Inquiry & Insight - Phishing, CECL, Competition

by Steve Brown Topics: cyber risk, CECL, competition

Summary: In our fourth "Inquiry and Insight" issue, Steve Brown answers questions on phishing, CECL and online lending competition.

To keep you informed, we note a survey by Verizon that finds 63% of people surveyed now say they don't care about the channel they use when interacting with a business, as long as they get through quickly and easily. Speed matters it seems.

Speaking of things moving quickly and staying informed, today we once again bring you our new Inquiry and Insight feature. This month we focus on phishing, FASB's delay of CECL, and online lending competition. We hope the answers to these questions give you some additional insight in your business. Feel free to send us other questions you may have and we could feature them in a future issue.

Q: Despite our efforts, employees continue to fall for phishing attempts. Should we be considering punitive measures? **A:** Because phishing can wreak such havoc within an organization, we've heard of some financial services firms that have gone so far as to terminate employees for repeated offenses. This seems extreme, in our opinion, and counterproductive to the end goal of strengthening a bank's security, since it doesn't proactively teach employees how to dodge trouble. We believe ongoing training for all employees is a must to help them better recognize phishing attempts and what to do if phishing is suspected. Additionally, banks should routinely send fake phishing emails to their employee base, monitor how many of these emails are opened and track how many employees actually fall for the ruse. In this way, banks can address any issues proactively without fostering an environment of resentment and fear.

Q: It looks like FASB will delay CECL implementation for smaller institutions. Should this change my approach in any way? **A:** As we have reported earlier, on July 17th, FASB proposed to postpone the implementation deadline for many financial institutions until January 2023. The delay would apply to small reporting companies (under the SEC definition), non-SEC public companies and private companies. Because, there are numerous elements involved in this rule change--and so much work to be done in advance--we don't recommend that financial institutions procrastinate, a deadline extension notwithstanding. Instead, they should use the extra time to ensure compliance with the new rules. For additional information, feel free to read our past BIDs on this topic, FASB Proposed CECL Delay but No Time to Waste and Using Extra Time Wisely for CECL.

Q: We don't want to turn away loan business, but from an underwriting perspective, we have a hard time competing with what some online lenders are offering. What can we do so these business customers do not stray? **A:** This is an issue many banks face, and a creative way around it may be to develop mutually beneficial referral relationships. Make sure that you vet all vendors properly and also that there are terms in place for both parties or the arrangement won't work. You may even be able to help some of the online lenders' customers with other banking needs, such as checking accounts or wire transfers. Of course, stay in touch and keep your customer relationship solid no matter who you work with or why you may do so.

BANK NEWS

RTP Fed

The Fed said it will develop and launch a real-time payment (RTP) and settlement service to support faster payments on its network. The new system will be known as "FedNow" and Fed Governor Brainard said it "will permit banks of every size in every community across the country to provide real-time payments to their customers." The new network is expected to be ready in 2023 or 2024 and was supported by 90% of those who commented about the Fed operating a round-the-clock, real-time payment and settlement service alongside services provided by the private sector, but was opposed by the largest banks.

Cloud Confidence

Morgan Stanley is introducing a "digital vault" for its 3.2mm wealth management customers where they can share financial documents more securely through an encrypted platform. This move shows increasing confidence in cloud-based platforms by financial institutions.

M&A

1) Three Rivers FCU ($1.2B, IN) will acquire West End Bank ($299mm, IN) for $36.5mm in cash (100%). 2) First Guaranty Bank ($1.9B, LA) will acquire The Union Bank ($261mm, LA) for $43.0mm in cash (100%) or 1.52x tangible book. 3) VyStar CU ($8.7B, FL) will acquire Citizens State Bank ($273mm, FL) for an undisclosed sum.

HAVE A QUESTION FOR INQUIRY AND INSIGHT?

Send any questions to me at steve.brown@pcbb.com and I will try to address them in one of the upcoming issues. I look forward to hearing from you!

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