

New Jersey Banker

ISSUE THREE

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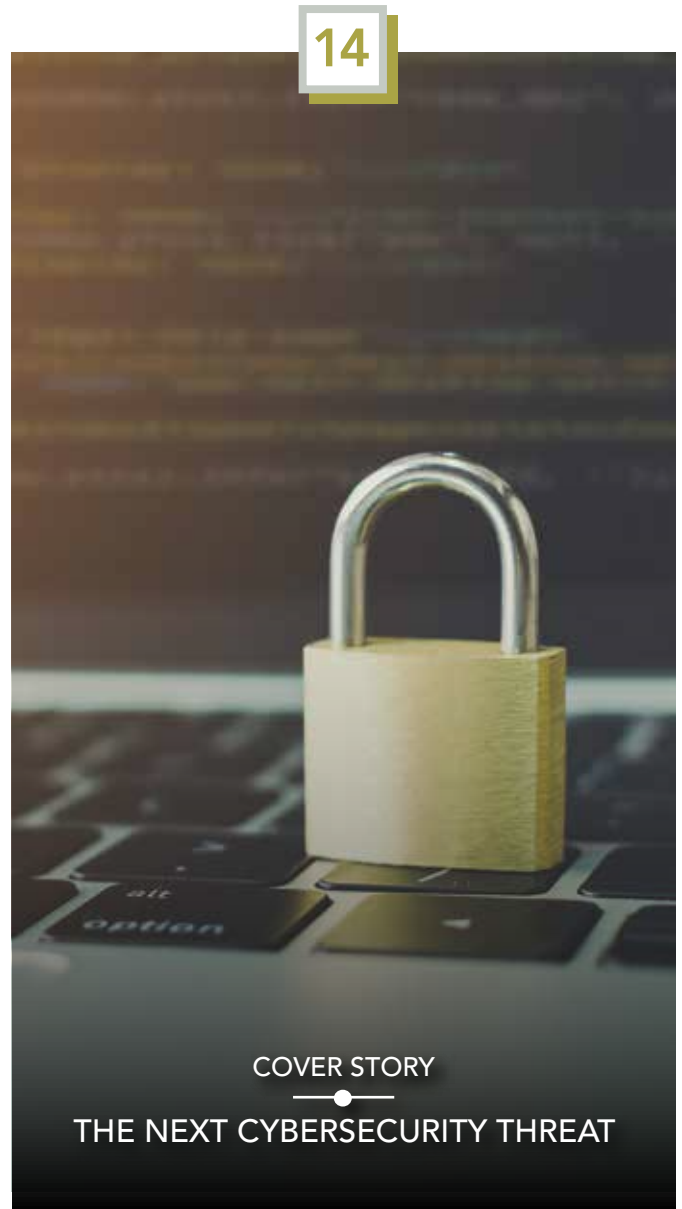
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COMMUNITY SERVICE IS WHAT SETS THE BANKING INDUSTRY APART

THOMAS J. KEMLY
PRESIDENT/CEO, COLUMBIA BANK

I have always looked to sports with a particular interest and awe, especially toward the creativity, comradery and drive needed to be a true champion. These same elements also hold true for community banking, particularly when it comes to volunteerism and giving something back to local causes.

As your 2019-2020 Chairman, the main focus for my term will be to work toward a shared goal, to make a measurable difference in the communities we so proudly serve. While these efforts can be achieved both individually and collectively, the end result still needs to feature teamwork based on the creativity, comradery and drive of your respective organizations.

There are many different ways that volunteer efforts, both large and small, can produce a winning homerun, touchdown or a three-point play. A winter coat drive for the homeless, taking time to read stories to inner city children, stocking the shelves of a food pantry, or cleaning up litter at a park — these are all simple ways that we can help to make a local difference. For example, at Columbia Bank our Team Columbia volunteers this year alone will participate in more than 150 community-based projects, with nearly 100 percent staff participation, which includes members of our board of directors and our executives. Not every member bank can provide this much support. However, if everyone participated in these activities within their means, it can

be an impressive result simply through strength in numbers.

Donations to charitable and community projects are another significant way that our member banks can help. Supporting charitable fundraisers and community events represents another way to help our communities. Whether organizing a team to raise funds for the March of Dimes or simply making a donation to a cause, these are all ways to show we care. While not every member bank has these means or structure, I do ask each member bank to do whatever they can in terms of financial support.


The Community Service book NJBankers prepares each year for our Annual Conference makes note of how others are giving back. Hopefully, seeing what others have done will serve as the catalyst for your own team efforts. Another approach is to simply get out into the community, look around for opportunities, and listen closely. Your branch staff are the ideal “eyes and ears” to help identify community opportunities and to make suggestions. Also, get involved in local endeavors as there’s always a civic or charitable cause in need somewhere close by. And, once you do find an opportunity, don’t over commit; still do all you can!

The local support we give to our communities through volunteerism and funding support, is something that significantly differentiates community banks from other financial institutions. That is why it is so

important for our industry to lead the way with respect to providing community service.

A favorite quote of mine, spoken by Muhammad Ali, perfectly sums up the importance of doing good: “Service to others is the rent you pay for your room on Earth.” While community service should not be looked upon as a payment as such, it still should be an important part of every member’s strategic business plan, regardless of your institutional size.

It is most important to realize that we do have an obligation to show our customers, the general public, legislators in both Trenton and Washington, D.C., and the other industries that community bankers really do care and that we are united together as a “champion team” towards helping our communities become better, stronger and safer.

As your Chairman, I ask each and every member bank to get involved within their service areas and seek out local opportunities to get involved by supporting as many activities as possible. By using creativity, comradery and drive, I am most confident that our team of NJ Bankers will continue to make an impressive, noticeable difference by keeping community in community banking. This is something that we do best! 

Thomas J. Kemly is Chairman of NJBankers and President and CEO of Columbia Bank. He can be reached at TKemly@ColumbiaBankOnline.com.

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WHERE HAVE ALL THE BANKS GONE?

JOHN E. MCWEENEY JR.

PRESIDENT/CEO, NJBANKERS

After recent weeks of consecutive merger announcements involving NJBankers member banks, I was reminded of the classic Pete Seeger song, “Where have all the Flowers Gone?” Seeger wrote the song in 1955 that pondered the rhetorical question of where all the flowers, young girls, young men and soldiers had gone. It was sung by many artists over the years with perhaps the most famous version performed by Peter, Paul and Mary in 1962. After this most recent spate of merger activity I found myself reminiscing and asking the rhetorical question of “Where have all the Banks Gone?”

Of course we know where all the banks have gone, they’ve merged with each other to form bigger and stronger institutions that are better positioned to serve their shareholders, employees, customers and communities. That said, when you derive your livelihood working for a state bankers association it’s not a comfortable feeling to continually lose members to M&A activity. No organization ever shrunk its way to greatness by losing members but more about NJBankers later. Let’s take a look at the M&A statistics.

Based upon FDIC data, in December of 1992 there were 13,853 banks in the United States. If you go back further than 1992 there were even more banks but the 1992 data will serve to make the point. Fast forward to June of 2019 and there were 5,303 banks in the country. That’s a decline of 8,550 banks or


62%. The trend is slightly more pronounced in New Jersey with 71 NJ Headquartered institutions at 6/30/19 versus 211 at 12/31/92, representing a decline of 140 banks or 66%.

It’s noteworthy, though, that despite having fewer banks the collective balance sheets of the remaining institutions today is significantly larger than their predecessors. For example, the 211 NJ Headquartered banks in 1992 had net loans of \$75.5 billion versus \$120.8 in June of 2019 representing a 60% increase. These institutions also have \$19 billion in total equity capital which has almost doubled during the time frame. These trends hold true at the national level as well and are greatly more pronounced. So when legislators or the media ask if we’re concerned if the reduced number of banks has led to reduced lending by banks the answer is an emphatic “NO” and the statistics prove it. Our banks continue to be principal drivers of economic development at both the national and state levels.

There are a number of factors driving the consolidation of the banking industry. The need for scale to absorb increased regulatory compliance costs, the ever increasing demands to invest in technology and innovation, the intense competition for loans and deposits, the flattening yield curve, a lack of management succession and the desire of investors to cash out are just some of the reasons. It doesn’t appear that the M&A activity is going to abate any time soon so it will continue to create some challenges for NJBankers and other state bankers associations across the country.

In the case of NJBankers we’re fortunate that both the association and our sister company Bankers Cooperative Group are very well capitalized with strong reserves. We also benefit from an engaged membership base, both bank and associate members, that keep the association vibrant by supporting our

programs and activities. However, we need to ensure the viability of the association going forward, especially our ability to continue to provide high quality and effective advocacy, education and member benefits. We continually look for opportunities to improve our operating efficiency and generate new revenue sources. Given fewer but larger bank members I think it’s also fair and timely to take a fresh look at our dues methodology. In 2009 when the legacy NJBankers and NJLeague merged we lowered the dues for over 90% of our members and we haven’t raised them since. We’ll need to rationalize what dues structure will serve our member’s needs best going forward. At the same time we also need to explore opportunities with our neighboring state associations to see if we can derive cost savings and revenue growth by working more collaboratively.

It’s an exciting time in banking with all of the advances in technology and innovation that are taking place. A new generation of employees are joining the industry ranks and they bring with them tremendous diversity of thought and experience. It’s also a time of great anxiety as institutions and their employees that have been around for many years adapt to the changing world around them. NJBankers is one of those institutions as evidenced by our 115th anniversary this year. Throughout our long and successful history there have been critical moments where NJBankers needed to embrace change in order position the organization for the future. It certainly seems that we’re approaching another one of those moments driven by the rapid consolidation of our industry. We approach it with an engaged membership base, strong financials and a deep commitment to serve New Jersey’s banks. 

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AS GOOD AS ITS PEOPLE

MICHAEL P. AFFUSO, ESQ.

EXECUTIVE VICE PRESIDENT, DIRECTOR OF GOVERNMENT RELATIONS, NJBANKERS

Over 40 years ago, President Jimmy Carter promised “a government as good as its people.” At the time, with Watergate and the strife of the late 1960s still in forefront of the American mind, this appeared to be an aspirational leap forward. In 2020, when it comes to finances, we have at both the state and federal levels “a government as good as its people.” Sadly, this is not a vaunted achievement, but merely lowered expectations.

“The People,” are buried in debt.

According to the Congressional Budget Office (CBO), a federal agency within the legislative branch of the United States government that provides independent nonpartisan budget and economic information to Congress, governmental debt to GDP will exceed 95 percent in five years. When we account for future unfunded promises, debt to GDP balloons to 500 percent. This where “We the people” stand. So where do we go from here? More debt, of course. Though often at each other’s throats, President Trump and Speaker Pelosi with the acquiescence of Leader McConnell agreed to a budget deal that increases spending, puts the threat of a government shutdown on the shelf, and does nothing to address long term issues. As a result, the budget will be further out of balance and the national debt will continue to balloon.

Furthermore, according to the CBO, the economy will expand 2.3 percent this year and then grow at an average annual rate of

1.8 percent over the next decade. The federal deficit will total \$960 billion this year alone. The primary cause: the \$2.7 trillion two-year budget deal that congressional leaders struck with the Trump administration this summer. CBO also forecast in its report that debt held by the public will grow steadily over the next decade, from 79 percent of GDP this year to 95 percent in 2029 — the highest level since just after World War II. At that point in history, we had just funded the outfitting of the

the assumption that Congress extends those provisions. In addition, the alternative fiscal scenario keeps appropriations at their current share of GDP (6.3 percent), rather than following the baseline assumption that they drop to 5.6 percent in 10 years. Under those assumptions, CBO projects that budget deficits will total \$14.9 trillion over the next decade — \$2.7 trillion higher than calculated under the baseline projection. As a result of higher deficits, debt held by the public would

“It seems that people’s plans and the plan of “the people” are very similar: spend more than you make, don’t create emergency contingencies, make promises you can’t fulfill, don’t save for the future.”

air, naval and ground forces, as well as merchant shipping and foodstuffs of the United States, Soviet Union, British Empire, China and various other allies — what big things have we done lately?

However, CBO’s baseline projections are built on the assumption that current law will remain unchanged and that Congress will allow certain provisions to expire as scheduled. If those expiration dates are extended and policies that are currently in place are maintained, deficits and debt will be much larger than shown in CBO’s baseline. For example, many provisions in the Tax Cuts Jobs Act related to individual income taxes are set to expire at the end of December 2025. An alternative fiscal scenario (read — more realistic fiscal scenario), however, incorporates

reach 104 percent of GDP by 2029 — higher than the baseline projection of 95 percent of GDP.

In New Jersey, the Legislature sent the Governor a budget without his sought-after millionaire’s tax. The Governor signed it anyway. While the budget is balanced, the previous two budgets have included over 11 percent increased spending without much structural reform. While each budget has allocated the most amount of real dollars toward the pension liability, that need will continue to increase unless hard choices are made. Each year, state finances benefit from some degree of growth in the economy. This year, the administration is projecting 3.5 percent growth in tax revenues. This natural economic growth will be beneficial, to the

extent that there is growth. But, spending all that new tax revenue on pensions would leave no cash for any new initiatives — and there are many proposed — or the normal year-to-year increases in the cost of doing business. In a recent survey, the National Association for Business Economics found that 75 percent of economists surveyed said the next recession will hit by the end of 2021. More than one third predicted a recession would occur in 2020. Wall Street rating agencies are already warning that a downturn will put New Jersey's future pension payments at risk. According to an S&P Global report, the record national economic expansion has helped New Jersey achieve its current contribution percentage but reaching full funding might prove difficult if a recession intercedes between now 2023.

The people don't fare much better than their government.

According to financial analysts, private businesses and private individuals owe cumulatively over 150 percent of GDP. Student loan debt in particular has doubled in the last


decade according to the Federal Reserve: 35 percent of borrowers owe more than \$25,000 in debt; collectively over \$1.4 trillion dollars. In addition, U.S. consumer debt has now exceeded pre-2008 levels.

While bloated with debt, Americans lack emergency savings. According to Bankrate's Financial Security Index, 28 percent of American adults have no emergency savings; an additional 25 percent have a rainy-day fund, but not enough money to cover three months' worth of living expenses. Just 18 percent of Americans say they could live off their savings for at least six months. Experts believe that it is necessary to have six to 12 months saved.

Furthermore, we are not saving enough for the future. According to a Northwest Mutual Study, 22 percent of Americans have less than \$5,000 in savings earmarked for retirement; another 5 percent have between \$5,000 and \$24,999 put away; only 16 percent have saved \$200,000 or more.

Although many baby boomers are nearing retirement, 17 percent have less than \$5,000

in retirement savings. Study respondents are aware of their lack of savings, yet few are doing anything about it. On average, respondents said there's a 45 percent chance they'll outlive their savings, yet 41 percent have not taken any action to address the issue. Others choose blissful ignorance: 46 percent of respondents said they don't know how much they have saved for retirement. Nearly half of all survey respondents across all generations expect to retire after age 65. For boomers, things are even more extreme: 68 percent of respondents say they expect to retire after the age of 65.

It seems that people's plans and the plan of "the people" are very similar: spend more than you make, don't create emergency contingencies, make promises you can't fulfill, don't save for the future, all the while and embracing the fervent hope that the future will be great again. As a nation, both publicly and privately, we spend profligately, acting as if we are on a cocaine induced binge in a brothel at a Las Vegas bachelor party. Maybe we ought to legalize that too. 

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STRATEGY AS EFFECTIVE RISK MITIGATION IN A RAPIDLY CHANGING MARKETPLACE

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In May, the Office of the Comptroller of the Currency (OCC) released its Semiannual Risk Perspective for spring 2019 outlining major themes and risks for the federal banking system. Like previous reports, this report discusses the complex environment in which banks must operate, and thus is a helpful guide for all banks assessing risk. It notes key drivers for operational risk, including cybersecurity threats, innovation in financial products and services, and the increasing use of third party platforms to provide and support operations that might not be effectively understood and implemented. This report, however, is particularly insightful (and challenging) in its focus on the impact that advances in technology can have on security concerns, customer expectations, overall strategy and on a broader level, effective implementation of desired strategies.

The OCC highlights potential advantages financial innovation can provide to the banking industry; technology and artificial intelligence allow banks to introduce new ways to meet customer needs, improve operating efficiencies and increase revenue. Programs utilizing data analytics and other predictive services increase efficiency and are becoming increasingly common within the banking system. Of particular relevance for all regional and community banks, the report addresses innovation and its related impact on strategic risk, noting the elevated levels of strategic risk for many banks. In summary, the report points to the challenges posed by the accelerated pace of change in innovation and rapid developments within the industry, coupled with

evolving customer preferences and the popularity of mobile banking applications.

The report's emphasis on technology and innovation somewhat subtly advances the thesis that a bank's failure to keep pace with rapid changes in the industry could prove fatal. Far less subtle in commenting on this topic was entrepreneur Adam Dell, founder of personal finance app Clarity Money (bought by Goldman Sachs), who said: "There are two kinds of incumbent banks: There are banks that are screwed and banks that don't know they are screwed."

Whether or not you choose to subscribe to that thesis (which we do not), the issue of strategic risk in today's environment must be front and center in the boardroom. This is particularly true for smaller banks struggling to compete with banking giants in a changing environment. Currently, the median efficiency ratio is elevated for smaller banks with total assets under \$500 million. The stratification of efficiency ratios indicates a clear advantage in economies of scale as total assets increase. Larger banks are most capable of investing directly in the technology, staff and controls to develop and introduce new products and services. In contrast, smaller banks that are slow to adapt to industry changes are exposed to increasing strategic risk, lessening their ability to compete. Yield curve compression and inversion only highlight the severe operating challenges confronting all banks in a rapidly changing marketplace.

The implications of the report go beyond the need for banks to guard against cybersecurity and implement new technologies. The

elevated level of strategic risk for many banks raises existential concerns; it speaks to more pressing and imminent issues regarding the viability of banks with management and/or boards unable or unwilling to keep up with the accelerating pace of banking technology. Increased risk places strain on small banks already struggling to compete with their larger counterparts. Without good corporate governance effectively applied to the area of strategic risk, these banks will be unable to adapt to the change necessary to remain viable. Put bluntly, strategic risk threatens an erosion of what boards and management have built and will impact effective strategic implementation, including: inability to attract talent; inability to compete; inability to grow; inability to satisfy customers; and inability to create value.

Good corporate governance must include effective assessments to mitigate strategic risk. Given current market conditions and prevailing trends in escalating customer expectations, technological innovations and regulatory considerations, it may be prudent for boards of banks to view the effective assessment and mitigation of strategic risk as a process inherent in and essential to good corporate governance.

An effective process for board assessment is frequently driven by awareness of a bank's position in the marketplace and the evolving needs and expectations of its customers. Several questions are generally encountered in this analysis, such as: Does your board have the capacity to engage in strategic conversations related to a significantly

changing world? How does the board prioritize deployment of capital as it pertains to risk factors such as organizational culture, employee engagement, talent, succession planning and technological disruption?

Strategic planning must become a high-level inclusive process based upon research and data to ensure that strategies are developed collectively. Without a smart and focused strategic planning process that occurs more frequently than every two or three years, organizations cannot truly succeed today. Strong corporate governance must have greater focus on linkage with the CEO's strategic dashboard to ensure alignment,

To complicate matters, the OCC spring 2019 report indicates that we can expect to see an increase in mergers and acquisitions. These need to be well-planned and executed, with organizations needing to be prepared for effective change management, operational resilience when implementing new products,

services and technologies, while at the same time maintaining existing operations. Establishing the right cultural environment to ensure these changes can take place is immensely challenging. Employees are under increasing stress, data overload, lack of engagement and understanding of strategic direction. It is incumbent on the CEO and the senior leadership team to provide the right leadership direction and strategic communication. Engagement at the highest levels of leadership for this planning process will ensure shared objectives, ethics and values for success. In addition to potential strategic partnerships and the ability to expand products and services, operational efficiencies and financial profits, it is critical to assess future merger candidates to ensure cultural fits, ethics alignment and talent retention.

Sustainable business results cannot be achieved without effective strategic planning and implementation, improved organizational

effectiveness, strengthened corporate culture based on vision, mission and values that are clearly understood and embraced, learning and training that increases innovation and creativity, and team building and alignment through stronger strategic communication throughout the organization. Boards and CEOs need to focus on all of these issues to ensure strong results. **N**

Paul M. Aguggia, partner with Holland & Knight LLP and former CEO of Clifton Savings Bank, advises boards and management on corporate governance, mergers & acquisitions, capital raising, and strategic planning matters.

Stuart R. Levine, Director of Broadridge Financial Solutions, Inc. (BR) and Chairman and CEO of Stuart Levine & Associates, helping CEOs and boards to build stronger, value-driven and profitable companies.

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COLUMBIA TAKES 'COMMUNITY BANKING' TO NEW EXTREMES

Since becoming a public corporation in April of last year, Fair Lawn-based Columbia Bank has steadily become the “benchmark” for community banking in New Jersey. Under the guidance of Thomas J. Kemly, its president and CEO, Columbia has boldly entered new markets, implemented a strategic program to modernize the “branch experience,” increased service staff teams, and most importantly it has significantly expanded the bank’s community support.

As a result, Columbia has begun adding branches in new markets such as Newark, West Orange and Livingston. Columbia also entered into a merger agreement to acquire Atlantic Stewardship Bank, an acquisition that expanded their service footprint into additional new markets, including North Haledon, Morristown, Waldwick, Westwood and Montville. The merger is expected to be completed year.

Over the last year, several existing branches have also been renovated. Designed around a customer experience featuring the latest in banking technology, enhancements now include video message screens, a digital rate display and an “Intelligent ATM,” plus a modern interior design, low profile service units, private conference areas and amenities like gourmet coffee bars, coin counters and mobile device charging centers. According to Mr. Kemly, “Our goal is to combine totally modern banking, with our legacy of personalized service.”

As part of the bank’s strategic growth initiative, Columbia has also invested heavily in banking technology with portals specifically designed to optimize “customer relationships” and increase operating efficiencies. New technology, installed for both the consumer and commercial sides of their business, provides real-time customer relationship profiles in order to “match” available products and services to current and future customer banking needs. Several new apps for mobile devices have also been added.

“We are in an industry where your competition is no longer just the bank down the street, but rather technology and analytical-driven entities,” Mr. Kemly noted. “Partnerships with the right technology



To show their community pride, Team Columbia volunteers went so far as to physically move an 80,000-pound Army tank to raise funds for wounded warriors and veterans causes, one of over 150 community-based events the bank will support this year. The Columbia Bank Foundation will also provide about \$3 million in support to local charitable and community projects in 2019.

providers that deliver not only an improved customer experience, but access to data required to make confident and timely decisions are increasingly important.”

Columbia Bank’s recent growth has also resulted in additional front-line and back-office support staff, especially residential mortgage account executives, commercial lenders and underwriters. The bank also operates three local Regional Lending Centers, which dramatically reduces turnaround times.

Today, the bank’s community support efforts include both volunteer and financial support. Several years ago, Mr. Kemly developed “Team Columbia” which encourages crews of employee volunteers to share their time, expertise and energies at local charitable and community endeavors. These efforts include tasks like renovating Habitat for Humanity affordable housing, painting classrooms at a school for handicapped children while closed for winter recess, processing food parcels at a local food bank for distribution to those in need, and taking part in charitable fundraising efforts. Team Columbia’s mission is to reach 100 percent staff participation and help their served communities become better, stronger and safer.

Bolstered by a shareholder proxy initiative that provided approximately \$60 million in funding, the Columbia Bank Foundation

ranks as the third largest private foundation in the state. The Foundation is on track to issue approximately \$3 million in grants and donations by year end to local charitable causes, municipal projects, and boards of education.

The Foundation also aims to support local projects backing affordable housing, community investment and economic development, financial literacy and education, health and human services, food pantries, and the arts. Columbia’s well-publicized Foundation has also earned a number of prestigious awards, including Commerce and Industry Association of New Jersey’s “Champion of Good Works” and NJ BIZ magazine’s “Corporate Citizen of the Year.”

A new initiative, known as the Employee Sponsored Giving Program, encourages bank employees to nominate local charities as donation recipients through the Columbia Bank Foundation. Each month a designated theme (like food banks, fighting cancer, and veteran causes) is selected. The organization receiving the most employee votes is awarded a \$10,000 donation and all other nominated organizations receive a \$500 donation. St. Jude’s Children’s Hospital was a recent \$10,000 donation recipient.

According to Mr. Kemly, “Columbia is well on its way to becoming New Jersey’s preeminent bank. Our goal is to set the example for all other banks to follow!” **NJ**

UPCOMING EVENTS

FEB. **CECL Implementation
to Calculation**
26 *Edison, NJ*

MAR. **Board & Management
Summit**
5 *Berkeley Heights, NJ*

MAR. **Government Banking
Seminari**
10 *Cranford, NJ*

MAR. **EFLG Leadership
Conference**
19 *Berkeley Heights, NJ*

APRIL **Commercial Real
Estate Conference**
30 *Edison, NJ*

MAY **116th Annual
Conference**
27 *San Diego, CA*

JUNE **Women in Banking
Conference**
17 *Somerset, NJ*



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The Next Cybersecurity Threat: Your Email Inbox

JILL CACIC

\$ 5,300,000,000,000. That's how much cyber criminals have siphoned from businesses and consumers worldwide through business email compromise (BEC) and email account compromise (EAC) scams since 2013, according to the Internet Crime Complaint Center (IC3). The FBI noted that these scams have increased 136 percent worldwide from December 2016 to May 2018.

BEC and EAC scams are very similar in how they attack their victims, causing companies to pay more attention to their cybersecurity. The biggest difference is that BEC scams target companies, while EAC scams are directed at victim's personal accounts. Regardless, both are equally threatening to financial cybersecurity.

How Do These Scams Work?

There are three basic stages to a BEC/EAC scam:

- Stage 1 — Compromising victim information and email accounts
- Stage 2 — Transmitting fraudulent transaction instructions
- Stage 3 — Executing unauthorized transactions

Stage 1 — BEC/EAC scams can be completed through a simple email exchange with a fraudulent look-alike email or with a more advanced email phishing scheme. Through social engineering or malware, fraudsters attempt to compromise a legitimate business email account. If they cannot compromise an email, the scammer spoofs a valid email address by inserting a character such as a "0" (zero) in place of an "O" (capital letter O), making the fake email look realistic.

Social engineering is the use of deception to manipulate individuals into giving out personal or confidential information, either in-person or through digital channels. The fraudsters monitor and study their selected victims prior to initiating the scam. This can be everything from diving deep into the victim's social media accounts or physically infiltrating a business to gain

Not every BEC scam contains a payment element. The criminals might also be asking for confidential information in the form of Personally Identifiable Information (PII) or Wage and Tax Statement (W-2) forms.

information. The growth of the internet and social media has made social engineering significantly easier and less time consuming. Now, instead of visiting a physical location, the scammers can get most of the needed information through a simple web search. According to the IC3, "The subjects are able to accurately identify the individuals and protocols necessary to perform wire transfers within a specific business environment. Victims may also first receive 'phishing' emails requesting additional details regarding the business or individual being targeted (name, travel dates, etc.)."

In other instances, victims of the BEC scam report being targeted by ransomware cyber intrusions immediately preceding a BEC incident, usually through a more complex phishing scam. A victim receives an email from a seemingly legitimate source, such as a coworker, friend or vendor, that contains a link. When the victim clicks the link, they unknowingly download malware, which gives the criminals access to confidential or secure internal information. These malware programs allow the attacker to infiltrate the company's email system or victim's email account and learn their normal procedures for money transfer by reading through sent items folders.

Stage 2 — Once the criminals have the information they need, they send the payment information. Since wires are a quick international transfer vehicle, most BEC/EAC scams request wire transfers. According to the 2017 AFP Payments Fraud and

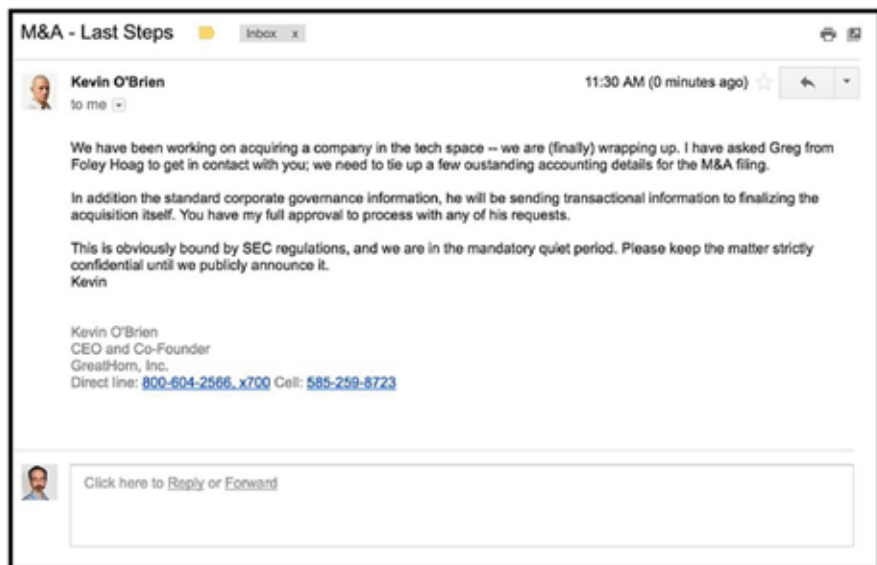
Control Survey, checks are the second-most requested payment vehicle. ACH credits and corporate/commercial credit/debit cards are tied as the third-most frequent payment vehicle.

Stage 3 — Often, the victim is asked to keep the transfer confidential and there is an element of urgency associated with the payment or transaction. Criminals are taking these scams one step further now, often calling the victim to follow up on the wire request, giving the transaction more perceived legitimacy.

More advanced crime rings behind these scams regularly use "money mules" to move the transferred funds, making it harder for financial institutions to detect. Sometimes, the scam victims themselves are recruited as innocent money mules. Fraudsters also recruit mules from "work from home" postings or romance schemes. The mules receive the fraudulent funds in their personal accounts and are then directed by the fraudster to quickly transfer the funds to another financial institution account, usually outside the United States. Most payments end up in Asian financial institutions with China and Hong Kong leading the way. The IC3 reported, however, that 113 other countries have also been recipients of these transfers.

So what's the difference?

BEC scams target a business that regularly performs wire transfer payments or works with foreign suppliers. Victims range from small businesses to large corporations and



deal in a wide variety of goods and services, indicating that every business is at risk.

It is important to note that not every BEC scam contains a payment element. The criminals might also be asking for confidential information in the form of Personally Identifiable Information (PII) or Wage and Tax Statement (W-2) forms.

An example of a BEC scam email looks like the image above.

This example highlights two common components of a BEC phishing email: an element of urgency and a request to keep the transfer confidential.

As damaging as BEC scams are for businesses, EAC scams are hurting individuals at an alarming rate. These scams follow a similar workflow to BEC scams, targeting individuals usually associated with financial institutions, law firms and real estate companies. They also look for victims who are in the midst of a large purchase, such as a home, where they have to wire funds for closing.

Criminals executing EAC scams generally use two different techniques: account compromise and email spoofing. With account compromise, they hack into a victim's account and monitor emails for invoices or payment information. Email spoofing, again, requires the criminals to create a fake email address that mimics the actual address, often replacing "O" with "0" or "_" instead of "-".

After successfully scanning the victim's inbox for payment information, the attacker updates the payment information with their account information and resends the email,

making it seem legitimate. The criminal might infect an employee's email account at a title company with malware and send incorrect wiring instructions to an excited home buyer. Or the attacker might spoof the title company's email and send incorrect wiring instructions to the would-be buyer.

Other examples of EAC scams target consumers with legal, brokerage or lending services pending.

What can a financial institution do to help its customers?

There are many ways institutions can prevent or detect BEC and EAC scams to better protect themselves and their customers. Institutions need to implement greater communication and collaboration between their internal AML, fraud prevention and cybersecurity units. Many times, these groups are separately investigating the same criminals and are unaware of each other's work.

Additionally, financial institutions can hold requests for international wire transfers for an additional period of time to verify the legitimacy of the request. A simple phone call to validate the transfer can save both the institution and the customer time and money.

Other methods of combating this fraud include two-factor authentication with accounts attempting transfers, a solid fraud detection solution, and educating businesses and consumers on the risks of these scams. Employees should be well-versed on the red flags so they can stop fraudulent transfers.

Education programs help businesses understand that they can reduce their risk of

BEC/EAC scams if they:

- Avoid free, web-based email accounts
- Are cautious with what is posted on company and personal social media sites and company websites, especially job duties/descriptions, hierarchical information, and out-of-office details
- Are suspicious of requests for secrecy or pressure to act quickly
- Create intrusion detection system rules that flag emails with similar extensions
- Register all company domains that are slightly different, including replacing letters with numbers (0 instead of O)
- Verify changes in vendor payment location
- Confirm requests for transfers of funds
- Scrutinize all email requests
- Install anti-virus or malware software

Financial institutions can also use basic KYC principles to protect their customers from these scams. Be aware of a customer's typical wire transfer activity and verify any deviations.

Resources

FinCEN and the FBI have put out several advisories on BEC and EAC scams. The FBI's May 4, 2017, Alert Number I-050417-PSA and FinCEN's FIN-2016-A003 documents are good resources for financial institutions to review. In cases that result in a SAR filing, financial institutions should reference Advisory FIN-2016-A003 and include key terms such as BEC Fraud when a business is the victim and EAC Fraud when an individual is the victim.

Through education and awareness, both businesses and financial institutions can better protect themselves, their employees and their customers from these debilitating scams. [NJ](#)

Jill Cacic is a senior content writer at Abrigo, a leading technology provider of compliance, credit risk, and lending solutions that community financial institutions use to manage risk and drive growth. Its software automates key processes — from anti-money laundering to fraud detection to lending solutions — empowering customers by addressing their Enterprise Risk Management needs. Cacic can be reached at jill.cacic@abrigo.com. Visit Abrigo.com for more information.



Billing Statement

Health Literacy and Medical Plan Costs

JIM DIORIO

With the 2020 Presidential election in November, we can't avoid the candidates' and the media's attention on rising healthcare costs and their effect on one's personal finances.

U.S. healthcare spending was a whopping \$3.5 trillion in 2017 (17.9 percent of GDP) — an average of \$10,739 per person.¹ We keep hearing about the major culprits of these rising costs, which include:

- Greed on the part of insurance companies, the pharmaceutical industry and health care providers
- Waste and inefficiency in the delivery of care
- An aging population

One issue we hear very little about is a lack of health literacy in this country. First of all, what is health literacy? There are more than 25 definitions of health literacy in the health care community, but we're going to use the one from the Agency for Healthcare Research and Quality (AHRQ), an agency of the U.S. Department of Health and Human Services (HHS). According to AHRQ, health literacy refers to how well a person can get the health information and services they need, and how well they understand them. It is also about using the available resources to make good health care decisions.



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Health literacy involves the differences that people have in a number of areas, such as:

- Access to information they can understand
- Skills, such as finding this information, communicating with health care providers, living a healthy lifestyle, and managing a disease
- Knowledge of medical words and how the health care system works
- Abilities, such as physical or mental limitations
- Personal factors including age, education, language abilities and culture

1. Centers for Medicare & Medicaid Services, NHE Fact Sheet, April 26, 2019

2. "America's Health Literacy: Why We Need Accessible Health Information". An Issue Brief from the U.S. Department of Health and Human Services. 2008.

3. Vernon, J.A., Trujillo A., Rosenbaum, S. and DeBuono, B. October, 2007, "Low Health Literacy: Implications for National Health Policy", George Washington School of Public Health and Health Services.

4. Kaiser Family Foundation, Employer Health Benefits Survey, 2019.

Quantifying the Problem

Approximately 35 percent of adults in the United States have limited health literacy while only 12 percent are deemed to have proficient health literacy.² Limited health literacy is linked to:

- Poorer overall health status and higher mortality
- Lower use of preventive health services
- Inability to take medications appropriately
- More emergency room visits and hospitalizations


This limited health literacy adds 7 to 17 percent to the overall cost of health care.³ Based on a total expenditure of \$3.5 trillion, between \$245 billion and \$595 billion of cost could be avoided.

What Can You Do?

If your employees are paying more because of low health literacy, your employer sponsored medical plan will probably be paying more. There are a number of things that employers can do:

1. Improve communications material.
 - o Make the material easily accessible to employees and dependents.
 - o Use plain language.
 - o If you have a significant non-English speaking employee population make sure your material is translated into the appropriate language.
 - o Use drawing, charts, graphs, case studies, etc., wherever possible.
 - o Engage employees so that they make informed medical decisions.
2. Encourage healthy lifestyles.
 - o Implement a wellness program, which may include smoking cessation, weight management, biometric screenings, walking challenges, etc.
 - o Reward or incentivize individuals to participate in these programs through lower employee payroll contributions, gift cards, days off, health club memberships, etc.
3. Implement an employee benefits portal.
 - o Employees would have access to benefits information, including their personal elections, on a 24/7 basis.
 - o All important plan documents and pertinent plan information can be stored in a resource center. This site can include insurance company contacts and links to their sites, educational information including a glossary of terms, FAQs, etc.

Employers cannot afford to do nothing. According to the Kaiser Family Foundation⁴, the average annual premiums for employer-sponsored health insurance in 2019 are

\$7,188 for single coverage and \$20,576 for family coverage. The average single premium increased 4 percent and the average family premium increased 5 percent. At the same time workers' wages increased by 3.4 percent and inflation increased by 2 percent. More importantly, the average employee contribution for family coverage has increased by 71 percent over the past 10 years but the overall premium increase has only been 54 percent over that same time, while employee wages have grown by significantly less than either of those percentages. Employers keep shifting more of the plan costs to employees. It is everyone's best interest to raise health literacy. The time to start is now! 

Jim DiOrio is a senior consultant at Bankers Cooperative Group. For additional information contact Jim DiOrio at 908-272-8500 x606 or jdiorio@bcg-nj.com. Bankers Cooperative Group Inc. (BCG) is the self-contained brokerage facility for members and associate members of NJBankers. BCG is the leading provider of employee benefit programs and a liability risk broker for New Jersey's banking industry. As administrator of the NJBankers sponsored Employee Benefits Trust, BCG leverages thousands of industry employees and their dependents to negotiate group employee benefit programs and pricing not generally attainable on an individual employer basis. As shareholders to the cooperative, BCG clients are eligible to receive patronage dividends. To date, more than \$3 million has been distributed.



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Real World Segmentation Strategies

MARY ELLEN GEORGAS-TELLEFSEN

Segmentation. Even though it's one of the most important strategies applied by successful banks and businesses, it comes in and out of style in the banking industry every few years.

There's no doubt a segmentation strategy can be challenging to implement in a multi-channel, multi-product, and multi-stakeholder environment. But a focus on specific segments that are important to your institution will pay dividends in the long-term by increasing customer loyalty and profitability.

Why adopt a segmentation strategy?

Successful businesses in all industries begin the product development and marketing processes with a few simple customer-centric questions:

- Who are our customers?
- Who do we want as our customers?
- Why should those customers do business with us/buy our products?

The answers to these seemingly simple questions are quite complex, especially if you're sitting in the C-suite at a bank. Banks serve consumers and businesses, low income, high income, disparate industries, and multiple generations to name a few segment types.

Banks appear to be all things to all people.

However, through an organized and intentional process, banks can focus in on certain segments they deem to be important and profitable for the business. Only then can they create products, services, delivery platforms, and communications plans to best support those relationships.

It doesn't mean the bank stops offering its products and services to all comers. What it means is that investments, priorities, and decisions will be focused on creating value for its target segments — and enhancing what the institution offers them.

Need some examples?

Look at Signature Bank or Sterling National Bank. They offer a range of consumer and business products. However, they are focused on business banking and providing their commercial customers with every product, service and convenience possible.

Next, consider First Republic Bank. This bank has carved out a very successful niche by banking all aspects of its affluent and high net worth clients' lives. They still offer products and services to all consumers and businesses. But their marketing, product suites, and dedication to service (tagline: "It's a privilege to serve you") is focused on and directed at affluent consumers and business owners.

At its roots, segmentation is all about creating more profitable relationships with customers. Segmented customers receive better product packages and services to meet their needs, while the bank deepens relationships and margins. A segmented focus also informs the team how NOT to spend scarce dollars or hours.

In a nutshell, the benefits of segmentation include:

- Focused strategy for product development, communications, and sales
- Better guidelines for prioritization and decision-making
- Enhanced new-customer acquisition efforts
- Deeper relationships leading to improved revenue and profitability

Who's your segment?

If you think your institution has no segment focus, think again. Look at your geographic market, analyze your existing customer base, and most importantly analyze your new-to-bank customers to assess whether they have different characteristics than your existing base.

Whether you know it or not, your bank is attracting and serving certain types of customers. If you know who you are serving — and decide who it is you want to target

— your bank can make better decisions for those target customers.

When setting out to identify your bank's target segment(s) there are a lot of variables to consider: Is the market growing or declining? What types of consumers and businesses are in your market area? Do you want to use some type of age/income or psychographic scheme to segment your customers?

Some of the more popular segment targets include:

- Generational definitions (think baby boomers, Gen X, millennials and Gen Z)
- Affluent/ Mass affluent
- Business owners
- Families
- Travelers
- Tech adopters

Keep in mind that once you define your target segments, you have to be able to find those people and businesses and market to them. Don't make the reality of targeting and marketing too difficult.

One other thought. While personalized micro-marketing is all the rage—and may be the future of marketing—most institutions are not in a position to capitalize on this technology any time soon. That's okay. Just going through the exercise of assessing your markets, customers, and target segment preferences puts your institution ahead of the pack. When the time is right, you'll be positioned to take advantage of new marketing technologies.

Consider these five factors when adopting a segmentation strategy:

Regardless of which type of segmentation focus works best for your institution, the critical success factors remain the same:

1. **Dedicated and collaborative management team** — Too many times management asks staff to carve out time from an already over-crowded schedule to take on new projects in addition to their existing roles and

responsibilities. While it's great to assign segmentation responsibilities to resources who know your organization, it's not great to ask them to divide their time. If your organization is serious about creating and executing a segment-based strategy, you have to dedicate resources toward the endeavor. And it can't be a part-time endeavor. Some institutions create segment-focused teams within Marketing, and other organizations create lines of business. Both organizing principles have their pros and cons (which is another topic altogether). The point is that your segment team needs to create a business model, financials, value proposition, products, services, marketing plans and management tools. They will be busy. And to be successful, they need to be 100 percent focused on launching your segment endeavor.

2. **Cross-functional coordination** —

When your dedicated team is in place, it will need management support to work across lines of business, products, regions, operations, channel management, and every other department in the bank. Whether you want to admit it or not, your organization probably contains a silo or two. Your segmentation group is going to be on the front lines of battling for help and resources from established groups, hierarchies and silos. They will need executive support to ensure the organization is not only responding to but also prioritizing their requests.

3. **Laser focus on the customer experience** —

Keep the segmentation team focused on the customer and customer experience! Every decision needs to be filtered through a customer lens. The learning never stops — the team will be constantly discovering new things about your target segment(s). Creating and delivering a superior customer experience that fulfills the particular needs and preferences of a target segment will almost certainly guarantee success.

4. **Competitive differentiation** —


Can you answer the following questions without using “customer service” or

“price” in the answer? What makes your institution special? What makes your segment focus special? What is special and differentiated about your offer for your target segment(s)? What is your bank is doing or offering to make someone in your target segment come to your bank?

Finding a differentiating factor without defaulting to your bank's customer service or pricing has turned out to be a challenge for many institutions. Get creative and challenge your team to find other innovative ways to offer your target customers something special.

5. **Patience** —

This is a long-term strategy. Nothing happens in banking overnight, and this couldn't be truer when creating, implementing, and launching a new segment-based business. The team will face challenges implementing the plan and going to market. And the project timeline will inevitably grow

longer than anticipated. Be patient; Rome wasn't built in a day and neither is your segment-based business. However, once you've introduced your new products/services/focus to the market, give the field and your team the support it needs to be successful. If you've built the right product suite with attractive pricing and the right delivery mix for your target segment(s), customers and prospects will respond. And your bank will see balances grow, relationships deepen, and profitability begin to rise. 

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Five insiders who threaten your security

BEN HAYDEN

Unlike in the movies, security breaches aren't always conducted by sinister, shady characters hacking data from miles away. Sometimes the threat comes from within. Here are five people who could be jeopardizing your organization's security — from the inside.

1. Absent-minded employees —

Without even thinking, employees can accidentally expose an organization to security threats. Some of the most common ways this can happen is when an employee clicks on a suspicious link, email or attachment, or when sensitive information is sent to a personal email or cloud service, a malware-infected mobile device is connected to the network or a work device is misplaced.

2. Revenge seekers — Former or current employees out for revenge sometimes steal or destroy sensitive data. This type of attack is hard to detect, because employee actions aren't always tracked — especially when an employee has legitimate access to the data.

3. Privilege abusers — Misuse of roles and responsibilities can allow employees to do or access things that aren't required to do their job. Again, a lack of tracking makes this kind of attack hard to detect.

4. Partners in crime — Legitimate

third-party contractors or other service providers have been responsible for breaches through malware or stolen credentials. Perpetrators in these attacks can be difficult to identify, and the more people who have access to the network, the harder it gets.

5. Colluders — Although it doesn't happen often, trusted employees sometimes work with outside criminals to execute data breaches through means such as creating a security vulnerability, which can be exploited by an outsider.

Prevention

The steps for fighting internal threats are very similar to the steps for fighting external ones. To protect your organization, follow these tips from Trustwave.

- Conduct thorough risk assessments, including assessments of vendors.
- Have strong policies, anti-malware solutions, data loss prevention solutions and incident response plans in place.

- Take the risk posed by personal devices and cloud services connecting to the network seriously.
- Conduct regular security training sessions and test employees on their understanding of them.
- Use threat management to spot network anomalies.

Security threats don't always come from the outside. Take these steps to keep your organization secure — inside and out. **NJ**

Ben Hayden is Risk Services Manager at Shazam. Hayden utilizes his expertise in cyber investigations, financial crimes and digital forensics to assist financial institutions in evaluating their cybersecurity vulnerabilities. He manages SHAZAM's risk management services, helping member institutions mitigate their risks in information technology, cybersecurity, physical security and BSA / ACH compliance. SHAZAM is a single-source provider of the following services: credit card, debit card, core, fraud, marketing, merchant and more. Learn more at shazam.net and follow @SHAZAMNetwork.

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Merger Math: Earning Your Right to Remain Independent

JEFF MARSICO AND RICH TRAUGER

The right to remain independent is often spoken of, rarely defined, and harder to quantify. Until now.

In most states, a bank board (or bank holding company board) must consider multiple constituencies when fulfilling its fiduciary responsibilities: shareholders (if stock owned), depositors (in some cases if a mutual), customers, employees, and communities. There is a surefire formula to say, “stay” or “go.” And when a bank underperforms, boards often define their right to remain independent by putting heavy weight on the “other” constituencies — the non-shareholders. Because your customers would be happy with a boost in rates paid on deposits, or a reduction in yields on loans.

That would reduce revenue, therefore reducing how you can compensate employees or the level of benefits you can offer them. It could also serve to reduce your bank’s commitment to the community. And what about your shareholders? There must necessarily be balance in how you meet your obligations to each constituency.

So what does it mean to “earn your right to remain independent?” In descriptive terms, it means that shareholders, customers, employees and communities would be better served by your bank as an independent institution rather than turning the keys over to a buyer and letting them serve your constituencies.

On the surface, earning the right to remain independent appears as a tall order in a consolidating industry staring at the prospect of recession. A larger bank can more easily deliver top tier profitability due to economies of scale. A larger bank can provide more upward mobility opportunities to employees. A larger bank has more resources to contribute to their communities. And a larger bank can bring more sophisticated technology to customers. All of which should in turn enhance total return to shareholders.

So the conventional wisdom goes. There are myriads of exceptions to the rules. First Defiance Financial Corporation of Defiance, Ohio, has a better year-to-date ROA and ROE than First Busey Corporation of Champaign, Ill. First Defiance is \$3.3

billion in total assets, First Busey is \$9.7 billion, three times the size. And what is the definition of service to community? Would First Busey serve Defiance, Ohio, and surrounding communities better than First Defiance? And First Defiance’s operating expense run rate is \$96 million per year. Do we think that they are not big enough to invest in technologies that improve their customer experience?

If First Defiance can serve employees, customers, and their communities equally or better than a would-be buyer, then the “right to remain independent” is necessarily weighted towards shareholders. And we have some math for you.

Math

We suggest two calculations to determine if your institution earns the right to remain



Table 1:

	Earnings Per Share (EPS)					
	Current	Year 1	Year 2	Year 3	Year 4	Year 5
Your Bank	\$1.00	\$1.10	\$1.21	\$1.33	\$1.46	\$1.61
P/E	14.0	14.0	14.0	14.0	14.0	14.0
Your Estimated Stock Price	\$14.00	\$15.40	\$16.94	\$18.63	\$20.50	\$22.55
Shareholder Total Return Expectation	10.0%					
Dividend Yield	2.0%					
Needed Capital Appreciation (discount rate)	8.0%					
Present Value of Plan	\$15.35					
Does Plan Add Value?	Yes					
Assumed Merger P/E	17.5					
EPS Plan Variance	5.0%					
Year 5 new EPS after variance	\$1.53					
PV of Year 5 EPS after variance	\$1.01					
Merger P/E less Trading P/E	3.5					
PV of Option to Sell	\$3.53					
PV of Plan + PV of Option to Sell	\$18.87					

independent. The first is to compare the estimated stock price appreciation to executing your strategy versus selling, receiving a premium, and then riding the buyer's stock price appreciation.

For ease of description, let's assume that your current stock price and that of the buyer's is \$14 per share, the exchange ratio is one to one and that pre- and post-transaction, your shareholders would receive the same dividend yield. Your bank's strategy calls for 10 percent annual earnings per share growth, while the buyer's historical performance was 5 percent and you see no reason why past is not prologue. So projecting your stock price appreciation versus theirs in this example is purposefully simple. Take EPS times p/e ratio.

But wait. Most bank acquisitions go off at a premium to the seller's stock price. In this example, the merger premium is 25 percent of your current stock price. In this situation, realizing the full economic value of your plan is projected to occur in year five, the same year you eclipse the value of selling, receiving the premium, and riding the buyer's stock price.

If your board has confidence in your ability to execute the plan, then you have earned your right to remain independent. Makes you think twice about putting forth a sand-bagged strategic plan that does not contain aspirational financial projections.

Math 2

The second calculation is the present value of your strategy. Present valuing the plan must necessarily include a discount rate. And if we pulled out our college textbooks we're sure there would be a great CapM or Ibbotson Build Up Method description right here to calculate the discount rate. But, in more simplistic terms and using the denominator in a single stage dividend discount model, the discount rate is the annual total return expected by your shareholders minus your dividend yield. So, if your shareholders expect 10 percent per annum total return, and you target a 2 percent dividend yield, then the discount rate would be 8 percent. Simple, right?

Table 1 demonstrates the concept. In the most simplistic terms. Your earnings per share growth rate needs to exceed the discount rate in order to have a present value per share that exceeds your current stock price.

As you saw in Chart 1, projecting EPS and then multiplying by the p/e multiple is only

part of the "independence" math. Because a buyer usually pays a premium due to synergies. And executing your plan does not mean you give up the right to sell your bank at some point in the future. There should be value in that option, in our opinion.


If the management team fails to execute strategy within a board-defined tolerance level, they can still call the investment banker, put up the "for sale" sign, and likely get a premium.

So let's assume your board's tolerance to miss plan projections is 5 percent. Instead of year five EPS of \$1.61, management only achieves \$1.53. The board calls the investment banker, who estimates the bank can get a 25 percent price premium, or 17.5x EPS. Therefore, the present value of the "option to sell" is \$3.53.

If the "option to sell" value plus the present value of your strategic plan is greater than what you can reasonably achieve in a sale or it is within a board tolerance level, and the board has confidence in management's ability

to achieve the plan, then you have earned your right to remain independent.

This level of discipline has benefits, including the board exercising reasonable judgement in assessing whether your bank should sell or execute the plan, and that management puts together a plan that strives for excellence instead of "last year plus 5 percent."

The "right to remain independent" is math. Does the math work for you? 

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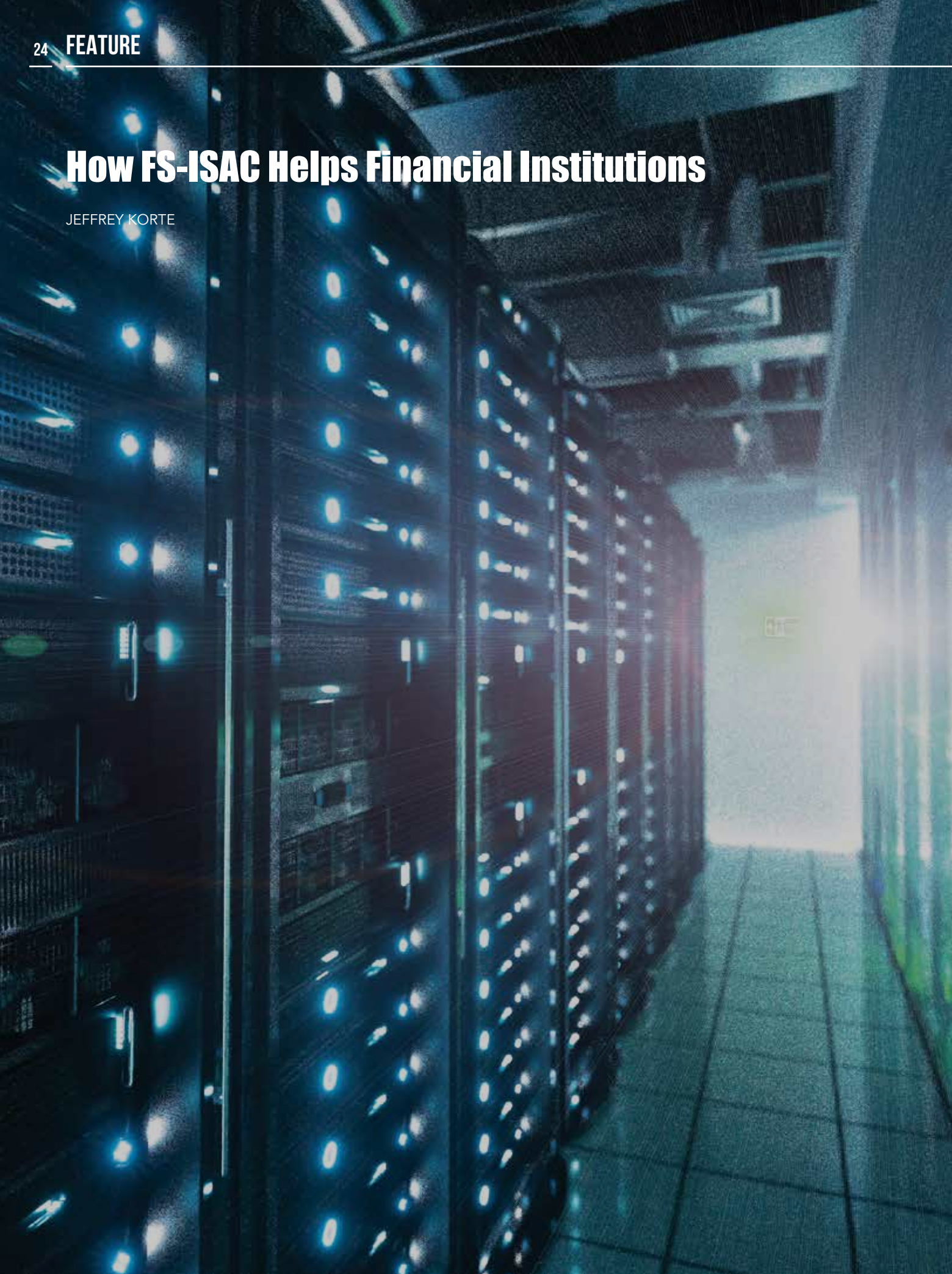
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How FS-ISAC Helps Financial Institutions

JEFFREY KORTE



The bad news: Cyber threats are one of the biggest business and regulatory challenges financial services companies face.

The good news: Financial Services Information Sharing and Analysis Center (FS-ISAC) is dedicated to reducing cyber-risk in the global financial system and serves as a critical resource for the financial sector to enhance resiliency and protect customers.

The purpose of this article is to highlight the FS-ISAC's products and services. Our mission has always been to provide timely, accurate and actionable threat intelligence information, and to help ensure the resilience and continuity of the global financial services infrastructure.

The FS-ISAC has grown to nearly 7,000 members based on 70 countries. To support this growing membership, the FS-ISAC has operations centers in the United States, United Kingdom and Singapore and staff in several other countries.

intelligence, resilience, and trust and are delivered to our members by FS-ISAC staff, government and private partners.

Community Institution and Associations Council

Since 2012, FS-ISAC's Community Institution and Associations Council (CIAC) has been serving the needs of nearly 4,000 community banks, credit unions, and associations under \$20B in assets. The CIAC provides community institutions with a place to discuss relevant topics, seek advice about best practices and technology solutions with like-minded members facing similar challenges. Members have access to and share security and information technology policies, programs, processes, risk assessments, security training documents and more. These documents can be tailored to fit the institution's culture and meet

Intelligence

FS-ISAC shares among its members and trusted sources critical cyber-intelligence and builds awareness through a robust offering of alerts, indicators, member insights, threat assessments, and analysis.

Resilience

FS-ISAC leads multiple efforts to strengthen the financial system and aid in business restoration. This includes exercises, best practices, hands-on training and playbooks for rapid response.

Trust

Through summits, meetings, webinars, and communities of interest, FS-ISAC convenes a global peer-to-peer network of experts and practitioners from the private and public sectors to share critical information and best practices in a trusting and collaborative environment.

The FS-ISAC offers three pillars: intelligence, resilience and trust.

its size, complexity and risk appetite, and many of these are made available to all members on the FS-ISAC portal.

Strength Through Trusted Sharing

The foundation of our trusted information sharing is based on the ability of members to control how information is shared and used by other members. A key tool is the traffic light protocol which members use to signal how information can be used. Members have multiple communication streams available to securely share information without the threat of compromise.

Member Education, Participation and Support

Having established our foundation for sharing information, our 1global offerings focus on

Features:

- The weekly Risk Summary Report condenses the week's top risks from a CI perspective into an easy-to-digest format and shares helpful best practices. This TLP Green document is made available to CIs through the American Bankers Association, Independent Community Bankers of America, Federal Reserve Bank and state associations.
- The Weekly Recap Report is a members-only summary of FS-ISAC intelligence reports, council news and discussion topics, as well as

TLP Red ▼

Sources may use TLP RED when the information’s audience must be tightly controlled, because misuse of the information could lead to impacts on a party’s privacy, reputation or operations. The source must specify a target audience to which distribution is restricted.

TLP Amber ▼

Sources may use TLP AMBER when information requires support to be effectively acted upon, but carries risk to privacy, reputation or operations if shared outside of the organization’s involvement.

TLP Green ▼

Sources may use TLP GREEN when information is useful for the awareness of all participating organizations as well as with peers within the broader community.

TLP White ▼

Sources may use TLP WHITE when information carries minimal or no foreseeable risk of misuse, in accordance with applicable rules and procedures for public release.

upcoming training events sponsored by FS-ISAC.

- The monthly meetings bring important cyber and physical threats directly to CIAC members. Special guests provide intelligence updates, trends and solutions to meet their unique challenges.

For more information about the CIAC, visit fsisac/ciac.

Member institutions can add an unlimited number of employees to their member account to receive alerts. This enables the member point-of-contact to delegate FS-ISAC alerts and mail list content (e.g. cyber intel, fraud intel, CIC mail lists, etc.) to appropriate personnel. We also provide a guide to assist the member in determining which alerts go to which role/job title.

Member institutions have an opportunity to assist other members by participating in a number of different programs that provide exceptional value added member benefits as you will see.

information, request best-practices, vendors catering to community institutions and much more.

We also create new COIs to address the interest of members.

Meetings. The COIs hold monthly meetings for members that provide cyber-intelligence briefings, financial sector news and special guest topics specific to the COI.

For Standard-level members and above, FS-ISAC conducts bi-weekly threat intelligence conference calls that share timely information including cyber and physical security.

FS-ISAC hosts four summits each year including two in the United States, one in Europe and one in Asia. Up to twelve hundred financial institutions attend these summits and participate in workshops, learn about the newest threats and connect with prominent vendors which detect, monitor and report on cyber-threats.

When a critical incident occurs, FS-ISAC rapidly and efficiently

Global Offerings

Intelligence

- Threat Intelligence Reports
- Intelligence for the C-Suite
- Event Driven Threat Calls
- Threat Levels
- Alerts and Indicators
- Trusted Peer-to-Peer Sharing

Resilience

- Exercises
- Best Practices
- Education and Training Programs
- Critical Alerting
- Crisis Response Coordination

Trust

- Live Events
- Communities of Interest
- Member Generated Viewpoints
- Expert Webinars Series

Other Communities of Interest. The FS-ISAC also has other Communities of Interest (COI) with which members can join and participate. These COIs operate in support of various divisions within the financial services industry such as payments, mortgage, community banks, and credit unions. Within each group, mail lists enable members to communicate with each other in real-time. This affords members the opportunity to share threat intelligence

gathers partners in the government and private sectors - providing webinars that summarize threats, diagnose the cause and incident aftermath to document what went right and what didn’t.

Business Resiliency and Redundancy. FS-ISAC maintains the All-Hazards Framework and All-Hazards US Playbook through the Business Resiliency Committee (BRC). These documents guide information sharing to evaluate and respond to all-hazards events,

The foundation of our trusted information sharing is based on the ability of members to control how information is shared and used by other members.

share situational awareness and analysis, and coordinate with government and other partners.

With an overall goal of increasing financial sector resilience, FS-ISAC members utilize the All-Hazards Framework and associated playbooks to articulate the coordination activities within a country or region by identifying the stakeholders who lead coordination and define how trusted information sharing activities can be utilized.

During a crisis, financial sector participants reference the Playbook to identify sources of information sharing, gather ground truth and obtain assistance from financial services members and trusted government partners. While FS-ISAC currently maintains only a US Playbook, the new All-Hazards Framework is designed specifically to be adaptable globally.


Exercises. FS-ISAC began hosting exercises in 2010 when it launched the first Cyber-attacks Against Payment Systems (CAPS) exercise. The CAPS exercises are table top simulation in which participating financial institutions respond to a variety of scenarios and test their incident response plans. The annual exercise is conducted from an institution's own premises using our materials in a virtual, confidential tabletop exercise. The exercise requires about two hours each day. This is available for free for FS-ISAC members and non-members.

About two years ago, FS-ISAC launched another exercise program that is more hands-on and for practitioners. The cyber range exercises test how practitioners observe and respond to different types of attacks, such as ransomware or business email compromise.

Teams work together, share and review results, identify methods for improving defenses, then re-run the simulated attack to see if the suggested mitigation techniques improve results. These exercises are usually conducted in a single location (remote participation is optional) with 20-30 participants, enabling attendees to readily share insights and arrive at solutions with peers. For more information visit fsisac/events.

Collaborative Guides. FS-ISAC worked in collaboration with Carnegie Endowment and other partners to develop and promote the use of the Global Cybersecurity Tool Box for Financial Institutions. The toolbox contains six easy-to-use one-page guides and checklists in multiple languages. The Tool Box provides senior management with actionable measures to improve their organization's cybersecurity. The Tool Box is based on existing frameworks, policies, and standards from around the globe. The Tool Box is only one example of how FS-ISAC partners with other firms to provide quality guides for leadership teams and security practitioners alike. Obtain your free copy by visiting <http://bit.ly/fincyber>.

An Agile Response Capability to Future Challenges

FS-ISAC will continue to innovate and enhance our products and services to assist the financial sector meet the challenges posed by cyber-threats. As a member-driven non-profit institution, many of these will be initiated by our members themselves, to better serve their needs. We welcome your comments and suggestions. For more information about joining, visit fsisac/join. 

Bankers beware: ATM fraud alert

PROVIDED BY ONEBEACON FINANCIAL SERVICES

As the use and sophistication of technology increases, it would stand to reason that it would be more difficult for fraudsters to gain access to bank accounts via ATMs. Unfortunately, crooks seem to be equally sophisticated, and quickly outwit many safeguards soon after they are put in place. Here are some highlights (low-lights) and examples of ATM frauds that are unfolding across the country.

Confirm that your ATMs are EMV chip enabled. A particular type of ATM fraud is showing up in many areas. It involves the use of foreign counterfeit cards being used at ATMs. While the cards used in the fraud have EMV chips, the ATMs that have been attacked were not EMV chip enabled. The fraudsters find the institutions without the EMV enabled ATMs, empty the cash with fraudulent

transactions, and then drive to the next branch location (assuming that more of that particular bank's ATMs are not EMV enabled). The lack of EMV hardware shifts the financial liability for the fraud back to the bank that owns the ATM.

Confirm that your ATMs are EMV chip enabled. If not, you should consider restricting access of any cards that aren't

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Why Bonds Are

Riddles, enigmas and other investment mysteries

JIM REBER

A best-selling book from the 1990s, “Why Things Are,” took a humorous look at curiosities originating from everyday existence, with the modest goal of answering “every essential question in life.” This column has a more ambitious purpose: to clarify a few of the phenomena surrounding your investment in bonds. So, put on your seat belts as we head out for a ride on the fixed-income highway.

Why do continuously callable bonds have a higher yield than bonds with only one call date?

An investor in a callable bond actually does two things simultaneously when he or she makes the purchase: 1. the buying of the bond from the issuer, and 2. the selling of the right to prepay the debt early to the issuer. For bonds with multiple call dates, the issuer pays something for each right. In aggregate, the value of all the call

The most commonly used measurement for price volatility of a fixed-rate security is duration. It is the weighted average period of time to receive all the principal and interest on a bond.

options as of the issue date is reflected in the higher yield compared to a non-callable bond, or one with one only call date.

Why do mortgage-backed securities priced at 100.00 have different yields than the stated coupon?

For this answer, we have to do a two-step move. First, let's review what bond-equivalent yield (BEY) means. The yield on a bond has a standard calculation that assumes semi-annual interest payments in arrears (meaning at the end of the period), and principal at maturity date. For example, if you buy a new two-year agency bond, your first interest date will be exactly six months from original settlement date.

Mortgage-backed securities (MBS) differ in two ways. First, some interest payments are received monthly. That's good from a BEY standpoint. However, MBS also have this nice little convention known as "delay days" before any principal or interest are paid. That's bad for BEY purposes. Most mortgage securities have delay days ranging from 45 to 85 days. Factoring in the delay of both principal and interest over a period of time probably means the bond-equivalent yield for a mortgage will be less than the coupon, at par.

Why do tax-free bonds have lower price volatility than taxable bonds?

Another popular question. The best way to illustrate this is to take a hypothetical taxable bond, like a 10-year Treasury note, and compare it to a 10-year tax-free bond. At the moment, the 10-year Treasury yields about 1.80%, and 10-year high-quality munis yield about 1.90% (for a tax-equivalent yield of 2.35%).

If rates rise 100 basis points (1.0%), the Treasury will then yield 2.80% and its price will decline 8.7%. The muni will only have to drop

by 6.9% for its tax-equivalent yield to get to the 2.35% that the market will likely require. It's worth noting that the two bonds' volatilities have become more alike since tax reform at the end of 2017. Stated another way, muni price volatilities have increased as tax rates have fallen.

Why is the duration of a bond shorter than its average life?

The most commonly used measurement for price volatility of a fixed-rate security is duration. It is the weighted average period of time to receive all the principal *and* interest on a bond. Average life, on the other hand, is a tool used in many cases to forecast cash flows on mortgage securities and is the weighted-average time to receive principal *only*. Since most MBS are back-loaded with principal on their paydown schedules, average lives are almost always longer than duration for a given bond.

Duration is useful for estimating how much a bond's value will change given a change to market rates. A duration of 3.0 means that the price will decline about 3%, given a 1% increase in the market yield. Concepts like effective duration and convexity also factor into this discussion, but that's another story for another day.

Why are bankers more inclined to sell at gains than losses?

I'm no shrink, but there is an element to behavior that psychologists refer to as "compartmentalization." It seems to me that taking a loss is seen by the seller as admission of a bad purchase. In fact, the overwhelming majority of losses realized are market-driven, and I think we agree that bankers aren't market-timers. So, by being more inclined to take gains, portfolio managers can neatly stack their aggregate sales in the "win" column.

There are just two problems with this practice: selling the winners means your portfolio yield is probably going down, and you've triggered immediate tax liability. I would suggest, especially in a robust earning year like the present, that a bank work with its tax accountant and brokers to devise an income-deferral strategy. Higher yields mean more future income. And that falls into the "long-term vision" compartment. **M**

Jim Reber is president and CEO of ICBA Securities and can be reached at (800) 422-6442 or jreber@icbasecurities.com.

Continued from page 27

issued by your bank, and call your ATM vendor to get the EMV hardware and software installed immediately.

Cardless ATM transactions. While they sound convenient, cardless ATM transactions are now the newest target of fraud.

Fake Text Scam: Customers can receive text messages "from the bank" that send them to a fake link. The customer is told that their account has been locked and they need to provide personal information. This information is then used to initiate and complete cardless ATM transactions.

Cloned Phone Scam: Many of these scams are originating while a customer is using unsecure public Wi-Fi. The fraudsters are able to gain login and account information as well as phone information. They use the information to clone the customer's phone or add a new number to the account to initiate transfers.

ATM security suggestions. Confirm that your ATMs are EMV chip enabled.

- Educate customers to use mobile banking apps on either their cellular network, or on a secure Wi-Fi network.
- Remind customers that the bank does not send "unsolicited" emails or texts.
- Limit cardless ATM withdrawals to a small dollar amount and limit daily usage.
- Limit the timeframe that a transaction code is viable.
- As it becomes available, utilize biometric identification (fingerprints, iris and facial recognition).
- Maintain usage of multi-factor authentication methods.

For more information, contact Craig Collins, OneBeacon Financial Services, at CCollins@onebeacon.com



Domenick Cama



Maria A. Diaz



Chris Reber



Nicholas Ketcha



Juan H. Oelofse

INVESTORS BANK

Helen Keller Services (HKS) held its 40th Annual Gala on September 26th, 2019, at the Brooklyn Botanic Garden with Investors Bank President and Chief Operating Officer Domenick A. Cama serving as honoree. Longtime HKS friend and five-time Emmy Award winner Amy Freeze of Channel 7's Eyewitness News will return as Master of Ceremonies. The announcement was made by HKS' new President and CEO Kim Zimmer.

OCEANFIRST BANK N.A.

Red Bank-based OceanFirst Bank N.A., the wholly-owned subsidiary of OceanFirst Financial Corp., announced it has appointed Karthik Sridharan as executive vice president and chief information officer.

FULTON FINANCIAL CORPORATION

John J. Sawn has been promoted to loan review director for Fulton Financial Corporation. In this position, he will be responsible for overseeing the Loan Review Department's daily operations.

COLUMBIA BANK

Columbia Bank announced that Maria A. Diaz has been appointed as a Business Development Representative. In her new role, Diaz will be responsible for managing and developing client relationships throughout the bank's Central New Jersey Region. She will work out of the bank's Newark office.

MERRILL LYNCH,

PART OF BANK OF AMERICA

Chris Reber has been named market executive for the South Jersey market, including

Delaware, for the Wealth Management division of Merrill Lynch, part of Bank of America. In the new role, he will be responsible for leading and growing the market of financial advisors, management and support personnel in order to provide clients with the firm's full financial capabilities.

RSI BANK

RSI Bank is pleased to welcome Nicholas Ketcha, Jr. to its Board of Directors. Ketcha is well known within the banking community for his career in financial institution oversight and regulation at the Federal Deposit Insurance Corporation and the New Jersey Department of Banking & Insurance.

CROSS RIVER BANK

Cross River Bank, a provider of banking services for technology companies, has announced it has appointed Melissa Ballenger as its executive vice president and chief financial officer, effective immediately.

NORTHFIELD BANK

Northfield Bank has announced the appointment of Doreen Goch as vice president of commercial and industrial lending for the state's West Region.

SPENCER SAVINGS BANK

Elmwood Park-based Spencer Savings Bank announced recently it has named Juan H. Oelofse as senior vice president and director of commercial and industrial lending.



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- 1** **SB One Bancorp** announced it provided \$4.95 million in financing for the development of Saddle Brook Senior Housing, which was completed by the Housing Development Corp., the nonprofit arm of the Housing Authority of Bergen County.
- 2** Chris Martin, chair, president & CEO of **Provident Financial Services, Inc.**, the holding company for Provident Bank, was joined by members of the bank's ProvidentWomen initiative to help celebrate the bank's 180th anniversary by ringing the opening bell at the New York Stock Exchange. Front row, from left, are: Colleen Hanley, Andrea Reid, Corinne Kison, Chris Martin, Bernadette Macko, Darleen Gillespie, Chris Taylor (NYSE) and Nancy Wynant. Back row, from left, are: Susan Hayes, Danielle Hernandez-Roman, Samantha Plotino, Sandra Kennedy and Josephine Moran.
- 3** **Amboy Bank**, As Eva's Village volunteers, Amboy Bank employees helped to prepare the Community Kitchen, serve lunch, and cleanup after meal service. The mission of Eva's Village is to provide care and support for people who are struggling with poverty, hunger, homelessness and addiction. Their community of supportive services, based in Paterson, includes food, shelter, addiction and mental health treatment, childcare, job training, medical and dental care, and housing.
- 4** The **Columbia Bank Foundation** issued a \$10,000 grant through the Rotary Club of Washington Township to the Washington

Township Police Department. The grant, part of the Foundation's current initiative to partner with local communities and Boards of Education within the bank's service area, was used to upgrade the town's Police K-9 Transport Vehicle. Pictured in a special check presentation, from left, are: Minoška Mateo, acting executive director of the Columbia Bank Foundation; Phyllis Palo, Rotary vice president; Police Chief Pat Gurcsik; Mayor Joann Gattinelli; David Jack, branch manager of Columbia Bank's Washington Township office; Tom Kozempel, Rotary president, and Officers Kris Hice and K9 LYNC.

- 5** **Lakeland Bank** announced that its application to participate in the Neighborhood Revitalization Tax Credit Program (NRTC) 2018 Qualified Projects Pool offered through the New Jersey Department of Community Affairs (NJDC) has been accepted, and the bank will donate \$100,000 to Paterson Habitat for Humanity. Tom Shara, president and CEO of Lakeland Bank (center), presents a \$100,000 check to Scott Millard, CEO of Paterson Habitat for Humanity (left of center). The donation to the organization was made through the Neighborhood Revitalization Tax Credit Program and will help finance the Building Pride project in the Northside neighborhood in Paterson. Others pictured from far left: Steve Kehayes of Paterson Habitat, and Lakeland Bank colleagues Roxanne Camejo, Ellen Lalwani, Deb Zimmerman and Perry Lighty.



- 6** **Peapack-Gladstone Bank**, Peapack-Gladstone Bank was recognized at the Commerce and Industry Association of New Jersey (CIANJ) and COMMERCE Magazine 6th Annual Best Practices Conference. More than 150 business leaders from every industry sector, as well as representatives from the higher education community, participated in the event, which was designed to encourage CEO's and other executives to share their best practices – innovative approaches to solving business challenges.
- 7** The United Way of Hunterdon County received a grant from **Somerset Savings Bank** to help fund programs directed at low-income households as well as individuals who may be homeless or at-risk homeless. The funds are being used to support the United Way's Hunterdon Thrive initiative as well as its Diaper Bank, Holiday Hands, Tools 4 School and Volunteer Income Tax Assistance programs. **NJ**



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