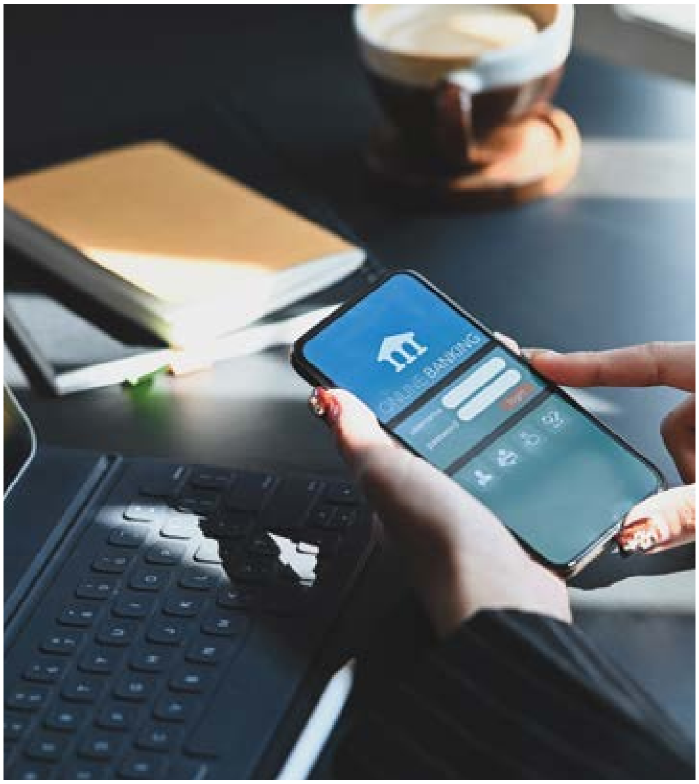
By having the digital capabilities to serve customers, financial institutions can be better positioned to accommodate the cases in which customers need to visit a branch while continuing to speedily process online applications. Going forward, financial institutions will have to make a conscious effort to deliver high-level service with remote delivery. True relationship banking relies on institutions providing what customers want and need, whether online or in person.

For more information on the ways that financial institutions can build relationships and drive growth during these uncertain economic times, read Abrigo's latest white paper, "Beyond PPP: How Savvy Financial Institutions Can Propel Growth and Profitability with Technology." ■

FEATURE ARTICLE

Developing a Digital Banking Strategy to Serve Customers and Mitigate Risk

BY STEVE KENT, SENIOR DIRECTOR, DIGITAL STRATEGY, CSI



Over the last several years, our world has been leaning further into the digital realm, largely thanks to a younger, more tech-dependent generation. To stay competitive, community banks must digitize and develop strategies for digital-first customers.

Though many institutions re-directed customers to online, mobile and call center channels in response to COVID-19, that tactical pivot — though important — is not a digital banking strategy. Smaller institutions have various reasons for not fully digitizing, including fear of compliance or operational risk repercussions. Not long ago, those excuses seemed valid. Today, however, they embody community banks' greatest risk.

Customers Embrace Digital Banking

Online and mobile banking use has grown over the last few years, and the pandemic is accelerating its adoption even more. Consumers and businesses previously hesitant to rely on digital channels are now enjoying the convenience, speed and safety they afford.

With consumers fully on board and larger banks already operating in a digital-first mode, community banks have no choice but to adapt or risk being left behind. Here are the three big-picture essentials for a truly digital banking strategy:

1. Top-down digital mindset: Digital transformation starts with the institution's leadership embracing the idea of enterprise-wide digitization and investing in the human and technical resources needed to serve customers through digital means.

2. CX focus: Digital strategies must work to continuously improve the bank customer experience (CX). A bank's competitive advantage lies in a frictionless, personalized and secure experience no matter the transaction processed. This requires rethinking all internal processes with the customer perspective as the focal point.

3. Self-service and consultation: The final piece of the puzzle is transitioning digital channels from self-service only transactions to more offerings featuring a consultative layer. Community banks need a digital strategy that provides contextualized consultation around savings, investment and insurance products and services.

Risk Management in Digital Banking

Even though customers demand digital transformation, making it a reality comes with inherent challenges and risks. The most pressing digital banking risk management issues break down into two categories and should be addressed so that your institution can move forward.

Organizational Challenges:

- Outdated corporate culture: Entrenched processes and perspectives can hold back your digital transformation. Promoting a more forward-thinking culture must be a top-down change.

- Unwillingness to change: KPMG notes that "Current executives and professionals will either become fast believers or they will hold back your progress." The imperative is to identify the former category and empower them to lead your digital transformation.

- Lack of innovative thought leadership: It will take real out-of-the-box thinking to digitally compete with the big banks. If that kind of modern thinking doesn't already exist within your institution, invite it in.
- Misguided beliefs: Squash any notions that a mobile banking app is the only component of a digital strategy or that digital-first means that personalization is no longer needed. Back-end operations and internal processes must fully support a digital environment that effectively identifies and fulfills individual customer needs based on their actions and behaviors.

Regulatory Risks:

- Digital compliance and cybersecurity: Banks operating in a digital environment must still comply with all applicable laws and regulations. This includes paying particular attention to uniquely digital processes covered under specific rules, such as electronically signing documents per the E-Sign Act. However, institutions can mitigate overall risk by investing in technology designed to help banks comply with the regulatory framework and strengthen cybersecurity.
- Third-party risk management: Out of necessity, many banks outsource all or part of their digital strategy to third-party vendors. Since institutions are still ultimately responsible for all functions, a robust vendor management program is key to ensuring that no unqualified third-party provider is hired. A provider must understand the applicable regulatory requirements, be able to adhere to them and guarantee compliance.
- Fraud and identity theft: Community banks can meet the challenges of fraud and identity theft by reviewing and strengthening their Bank Secrecy Act/anti-money laundering (BSA/AML), Know Your Customer (KYC), customer due diligence and other relevant compliance programs. Fortunately, digitizing internal processes yields more data and the ability to use AI to help monitor customer behaviors and more quickly flag potential fraud.

There is no doubt that digitization can increase certain risks for the community banks that transform, and the answer to this dilemma is enhanced digital banking risk management. ■

Steve Kent is Senior Director, Digital Strategy, at CSI.

FEATURE ARTICLE

How to Market and Grow Your Bank Online:
Five Essential Steps to Go Digital

BY ALANA LEVINE, FINTEL CONNECT

The past several months have proven to create a lasting change in our banking ecosystem. This new normal's immense pressure has forced financial institutions to adapt quickly to changing ecosystems, evolving customer needs and shifting regulatory frameworks. Fortunately, the demand for rapid change also presents an exciting opportunity for bank marketers to leverage digital power to drive their bank growth forward.

For banks, digital marketing is no longer a nice-to-have — it's a must. Instead of traditional face-to-face contact, banks are feeling the urgency to create more customer-friendly digital experiences. This is on top of the ever-present competitive influences and increasing costs of doing business.

As a bank marketer with limited budgets and resources, how can you set yourself and your bank up for success? Before you spend on digital marketing channels, there are five key areas that we suggest tackling first. Once you've addressed these, your bank will be well on its way to seeing digital success.

One: Having a Strong Digital Foundation is Key

Just like you would invest in a practical layout for your branch, the same goes for your digital real estate — first and foremost, your website. It is important to apply the same care and quality to planning and creating the digital environment of your web and mobile banking experience.

When you do, there are two important advantages for banks. Firstly, an easily accessible website with an intuitive layout and contemporary design creates confidence and credibility with your customers. More and more financial institutions prioritize this: 81% of financial services companies say that digital customer [experience] optimization will be central to their marketing efforts this year, according to a PwC survey.

Secondly and arguably more importantly, a clean and friendly user journey increases the chances of a website visitor ultimately becoming a customer. Millennials are twice as likely to open an account based on experiential factors, which means investing in user experience is a must if you want to reach younger customers (PwC).

If creating forms within your ecosystem is an undertaking, try making small changes that can often have a big impact on your customers' experience:

- Create clear navigation at the top of the page for easy access to the most frequented pages (hint: check out your Google Analytics to see which pages these are).
- Have clear calls to action with bright colors that attract the visitors' eyes to take the desired action.
- Add content that provides value to your audience — helpful tips on personal finance can go a long way to building rapport.

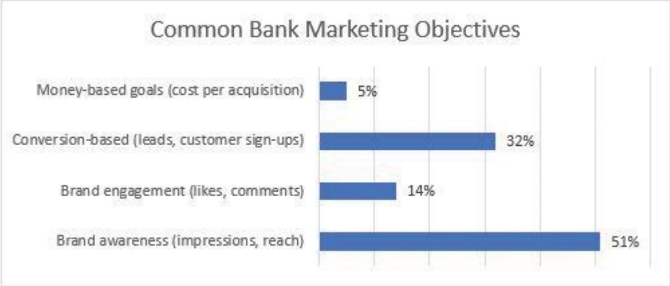
Two: Goal Setting

More often than not, tangible goal setting is an area that falls secondary in the marketing planning process. To quantitively measure your strategies' impact, a basic tenet is to set SMART goals (specific, measurable, attainable, relevant and time-based).

Whatever marketing dollars you allocate to specific channels and tactics, ensure that spending them moves the needle and makes a net-positive impact for your bank. Your goals can tie directly back to your bank's overall business objectives to achieve this. For example, if the bank is focused on growing its deposit base, ensure marketing initiatives directly support this goal — and can be easily measured (hint — this is step 3!)

You can focus on not just traffic (visibility) goals and conversion-based goals but also value-based goals as well. This means knowing where the most customers are coming from and where the most valuable customers are coming from.

Survey: We asked banker attendees of a past webinar what their typical objectives are for their bank's marketing activities. Here are the results:



Three: Make Sure You Measure

A major advantage of digital marketing is the ability to measure what's working (and what's not). Before you begin implementing strategies, make sure your tracking and measurement fundamentals are in place. This will provide you with a clear picture of where your budget is working for you and how it contributes to your results-based goals.

Many bank teams are already investing in implementing Google Analytics to track traffic on-site. It gives teams an understanding of where customers are coming from and their behavior when they enter your ecosystem. When investing in acquisition-type tactics, you'll also want to be able to see which channels are driving the most completed sign-ups, funded loans and even deposit volumes, as this can tell you where to shift your focus (and budgets) over time. While it may seem like an impossible task depending on your current infrastructure or back-end technology providers, it is not as much heavy-lifting as you think. And we promise it's an investment worth making when you look to invest your budget in these channels!

Four: Find the Channels that Work for Your Bank

When allocating funds to your digital marketing budget, several factors may influence your choices of channels and tactics to select. Having clear, results-based goals is the start. What are you aiming to achieve with your efforts? For example, is it net new mortgage customers or growth in customer deposits? Next, consider your audience — define who you are looking to target and their needs. The approach for first-time homebuyers versus retirees, for instance, maybe be dramatically different.

From there, select the channels and messaging that align with your goals. Digital marketing has an expansive breadth of channels that serve various stages of the customer lifecycle. For example, search engine optimization tactics (SEO) can get your bank's content in front of high-intent customers looking for a specific product or service. The downside is in the level of resources required to do it well.

One channel that is often overlooked is performance marketing, also known as affiliate marketing. This type of marketing, involves partnering with influencers and websites in personal finance who will promote your bank via articles, reviews and even podcasts — and the best part is, it is on a results basis (cost per acquisition). Tracking is a must for this type of marketing, as compensation for customer referrals happens once a customer becomes a customer.

Five: Take it Step by Step

Like anything, there's no need to plunge headfirst when it comes to digital marketing — take it one step at a time. Consider how much of your budget is currently allocated to digital marketing and where there is an opportunity to reallocate funds to new tactics.

The majority of the banks that we've connected with are only just starting to look at investing in digital. In fact, 80% of them spend less than 20% of their overall budgets on digital tactics. In comparison to other industries making the shift to digital, these banks are trailing behind.

The key is not making a major shift but instead starting small. Focus your efforts on high-priority channels first, then monitor and optimize your efforts continuously. By testing and learning, your strategy will become more refined, and you can identify and focus your efforts on areas that are the most impactful on your bank.

Concluding Remarks

Digital is no longer an option for banks — it is a way to level the playing field, and those that do it smartly will be poised to get ahead of the competition. The five principles above are by no means the only considerations to be made; however, they are helpful pillars to help orient you and your team as you look to shift to more strategic digital tactics.

Remember that what works for one bank may not work for yours, so make sure to give your team space to test and learn. Lastly — don't forget to have fun! It is an exciting time for many banks to get ahead, and while it can seem like a challenging undertaking, the opportunities in digital are endless. Happy marketing! ■

AML/BSA Reform Is on the Horizon

BY STEVE MANDERSCHEID, COMPLIANCE OFFICER, COMPLIANCE ALLIANCE

When Congress pushed through the National Defense Authorization Act for the fiscal year 2021, the banking industry was relieved and hopeful for the potential elimination of excessive regulatory burdens under the Bank Secrecy Act.

The reason for hope is the section within the legislation dedicated solely to improvements to anti-money laundering rules, including to:

- Improve coordination and information sharing among the agencies tasked with administering requirements for anti-money laundering and countering the financing of terrorism, the agencies that examine financial institutions for compliance with those requirements, Federal law enforcement agencies, national security agencies, the intelligence community and financial institutions;
- Modernize anti-money laundering and countering the financing of terrorism laws to adapt the government and private sector response to new and emerging threats;
- Encourage technological innovation and the adoption of new technology by financial institutions to more effectively counter money laundering and the financing of terrorism;
- Reinforce that the policies, procedures, and controls of financial institutions for anti-money laundering and countering the financing of terrorism shall be risk-based;
- Establish uniform beneficial ownership information reporting requirements to:
    - Improve transparency for national security, intelligence, and law enforcement agencies and financial institutions concerning corporate structures and insight into the flow of illicit funds through those structures;
    - Discourage the use of shell corporations as a tool to disguise and move illicit funds;
    - Assist national security, intelligence, and law enforcement agencies with the pursuit of crimes; and
    - Protect the national security of the United States; and
- Establish a secure, nonpublic database at FinCEN for beneficial ownership information.

The main purpose of this immense undertaking will continue to focus on safeguarding the United States financial system and those financial institutions that make up that system from the abuse of money laundering, terrorist financing and other illicit financial crimes.

Today, banks must develop and implement an effective risk-based AML program consistent with rules that transcend roughly 50 years of banking. Over that time, many things have changed, especially the recent digital innovations relating to how consumers interact and conduct their banking and transactions. Unfortunately, the same cannot be said for the regulatory burden to file reports under archaic and arbitrary thresholds.

Under the current BSA Currency Transaction Reports (CTRs) requirements (not considering exemptions, as they are a burden unto themselves), financial institutions must report currency transactions over $10,000 conducted by, or on behalf of, one person, as well as multiple currency transactions that aggregate to be over $10,000 in a single day.

In addition to filing CTRs, the industry must report suspicious activity under the following thresholds:

- Criminal violations involving insider abuse in any amount.
- Criminal violations aggregating $5,000 or more when a suspect can be identified.
- Criminal violations aggregating $25,000 or more regardless of a potential suspect. This includes transactions conducted or attempted by, at or through the bank (or an affiliate) and aggregating $5,000 or more, if the bank or affiliate knows, suspects, or has reason to suspect that the transaction involves money laundering

or other illegal activity, evades the BSA or has no business or apparent lawful purpose.

Under the current legislation, the Treasury Department is to undergo a formal review of these current arbitrary thresholds established for filing CTRs and Suspicious Activity Reports (SARs), including:

- Review of Thresholds for Certain Currency Transaction Reports and Suspicious Activity Reports. The secretary, in consultation with the attorney general, the Director of National Intelligence, the Secretary of Homeland Security, the Federal functional regulators, state bank supervisors, state credit union supervisors and other relevant stakeholders, shall review and determine whether the dollar thresholds, including aggregate thresholds, under sections 5313, 5318(g), and 5331 of title 31, United States Code, including regulations issued under those sections, should be adjusted.
- Considerations. In making the determinations required under subsection (a), the secretary, in consultation with the attorney general, the Director of National Intelligence, the Secretary of Homeland Security, the Federal functional regulators, state bank supervisors, state credit union supervisors and other relevant stakeholders, shall:
  - Rely substantially on information obtained through the BSA Data Value Analysis Project conducted by FinCEN and on information obtained through the Currency Transaction Report analyses conducted by the Comptroller General of the United States; and
  - Consider:
    - The effects that adjusting the thresholds would have on law enforcement, intelligence, national security and homeland security agencies;
    - The costs likely to be incurred or saved by financial institutions from any adjustment to the thresholds;
    - Whether adjusting the thresholds would better conform the United States with international norms and standards to counter money laundering and the financing of terrorism;
    - Whether currency transaction report thresholds should be tied to inflation, or otherwise, be adjusted based on other factors consistent with the purposes of the Bank Secrecy Act;
    - Any other matter that the Secretary determines is appropriate.
- Report and Rulemakings. Not later than one year after the date of enactment of this act, the secretary, in consultation with the attorney general, the Director of National Intelligence, the Secretary of Homeland Security, the Federal functional regulators, state bank supervisors, state credit union supervisors and other relevant stakeholders, shall:
  - Publish a report of the findings from the review required under subsection (a); and
  - Propose rulemakings, as appropriate, to implement the findings and determinations described in paragraph (1).
- Updates. Not less frequently than once every five years during the 10-year period beginning on the date of enactment of this act, the secretary shall:
  - Evaluate findings and rulemakings described in subsection (c); and
  - Transmit a written summary of the evaluation to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate; and
  - Propose rulemakings, as appropriate, in response to the evaluation required under paragraph (1).

Today, banks must develop and implement an effective risk-based AML program consistent with rules that transcend roughly 50 years of banking.

How will all this play out? Well, we'll have to wait and see. Hopefully, an increase in the reporting thresholds will bring some semblance of tangible benefits to financial institutions being burdened under the current BSA regulatory reporting structure. ■

Steve Manderscheid, Compliance Officer, Compliance Alliance

Steve Manderscheid brings over 25 years of financial industry experience to the Compliance Alliance team. Previously, he focused on all aspects of regulatory compliance risk management while also serving in the capacity of a Bank Secrecy Act officer. In recent years, he has ventured into leadership roles in enterprise-wide risk management (ERM), complaint management, and vendor and third-party relationships.

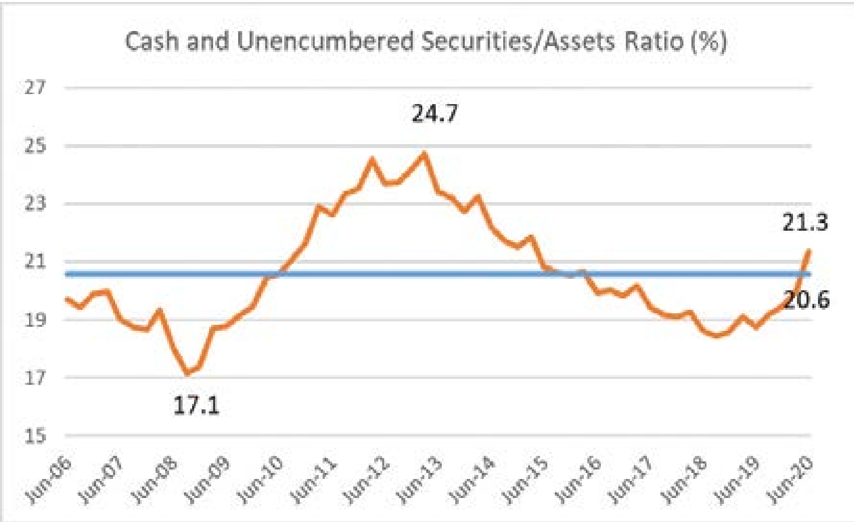
In his role as compliance officer, Steve brings all of his experience to completing reviews and working on developing tools, training materials, and training events for our members. Recently, he's started expanding his educational role and has become the main presenter of our popular C/A Minute videos.

Tactics for Navigating Tectonic Shifts in Liquidity

BY SCOTT HILDENBRAND, MANAGING DIRECTOR | HEAD OF BALANCE SHEET ANALYSIS AND STRATEGY, HEAD OF PIPER SANDLER HEDGING SERVICES

This year has presented bank management teams with a multitude of issues to juggle, many of which seemingly pull in opposing directions and most of which were not firmly on the radar to start the year. Such is life in 2020. Some banks' primary concerns stem from the fact that the industry has seen a shift in liquidity. Balance sheets are awash with deposits relative to recent periods, while securities holdings have come down relative to assets. The build-in balance sheet liquidity has come in the form of cash, with an unusually high 7.6% of assets held in cash and equivalents as of June 30.

This drastic change in the liquidity picture is best encapsulated by the Cash and Unencumbered Securities-to-Assets Ratio's significant uptick. The ratio has surpassed the average over the past 14 years of 20.6%, steadily climbing toward the high of 24.7% last seen in 1Q13.



Source: S&P Financial, Banks and thrifts with assets between $250 million and $25 billion

While every institution is unique, many banks have responded to the shift in liquidity by asking two questions: how does this affect the asset side, and what are the options on the liability side? On the asset side, management teams wonder what to do with excess cash in a world where most bond yields are disappointingly low. Even though liquidity profiles appear strong and are trending stronger, economic uncertainty creates unpredictability in depositor behavior.

As such, some institutions feel more comfortable with investments that maintain maximum flexibility in the future — sale-ability and pledge-ability — with lower yield as a trade-off. Other institutions have looked to extend their investment portfolios further out on the curve to increase yield while mitigating tail risk by match funding with 5+ year structures at historically low rates. For instance, banks have worked with some firms to utilize their inexpensive, longer-dated funding mechanisms at attractive rates.

Many corners of the banking industry are concerned that low rates, slower loan origination, and excess liquidity trends are here to stay for the foreseeable future and have begun searching for loan surrogates. Allowing these banks to extend their liability portfolio's duration at a scalable level opens the door to more asset purchase strategies. We have seen two specific asset strategies gain momentum: exploring community and regional bank subordinated debt as an investment option and analyzing how to invest in municipals without ruining their interest rate plan. As an alternative to extending the liability portfolio, some institutions have swapped fixed rate municipals to floating, thus obtaining an attractive yield with reduced duration risk and protecting Tangible Common Equity. Exploring risk/reward profiles of earning assets is nothing new to balance sheet managers, but the environment has certainly evolved since the start of 2020.

Managing excess liquidity while planning for interest rate risk management has also become slightly more complicated on the liability side. How does a bank choose from the various funding options and hedging strategies available? The decision-making process must consider balance sheet composition (i.e., the availability of liabilities to hedge), impact to earnings and capital (in addition to liquidity) from the strategy and practical applications, such as hedge accounting.

It's generally recommended for accounting simplicity and hedging flexibility to first evaluate liability hedges

Many corners of the banking industry are concerned that low rates, slower loan origination, and excess liquidity trends are here to stay for the foreseeable future and have begun searching for loan surrogates.

when attempting a shift in interest rate risk profile. Many institutions took advantage of both spot-starting and forward-starting cash flow hedges over the past year. Forward-starting swaps on forecasted borrowings allow the bank to purchase longer duration assets today and know they will maintain the future's attractive spread. For example, offerings like IntraFi Network's (formerly Promontory Interfinancial Network) IntraFi Network Deposits give banks the ability to launch these funding contracts six months to one year in the future, while locking in their rate now to hedge against any increase in funding costs before the launch date. This allows the bank maximum flexibility in planning its liquidity now and well into the future.

But what about banks flush with liquidity with no future funding needs anticipated? Part of the answer arose from a surprising place: dealing with yet another source of stress — the LIBOR transition. The FASB released ASC 848 Reference Rate Reform in March 2020 to address potential concerns about the impact of the upcoming LIBOR transition on hedge accounting. Although LIBOR fallback is expected at year-end 2021, guidance is applied immediately to help users explore potential alternative contracts and rates. It allows banks to be proactive in dealing with LIBOR cessation and identify a new hedged exposure. The bank can then modify the hedge to match the new (non-LIBOR) exposure, adjusting the fixed-rate or adding a floating rate spread to keep the transaction NPV-neutral. Finally, the bank can amend their hedging memo to reflect the new exposure, and the hedge relationship continues without de-designation.

A positive balance sheet strategy development comes from this guidance — by allowing banks to consider a change to a non-LIBOR hedged item, essentially providing added flexibility to banks that have implemented strategies using wholesale funding paired with swaps, a strategy that many banks smartly continue to explore. The guidance allows those banks to consider replacing the existing funding with other sources for cheaper and more customizable wholesale borrowings or even deposit products without impacting hedge accounting. These products allow a bank to replicate the previous funding instruments' details, but at a considerably discounted cost. Banks can leverage the new accounting guidance to change the hedged exposure from wholesale funding to deposits without a re-designation event, allowing the bank to pay down wholesale borrowings. For banks that now have many more deposits than when they first implemented the strategy, reducing their current need for wholesale funding, this is a welcome change in funding source that maintains the interest rate protection they continue to need.

This rule can be applied in a variety of different ways. Banks can make changes to the interest rate index, the spread to that index, the reset period, pay frequency, business day conventions, payment and reset dates, the strike price of an existing option, the repricing calculation, and may even add an interest rate cap or floor that is out-of-the-money on a spot basis. On the other hand, some aspects of the hedge are unrelated to the reference rate reform: an institution cannot effect a change to the notional amount, maturity date, change from an interest rate to a stated fixed rate, or add a variable unrelated to LIBOR.

Ultimately, none of these options singlehandedly solve the problem of too much liquidity with too few safe places to deploy them while earning an attractive yield and protecting against the eventuality of rising rates. Like life in 2020, the key is to deploy various creative tactics to weather the storm and emerge a stronger institution. ■

CECL Can Convert Purchase Credit Impaired and Impaired Loans

BY MICHAEL UMSCHEID, PRESIDENT AND CEO, ARCSYS™

Since CECL was issued by FASB, most of the attention has been paid to data needs, modeling and forecasting in adopting CECL. However, for many institutions, the conversion of Purchased Credit Impaired (PCI) to Purchase Credit Deteriorated (PCD) and adjusting Impaired Loans to one of three CECL methods is equally important. The conversion to CECL requires the following significant steps once the historical dataset has been loaded, reconciled and validated.

- Perform risk assessment and documentation for segment/class structure.
- Structure pool loans to determine loss rates, prepayment rates, probability of default, loss given default and other historical pool statistics.
- Determine loan commitments that need to have CECL allowances applied by segment/class structure.
- Either statistically or by another method, determine which external market factors such as unemployment rate correlate with pool statistics for forecasting purposes.
- Develop models based on historical data.
- Convert PCI loans to PCD loans.
- Convert impaired loans to an acceptable CECL method.

Acceptable CECL Calculation Processes

Loans under CECL are evaluated for expected credit loss using one of the three following methods:

1. Determine Expected Credit Loss (ECL) using homogeneous risk pools, adjusted historical loss, forecasted prepayments and forecasted risk factors. These would include models such as discounted cash flow, probability-of-default, historical loan reversion and WARM models.
2. Determine individual loan ECL calculations using individual borrower statistics and forecasted prepayment and loss analysis. Note that attaining individual borrower statistics for each loan requires significant additional effort. In order to use this method, the loan must not meet the risk characteristics of the institution's established risk pools. Generally, these loans would be evaluated based on the borrower's cash flows with documented loss and prepayment statistics applied. Using collateral value would not be an acceptable method for these loans.
3. Perform a collateral dependent individual loan analysis which is similar to the collateral value impaired loan calculation used today. Collateral values should be adjusted for changes in economic environmental changes. Collateral dependent calculations will require significant effort and analysis.

Since the primary goal of CECL is to evaluate, calculate and forecast expected losses by homogeneous risk pools, the use of collateral dependent and individual loan forecasts, are significant decisions that will require additional effort and analysis initially and on a going-forward basis.

Converting Impaired Loans including TDRs

The concepts in the standard today governing impaired loans (provided under paragraph 310-10-35) were removed under the new CECL, standard. The former guidance provided stated that TDRs are, by definition, impaired loans. However, under CECL a TDR should be handled like any other originated loan. Therefore, not only do impaired loans have to be converted to an applicable CECL method, but institutions must also change processes and policies for how CECL will be evaluated and applied in future periods.

Many assume that at adoption, all impaired loans will convert to collateral dependent status. However, some impaired loans and many TDRs that are performing would not qualify as a collateral dependent because the borrower is no longer experiencing financial difficulties. Therefore, at adoption, not all impaired loans may be converted to collateral dependent loans or evaluated individually. For a loan to qualify as a collateral dependent under CECL, the evaluation requires the following:

- Impaired loans without collateral would not qualify for collateral dependent treatment. However, they could be evaluated and forecasted individually if the loan does not share similar risk characteristics with any established risk pools. The effort to individually assess and forecast cash flows on an individual loan basis without related pool statistics will require significant effort. Therefore, all impaired loans without collateral would generally be included in the CECL allowance calculations' pool level.
- For collateral secured impaired loans where foreclosure is probable, the loan is by definition a collateral dependent loan. Foreclosure indicates that the borrower is experiencing financial difficulties and that the collateral's sale is imminent or expected. Therefore, the current fair value is the best measure of credit risk and possible loss. Impaired loans in foreclosure or probable foreclosure would use the fair value of collateral as the basis of the initial CECL allowance.
- For impaired loans with collateral that are not in foreclosure to be classified as a collateral dependent

under the CECL standard, the borrower must be experiencing financial difficulties. Therefore, for each impaired loan with collateral, you must determine that the borrower is experiencing financial difficulties currently and on an ongoing basis to continue to classify the loan as a collateral dependent. Determining what borrower statistics qualify to determine that the borrower is "experiencing financial difficulties" is important to this conclusion. Could past due status be an indicator of financial difficulties? Yes, but what happens when the borrower becomes current again? Moving a loan in and out of collateral dependent status may be cumbersome based on past due status alone. Institutions need to develop policies that define when a loan meets the standard's requirements. Since this part of the standard is a practical expedient, not required, we recommend using collateral dependent only when pool modeling is significantly underestimating the expected loss.

- As a secondary requirement of the practical expedient, if the borrower is "experiencing financial difficulties," the loan's repayment must be substantially provided through the collateral's operation or sale to apply the collateral dependent method to a collateralized loan. FASB does not define "substantially." However, the dictionary defines substantially as "considerable in quantity." Each institution will have to consider how they evaluate this subjective definition. FASB also does not define "through the operation of." In general, this indicates that the asset's revenue would cover the repayment of the loan.

- A loan that does not fit into a risk pool can be evaluated individually as a final option. To be clear, you CAN NOT use the fair value of collateral to indicate the estimated loss. Individually evaluating a loan would require an analysis of the borrower's ability to meet the cash flow needs of the loan and forecast borrower specific risks into the future economic environments, just like pool loans. The author believes this method takes significantly more effort than other methods. During FASB deliberations, a bank CEO in a meeting with FASB commented that all 1,500 of his commercial loans were different and did not fit into a pool structure. FASB staff commented that they could perform 1,500 individual loan forecasts with varying risk profiles if that were the case. That is not a functional or practical option!

The author believes the concept of "substantially" here is critical because if the loan is not repaid substantially through the collateral sale or operation, it would not fit the definition. It is not unusual for loans to stay on nonaccrual for periods longer than 90 days in the community bank environment. Leaving a loan in collateral dependent status for a long time is in stark contrast to the concept behind collateral dependent loans within the CECL standard. Why? Because the calculation is based on current collateral value, and collateral value can change significantly over time. Also, the longer you hold a loan in this status, it calls into question whether the borrower is having financial difficulties and why the institution has not taken action to sell the asset.

Converting Purchase Credit Impaired Loans (PCI)

In general, current impaired loans are classified as such because the borrower is having financial difficulties as of the current period. However, PCI loans are classified when purchased and, in many cases, if the loan survives for a period of time on the institution's ledger, without charge off or re-underwriting, the presumption of "having financial difficulty" may not apply when the loan is converted to PCD under CECL.

Under current purchase accounting guidance, loans impaired on the purchased institution ledger generally become PCI loans under the acquirers' purchase accounting entries. At purchase, these loans typically have a credit mark and a premium or discount mark applied in determining fair value at purchase. Since all PCI loans need to be converted to PCD upon conversion to CECL, each PCI loan allowance will need to be recalculated based on a CECL method and applied to each loan in converting to a PCD loan. The allowance at conversion would be calculated in one of three ways.

1. If the borrower is "not experiencing financial difficulties," then the allowance could be calculated either as (i) part of the risk pool the loan belongs to or (ii) individually if the loan does not fit into a risk pool. Either method requires historical analysis and forecasting cash flows into the future.

2. If the loan is in foreclosure or probable foreclosure, the initial allowance would have to be calculated using the collateral's fair value.

3. If the borrower is "experiencing financial difficulties," then the allowance could be calculated based on the fair value of collateral less related expenses.

In adjusting the PCI accounting-related values to PCD related accounting values, the net effect will be zero and, therefore, will not be part of the CECL capital adjustment. A decrease or increase in the PCI credit mark to a CECL allowance would correspond to an equivalent adjustment to the discount or premium on the respective loan.

Because these conversions only happen at adoption, we recommend that the current impaired loans and PCI loans be reviewed, but do not make the conversions until the adoption date. For most institutions, the effect of the conversion would not be material. However, if the institution has significant PCI loans with significant credit marks, the institution needs to analyze the borrowers to determine if they qualify as collateral dependent. Many of our larger institutions that have significant PCI pools have found that the conversion of the remaining credit marks to a CECL allowance have been material and, in many cases, have resulted in a reduction of the amount allocated to credit risk.

As your institution moves toward CECL adoption, there are many facets of the new CECL standard that will require significant effort and planning. Understanding how your institution will operationalize the adoption and adjusting your policies and procedures will require an understanding of all of the CECL requirements to be successful. ■

What Did We Learn From 2020 and How Will It Help in 2021?

BY JOE WOODS, DOLPHIN DEBIT ACCESS

If asked one year ago, what would you have said would be the biggest disruption your bank would have to deal with in the coming year? Many of us would have answered with a similar list of potential challenges: Bitcoin, fintech, etc. Not one of us would have come up with a global pandemic. But here we are, 11 months into a pandemic that has changed so much of what we know and what we took for granted.

Some of us have lost loved ones, co-workers or both. We've seen small businesses decimated. School functions, including graduation ceremonies and proms, have been canceled. Even retail has had to adapt in many different ways. Initially, we saw a lot of reaction as a result of the pandemic. And then we started to see how well we could adapt to it.

So, what's changed in our space? We've added two new acronyms (PPE and PPP) to the ever-growing list of abbreviations that we so commonly throw around. How many of you ever thought you'd be telling people to put on a mask before coming into the branch? And many of us had to put our business continuity plans to the test for the first time. It was an amazing learning experience to enact continuity plans that were drafted years ago in hopes of never needing them.

It was very interesting to see how each institution dealt with the issues as the virus spread. Many of us shut down branches or limited our branch hours. Some reduced the number of working staff at branches and sent non-customer facing staff home to work remotely. There were two other shifts caused by the pandemic in 2020 that will continue to evolve this year and beyond: The focus on cost reduction and outsourcing non-core competency operations.

Sure, we've all worked to reduce costs before, but not at this level of priority. You can see it in some of the reports and on the balance sheet. And outsourcing made advancements as well. Most banks already outsource their core system hosting and card processing and other key areas of bank operation. ATM operation is another area banks need to focus on next.

Why ATMs?

Just like mobile, ATMs are a critical lifeline for cardholder access. And they're even more important when we are shrinking branch hours or restricting access. ATMs have grown in complexity as well as costs over the last decade. Technology advancements in automated deposit and video teller services have significantly impacted ATM expenses. Outsourcing ATM operations can kill two birds with one stone: Outsource a non-core competency and continue to reduce operational costs.

If your bank manages your ATMs in-house, you're contracting with four to six different vendors and involving multiple internal departments to keep the ATMs in working order. And it is not the core competency of anyone in the bank to keep the ATMs operational. Do you outsource your coffee service at your office? Chances are you do. And it's much easier to make a cup of coffee than to operate an ATM. Reducing costs and creating operational efficiency will keep banks nimble, faster to adapt, and react in times of crises. If we learned anything from this past year, adapting and reacting can set us apart. ■

COVID-19 Turns One: Lessons Learned From a Global Health Crisis

BY ROB NICHOLS, PRESIDENT AND CEO, AMERICAN BANKERS ASSOCIATION

As impossible as it is to believe, we have been living in a global pandemic for an entire year. What began as a headline from a distant corner of the world quickly became a worldwide health crisis that continues to wreak havoc on our way of life and has, unfortunately, claimed the lives of too many of our fellow citizens.

As I reflect on the last 12 months and the incredible changes that occurred virtually overnight to keep our society moving in the face of perilous uncertainty, I am filled with a deep sense of pride in how the banking industry stepped up to help make that happen. It speaks to the "can-do" spirit of America's 2 million bank employees that as the world was shutting down and daily routines were being upended, bankers embraced their role as economic first responders and got to work extending aid that helped keep individuals and businesses afloat.

With vaccines now being rolled out to certain groups, we are anxiously awaiting the day when we can finally return to some semblance of a normal life. But achieving herd immunity from the virus will take time, and as we prepare to mark one full year of quarantines, social distancing and face coverings, I'd like to offer a few observations.

Our financial system is resilient. After the last financial crisis, banks worked diligently to increase safety and soundness and manage risk more effectively. The post-2008 reforms were intended to help banks better absorb financial shocks — and the success of those reforms was borne out in the crisis response. It was widely acknowledged, by everyone from Financial Services Committee chairwoman Maxine Waters (D-Calif.) to Federal Reserve chairman Jerome Powell, that banks performed well and were part of the solution to the coronavirus crisis.

Thanks to our financial system's strength, there is reason to be hopeful for the economic recovery. The top economists at some of the nation's largest banks who serve on ABA's Economic Advisory Committee agree that we could see growth topping 4% in 2021. Of course, we must temper that expectation with the knowledge that the recovery will likely be uneven and that labor markets could lag behind overall growth, given the massive job losses that occurred. That's why, going forward, our advocacy for pro-growth policies will be more important than ever.

The digital revolution has been rapidly accelerated. Banks were already well on their way toward digital transformation before COVID-19. But the pandemic provided a push to bank customers who may not have fully embraced digital banking to do so in earnest. That will accelerate the digital transition even further and will surely lead to efficiencies for banks down the road. The robust digital banking landscape also bodes well for financial inclusion — the ability to remotely access banking services will enable a broader set of customers to take advantage of the full panoply of financial tools and resources at their fingertips.

The relationships with our state associations are critical. From the earliest days of the pandemic, state associations played an instrumental role in analyzing and disseminating information that bankers needed to make PPP loans, facilitate economic impact payments and continue operating amid constantly changing health and safety guidelines.

With our State Association Alliance partners' help, we delivered free resources to ABA members and nonmembers alike — including 33 free webinars, operational aids, crisis communications toolkits, scientific analyses and more — recognizing the importance of helping all banks weather the crisis.

Through weekly calls — and sometimes daily calls — there was a continuous flow of information and feedback between ABA in Washington and all 50 states. This collaboration was vital as policymakers worked on calibrating and re-calibrating rules and regulations implementing the first CARES Act. I do not doubt that this engagement will continue now that a second stimulus has been passed and a third package could soon follow.

These are just a few takeaways from this historic period. In the years ahead, I'm sure there will be even more robust lookbacks and more lessons that can be extrapolated from the coronavirus crisis. And the result of all of that learning, I hope, will only serve to make us stronger, safer and even more prepared for the future. ■

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