

Issues & Answers



November 2023

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*By Glen Simecek,
President & CEO,
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I may not remember Avogadro's number or, what valence electrons are, or much else from high school chemistry,

but I do remember one phrase my teacher repeated often: Nature abhors a vacuum. That idiom, dating back to Aristotle, states that empty spaces are unnatural and will eventually become filled.

Having just returned from our annual advocacy trip to Washington, DC, I propose a related postulate: Politics abhors a power vacuum.

Even the quickest glance at the morning headlines tells what we found during our visit. Congress was wrapped entirely around its axle as the House of Representa-

tives struggled to settle on a new Speaker. Those machinations, along with the periodic brinksmanship surrounding the debt ceiling, federal shutdowns, and default on federal debt obligations, are just some of the more recent examples of how the legislative branch struggles to get things done.

The resulting gridlock creates a power vacuum, and two types of organizations appear more than willing to step in to fill the role that Congress should play.

The first are federal regulatory agencies, such as the Consumer Financial Protection Bureau and the Federal Housing Finance Agency. Seeing Congress fail to move forward on issues in their purview, CFPB, FHFA, and other agencies are making decisions that can dramatically impact the banking industry.

These agencies aren't just taking action; they appear to be accelerating their efforts in many

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cases. Seemingly concerned that a potential change in presidential administrations would result in agency direction and leadership changes, they are moving as fast as they can. In the case of the CFPB, for instance, the agency's leadership is eschewing regulatory rulemaking, which is admittedly a time-consuming administrative process but helps ensure new rules are fully vetted with broad stakeholder input. Instead, the agency is opting to issue "regulatory guidance" to put its mark on essential issues like overdrafts and credit card fees.

The banking industry must recognize that, for the foreseeable future, these regulatory agencies will play an increasingly important role in how we operate. That's why our DC agenda included meetings with congressional offices and all the key regulatory agencies, including a very informative Q&A session with Federal Reserve Governor Michelle Bowman.

Thanks to all the bankers who came with us to DC and helped us have these conversations. Such meetings can remind regulators what is happening "in the real world," push back on agency overreach, and remind regulators that clear legislative direction is needed to support their actions. Sometimes, we can slow things down this way, but other times, we have reluctantly been forced into litigation to delay or block the implementation of unfair or poorly conceived rules. The courtroom isn't our preferred venue for making policy, but it is an approach we are willing to take.

The state government is the second entity looking to fill a void left by Congressional inaction. We see states taking action on issues like data privacy, AI, and climate change because they don't think that federal solutions are realistic possibilities. This approach can result in a patchwork of laws that vary from state to state, making compliance more complicated and expensive, if not impossible. It also opens the door to inconsistencies between new state legal or regulatory requirements and existing federal structures, further complicating compliance.

Such problems are another reason our state government affairs program is so important.

The bottom line is that we must be comprehensive in our advocacy strategies. We need to share our perspective with every potential policymaker, whether elected or appointed, at every level of government that touches our industry.

Because you always need to find out who will be trying to fill the vacuum.

Contact Us

Contact the Washington Bankers Association at 601 Union Street, Suite 1720, Seattle, WA 98101

Call us at (206) 447-1700 and visit us on the web at wabankers.com.

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On the Cover

Geese fly over the Billy Frank Jr Nisqually National Wildlife Refuge located near Olympia.
Photo courtesy of NWFS

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Banking on Progress: A Look at WBA's Annual PNW Capitol Hill Visit

October 16-18 was an eventful period on Capitol Hill. The Washington Bankers Association, in collaboration with the Oregon and Idaho Banking Associations, organized their annual Pacific Northwest (PNW) Capitol Hill Visit, a deep dive into the latest trends, regulations, and innovations in the banking world.

The trip kicked off with an optional visit to the National Air and Space Museum's D.C. location. This free tour was a unique opportunity to admire mankind's journey in aviation and space exploration.

Sponsored by Luse Gorman, a welcome reception was held at the Mayflower Hotel's District Ballroom. An ideal setting for attendees to mingle, exchange greetings, and set the tone for the days to follow.

The heart of the Capitol Hill visit, day two, was jam-packed with enlightening briefings and presentations:

A hearty breakfast set the stage, featuring notable figures: Joseph Cwiklinksy from FHLBDM and Jeff Huther from ABA.

The American Bankers Association and Independent Community Bankers of America then held their respective briefings, offering insights from industry leaders like Hugh Carney and Paul Merski.

Isaac Boltansky of BTIG provided an in-depth look at the current happenings around Capitol Hill, including the U.S. House speaker race, upcoming elections and where specific industry issues stand.

Over lunch, attendees were briefed by the Conference of State Bank Supervisors, featuring experts Nathan Ross and Kevin George.

The post-lunch sessions included briefings from the Federal Reserve, Financial Crimes Enforcement Network (FinCEN), and the U.S. Department of Treasury. Michelle Bowman, David King, and Graham Steele respectively led these sessions, offering attendees invaluable insights.

An interesting dive into Innovation and Artificial Intelligence was spearheaded by Ryan Jackson from ABA, highlighting the various ways some banks are starting to work with generative AI.

The day ended with a comprehensive briefing from the Consumer Financial Protection Bureau and a group dinner at FireFly, sponsored by the Conference of State Bank Supervisors.

The final day was dedicated to reinforcing the relationship between the associations and state representatives.

Individual state briefings took place, where members met to discuss the day's meetings, focusing on best practices for meeting with members of Congress and which issues to highlight.

Briefings from the Office of the Comptroller of the



Currency and the Federal Deposit Insurance Corporation provided insights into bank supervision and insurance, featuring FDIC's Travis Hill, who formerly worked for the agency under then FDIC Chair Jelena McWilliams.

The highlight of the day was the individual state Congressional visits, fostering dialogue and collaboration between bankers and policymakers.

With its comprehensive agenda, expert speakers, and opportunities for collaboration, the PNW Capitol Hill Visit served as a testament to the Washington Bankers Association's commitment to the growth and evolution of banking in the Pacific Northwest and beyond.

Reasons to Attend the CBA's 2024 Bank President's Seminar

Are you a banking professional eyeing the next big event on the industry calendar? In partnership with the California Bankers Association, we are pleased to present the 2024 Bank President's Seminar on January 10-11 at the Montage Resort in Laguna Beach.

If you're pondering whether to attend, here are compelling reasons why this is a must-visit event.

1. **Insightful Economic Update:** The seminar begins with a comprehensive economic update. Given the rapid changes in the financial landscape, keeping abreast of current economic trends is crucial. This session is bound to offer key takeaways that can help navigate the complexities of the banking world.

2. **Ample Networking Opportunities:** One thing that stands out from the event's agenda is the emphasis on networking. From designated 'Peer Networking' slots to receptions, the seminar provides numerous opportunities to connect with industry peers, share experiences, and build valuable relationships.

3. **Engage with Regulators:** The 'Regulator Panel' promises an engaging discussion and a rare chance to interact with key regulators in the industry. For bank professionals, understanding the perspectives of regulators is paramount. This session offers an avenue to ask questions, clarify doubts, and understand regulatory expectations.

4. **Moderated Discussions:** The 'Moderated Panel' is another highlight, ensuring attendees benefit from diverse viewpoints on pressing industry issues. Such panel discussions often provide a holistic understanding of topics, making them



invaluable for attendees.

5. **Social and Fun Events:** The seminar isn't just about business. The 'Gala Dinner & Casino Night' promises fun and relaxation. It's an excellent opportunity to let your hair down, enjoy the company of fellow professionals, and try your luck!

6. **Comprehensive Two-Day Agenda:** Spread over two days, the seminar's agenda is packed with informative sessions, breaks, and fun events. This ensures that attendees get a mix of professional insights, networking opportunities, and relaxation.

The CBA's 2024 Bank President's Seminar is shaping to be a landmark event for bank professionals. Whether looking for insights, networking, or a good time with industry peers, this seminar promises it all. Register early to ensure you get the best pricing possible!

8 Students from Washington & West Virginia Graduate from Virtual Commercial Lending Development Program

This fall, eight Washington and West Virginia students completed the Virtual Commercial Lending Development Program.

The program, which features eight virtual sessions covering everything commercial lenders need to succeed in the department, was held over three months, beginning in August.

Sessions cover business development, financial analysis, cash flow, and loan structure to provide bankers with a solid foundation in this highly competitive bank area. The program finished with student presentations and discussions with senior lenders who shared their experience and knowledge with the group.

This year's program was co-sponsored by the WBA's partner, the West Virginia Bankers Association.



Congratulations to Trenton Barnhart, Union Bank; Paul Crawford, Heritage Bank; Joe Erwin, Baker Boyer Bank; Billy Fetzter, Yakima Federal Savings; Galina Georgieva, Liberty Bank; Dexter Hughes, Wesbanco; Nidia Tapia, Baker Boyer Bank; and Ryan Willis, Coastal Community Bank.

Events Calendar

January 10 – CBA Bank President's Seminar
January 10 – Virtual Understanding Bank Performance
January 23, 2024 – Executive Development Program

February 7, 2024 – Bankers Day on the Hill
April 19 – CBA Annual Conference; Hawaii
June 26-28 – 2024 Annual Convention; Skamania Lodge

To register or to learn more about any of the listed events, please visit www.wabankers.com/calendar.



First Fed Bank Adds Two to Club 100

This fall, First Fed Bank announced that two more employees earned spots in the bank's Club 100 for individuals who have volunteered more than 100 hours in the year.

July Myers earned her spot for volunteering with local organizations like the Port Angeles and Sequim Realtor Associations, the NPBA Golf Tournament, and the Sequim Irrigation Festival.

Jason Robinson joined the club after volunteering this year with the Peninsula College and Port Angeles High School basketball teams and during CrabFest.

Mountain Pacific Bank Voted Best Bank of Skagit County

Mountain Pacific Bank was voted the best bank of Skagit County, highlighting the work of the bank's Burlington branch staff.

The bank won eight awards during the celebration event, including best financial planning services, overall leadership, company culture, place to work, and more.

"Winning a total of eight awards of the evening lets us know we are making a positive mark in Skagit. We extend our gratitude and appreciation to Skagit County for welcoming Mountain Pacific Bank into the community and allowing us the pleasure of serving you daily," said the bank.

First Financial Northwest Bank Supports Edmonds Food Bank

First Financial Northwest Bank recently participated in the Edmonds Food Bank annual gala.

The bank's Auction Team supported the event by providing services to help staff the fundraiser and support the organization.



Chase Hosts Back-to-School Financial Workshop for Local Students

The Chase Seattle team recently held a series of Back to School student financial workshops to help students.

Students from the University of Washington Foster School of Business, Chinese Information and Service Center's Youth and After School program, staff, students, and the coordinator from Year Up participated this fall.

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Industry News

New Hires

Kyle Henderson
Deputy Chief Credit Officer at First Fed Bank

Chris Ryan
Senior Vice President, Retail Banking at First Fed Bank

Melissa Klitzke
Vice President and Relationship Manager at Washington Trust Bank

Bobby Black
Senior Vice President and Commercial Banking Officer at Peoples Bank

Jim Wang
Senior Mortgage Loan Officer at Peoples Bank

Aileen Miles
Senior Mortgage Loan Officer at Peoples Bank

Josh Anfinson
Commercial Market Leader at Peoples Bank

Kelly Hoekema
CRA Office at Bank of the Pacific

James Lewis
Customer Service Representative at Olympia Federal Savings

Sawyer Anderson
Customer Service Representative at Olympia Federal Savings

Nick Guyer
Customer Service Representative at Olympia Federal Savings

Kristi Olson
Customer Service Representative at Olympia Federal Savings

Promotions

Geri Bullard
Chief Operating Officer and Chief Financial Officer at First Fed Bank

Jay Townsend
Vice President of Community and Business Development, King County at First Financial Northwest Bank

Christy Nutter
Strategic Initiatives Manager, Retail Banking Division at First Fed

Charles Robertson
Executive Vice President and Chief Retail Officer at Kitsap Bank

Jody Copeland
Regional Manager at First Fed Bank

Have Industry News to share with WBA? Email megan@wabankers.com or call (206) 344-3472.

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Pacific Crest Savings Bank Hosts Annual Clothes for Kids Fundraiser

This fall, the Pacific Crest Savings Bank in Lynnwood hosted its eighth annual Clothes for Kids fundraiser, bringing in more than \$11,000 in cash donations to support the organization's mission to provide clothing for needy students.

Clothes for Kids serves thousands of students throughout Snohomish County and the Northshore School District by offering a retail-like experience for free, where kids and teens can pick out their clothes.



Peoples Bank Announces Pig Search Winner

After the Peoples Bank Great Pig Search, the bank announced the grand prize winner for the year.

Resident Jason Hayes earned the \$1,000 prize after finding one of the hidden pigs during the contest.



Mountain Pacific Bank Attends Girls on the Run Sneaker Soiree

The Mountain Pacific Bank team, including President & CEO Mark Duffy, recently participated in the annual Girls on the Run of Snohomish County's Sneak Soiree fundraiser.

The event helped raise critical funding for over 800 girls who participate in the program each spring.



Olympia Federal Savings Participates in Day of Caring

The Olympia Federal Savings team participated in the 2023 United Way of Thurston County's Day of Caring.

The group helped a neighbor by painting and doing landscaping.



Yakima Federal Branch Manager Named Habitat for Humanity's Committee Member of the Year.

Yakima Federal Savings Prosser Branch Manager Johnny Prado was recently named the Habitat for Humanity's Committee Member of the Year, earning the Golden Hammer award.



Banner Bank Participates in Meals on Wheels Great Spokane Road Rally

The Banner Bank Spokane team recently participated in the Greater Spokane County Meals on Wheels Road Rally.

The bankers hosted two fun pit stops during the event and supported the organization's mission to provide meals for seniors in the community.



Liberty Bank Supports Kathleen Sutton Fund

Liberty Bank participated in the Kathleen Sutton Fund's annual celebration of the organization.

The nonprofit provides transportation reimbursement to women undergoing cancer

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treatment in the Clallam, Jefferson, Kitsap, and Mason counties areas.

This year, celebrating its 20th anniversary, KSF is reimbursing \$1 million to local women.

The bank actively participates with the organization.

Olympia Federal Savings Donates to Dry Tikes & Wet Wipes

As part of the bank's Two Cents program, Olympia Federal Savings recently announced it donated \$2,852 to Dry Tikes & Wet Wipes in September.

The organization helps provide emergency access to diapers and wipes for households in the Thurston County area.

The bank's program donates 2 cents from each debit card transaction to the nonprofit of the month.



Mountain Pacific Bank Hosts Final Shred Day of the Year

This fall, Mountain Pacific Bank hosted its final Shred Day event of the year.

Local customers and residents dropped off sensitive documents to be shredded safely.

The bank's next event will be held in April 2024 in Everett.



Sound Community Bank Supports Olympic Medical Center Foundation

Sound Community Bank employees recently attended the annual Olympic Medical Center Foundation's Harvest of Hope.

The bank was the presenting sponsor for the event.



Liberty Bank Sponsors Poulsbo Farmers Market

Once again, this year, Liberty Bank sponsored the Poulsbo Farmers Market.

The event actively promotes

and supports local agriculture, artisans, and makers and encourages community involvement.

Liberty Bank's staff members hosted a booth recently at the market, engaging with the community.



Commencement Bank Participates in Safe Streets Campaign Annual Luncheon

The Commencement Bank team recently attended the annual Safe Streets Campaign luncheon, where they learned about the work the organization is doing.

The Safe Streets Campaign works with neighborhood organizations, youth development, leadership programs, and civic engagement in Pierce County.



First Financial Northwest Bank Raises Money for Children's CountryHome

Through the First Financial Northwest Bank Dress Down for Charity Program, the bank recently donated \$1,300 to Children's CountryHome.

The organization provides compassionate and expert care to children in the community who are medically fragile.

Each Friday, bank employees can donate to the organization of the month to wear jeans on Fridays.



Cashmere Valley Bank Supports Yakima Sunfair Parade

The Cashmere Valley Bank Yakima team recently participated in the annual Sunfair Parade.

The bankers served free hot dogs and popcorn

to parade-goers.

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Olympia Federal Savings Supports Thurston County Realtors Association Fundraiser

Olympia Federal Savings employees recently participated in the Thurston County Realtor Association's annual fundraiser.

The fundraiser helps support leaders in the area who work with homeowners and business owners.



Heritage Bank Participates in YWCA Yakima Event

This fall, the Heritage Bank team members in Yakima participated in the YWCA Yakima's Power of the Purse event.

This annual fundraiser raises money to fight racism and empower women, including the main event, an auction of purses.



U.S. Bank Participates in Salmon Days Festival

The local U.S. Bank team recently participated in Isaquah's 54th Annual Salmon Days Festival.

One of the largest festivals in the state, the bank was one of hundreds of booths that people from throughout the region visited.

Liberty Bank Supports Coffee Oasis

Liberty Bank takes immense pride in sponsoring Coffee Oasis, an organization committed to a noble mission: restoring community through compassionate youth programs and coffee business.

Coffee Oasis strives to provide transformative opportunities through youth programs. In the face of daunting challenges such as abuse, homelessness, depression, and addiction, Coffee Oasis stands as a beacon of hope in our community.

At Liberty Bank, we wholeheartedly endorse Coffee Oasis's efforts to create pathways of opportunity for our youth, enabling them to overcome adversities and thrive in the face of adversity.



Kitsap Bank Sponsors Olympic College's Community Luncheon

Kitsap Bank sponsored Olympic College's annual Community Luncheon this October, where the bank donated twice.

Kaelen Kavanaugh earned the bank's Olympic College scholarship and will complete her business management degree this quarter.

The bank also donated to Olympic College's Food Pantry, which helps provide food to needy students.



Baker Boyer Bank Supports Christian Aid Center

Throughout the year, Baker Boyer Bank employees volunteer at the Christian Aid Center, helping to prepare, cook, and serve food to those in need.

The program serves two meals a day, year-round, equaling almost 47,000 meals yearly.

Bank of the Pacific Volunteers with Wildbird Charity

The Bank of the Pacific Whatcom County team recently

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volunteered with Wildbird Charity. The group packaged 500 bags of food for needy children throughout the area.



Sound Community Bank Donates to Olympic Peninsula YMCA

Sound Community Bank donates \$7,500 to the Olympic Peninsula YMCA this fall. The donation went to the organization’s impact cam-

paign, supporting swim lessons, safety around water classes, youth enrichment, free memberships, and work to keep health and wellness affordable. The bank has been a donor to the organization since 2008.



Wells Fargo Launches Hispanic & Latino Connection Employee Resources Network

During Hispanic Heritage Month this fall, the local Wells Fargo teams launched the Hispanic & Latino Connection Employee Resource Network. As one of 10 networks the bank offers, the group kicked off its first event with food, games, and connections across the greater region.



Peoples Bank Announces Lions Club Earns 2023 Impact Grant

Peoples Bank announced in October that the Bellingham Central Lions Club won the 2023 Impact Grant. The Lions Club will use the funds to create a volunteer eye clinic for low-income and homeless to provide free eye exams and glasses.



Chase Supports Seattle College Fundraiser

Seattle Chase Bank team members recently participated in the Seattle College fundraiser. The event supports higher education in the area and promotes all education-related things.

HAVE NEWS TO SHARE?
Email it to megan@wabankers.com to be included in an upcoming *Issues & Answers*



How Brands Can Help Consumers Navigate Challenging Economic Times



By April Masters, Senior Content Marketing Manager, Vericast

Everyday expenses are spiraling upwards, and the list of consumer financial concerns is growing. Gas prices, housing interest rates and credit costs are all climbing. In a landscape where every dollar counts and daily expenses continue to escalate, thoughtful and inno-

vative brands have an opportunity to make a meaningful difference in consumers' lives by providing value, savings and support that help consumers manage their finances efficiently and make ends meet.

Cause For Pessimism: Understanding Consumers' Financial Concerns

A recent nationwide survey of 2,000 adults revealed many Americans have deep concerns about the possibility of an economic downturn mirroring the severity of the 2007-2009 financial crisis. Sixty-eight percent of respondents anticipate a recession within the next six months, with an even more alarming 80% of these individuals expecting it to be a severe one.¹

Amid the backdrop of economic uncertainty and the daily financial struggles of households, it's crucial to understand the specific challenges consumers face and from where this economic pessimism stems. The erosion of the dollar's purchasing power over the past couple of years has left consumers grappling with tighter budgets and heightened financial anxiety. To combat the current inflationary pressures, the Federal Reserve is likely to continue a series of rate hikes. These mounting inflationary pressures, coupled with rising interest rates, impact various financial aspects of consumer finances.

The resumption of student loan interest accrual on September 1, with payments recommencing in October, adds another layer of financial stress for millions of borrowers as they struggle to realign their monthly budgets. The Consumer Financial Protection Bureau's analysis reveals 20% of these borrowers carry risk factors that could make the repayment process challenging.² Vericast's August 2023 Awareness-to-Action Study found that 76% of those with paused student loan payments are looking to cut expenses everywhere they can. These consumers are trying to reduce expenses from groceries to mobile and cable

services, while looking to consolidate debt.

The economic landscape is also seeing higher-income households grappling with unprecedented credit card debt as 72% of those earning \$100,000 or more find themselves entrenched in credit card debt for at least one year.³

Meanwhile, food and financial insecurity continue to create perilous conditions for consumers — nearly one-third of all Americans, and nearly 40% of younger Americans, skip meals due to financial concerns. These revelations underscore the widespread impact of financial pressures across various income brackets.

How Brands Can Help: The Power of Discounts and Coupons

The influence of savings in consumer decision-making cannot be overstated in today's economic landscape. Shoppers are firmly in the driver's seat, and if a brand doesn't offer them meaningful savings, they are more than willing to explore other options that do. They are also more discerning than ever, with savings playing a pivotal role in their buying choices.

It is increasingly apparent that brands have a pivotal role to play in offering solutions and savings options to consumers facing economic challenges. Brands that do so have an opportunity to make a meaningful difference in the lives of consumers and foster lasting loyalty.

Coupons, deals, and promotions have emerged as powerful factors that shape purchase decisions for individuals and households. According to the Vericast Awareness-to-Action Study conducted in February 2023, 41% of consumers prioritize shopping at stores offering the lowest prices.⁵ This data underscores the growing importance of cost-conscious shopping in the consumer psyche.

For example, the Vericast 2023 CPG + Grocery Trend-Watch highlights a significant shift in consumer behavior, where the decision to dine out or cook at home is often predicated on what individuals perceive as the most cost-effective option.⁶ In this context, coupons, deals, and promotions remain a top factor influencing purchase decisions. Brands that recognize this trend and proactively provide savings opportunities are more likely to win the loyalty of consumers.

The Vericast Awareness-to-Action Study conducted in June 2023 unveiled further insights into consumers' attitudes toward savings, with a significant 51% of respon-

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Artificial Intelligence: The Benefits & Challenges for Financial Institutions



By Julia A. Gutierrez, Director of Education, Compliance Alliance

The technologies of artificial intelligence (AI) are becoming an integral piece of the world we live. These technologies are being deployed across a plethora of fields ranging from simple devices such as a cell phones to more complex technologies such as autonomous vehicles or

the diagnosing of diseases. Artificial intelligence is even rearing its advancing technological head into the playing field of banking. It is a constantly evolving technology that many industries are jumping into while other are slowly pushed into in their efforts to thrive. For banks, it's critical to embrace the advancements of the future, but also to consider the security and regulatory requirements and overall risk to the organization and its customers.

What is Artificial Intelligence

Artificial Intelligence is a term that commonly references the various technological capabilities that allow for the analysis of data and the identification of patterns to make decisions and impact an outcome. Some examples of these AI type activities or branches include machine learning, natural language processing, robotics process automation, and speech and object recognition. Machine learning is a branch of AI and computer science that focuses on the use of algorithms and data to imitate human learning patterns, while gradually improving the accuracy. With machine learning, the system learns and improves, as new data or is made available. Another branch of computer science and AI is natural language processing. This branch of AI enables computers to process human language, received through text and spoken words, and to understand the meaning and intent. It basically allows a computer system to understand the semantics of conversational language. The AI branch of robotics process automation, also known as software robotics, is the use of applications and systems to perform human-like tasks. It uses intelligent automation technologies and rule-based software to perform business process activities at a more efficient volume, reducing the need for human resource or involvement in the task. Finally, the AI branch of speech recognition enables a system to identify and process human speech into a written format. Speech recognition may also be referred to as automatic speech recognition, computer speech recognition, or speech-to-text. This AI technology is often confused with voice recognition which focuses on identifying an individual user's voice. However, speech recognition focuses on translating speech from verbal to text. Each of these artificial intelligence branches are utilized throughout financial institutions and countless other industries around the world.

The Benefits of Artificial Intelligence

Artificial intelligence is used in various fields and applications ranging from online shopping, advertising, and machine translation enabling cross-language communication, to improving the overall operations and cost efficiency of financial institutions. The use of artificial intelligence technologies in financial institutions can drastically reduce operational costs while significantly increasing productivity. With its broad range of uses, AI can potentially aid financial institutions in reducing costs associated with products and services, and it can enhance the overall customer experience as it bridges the gap between customer convenience and relationship. AI can benefit a financial institution's lending process as it can expand credit access, assist in financing decisions, decrease the underwriting times and costs, and enhance both the borrower and lender experience. AI can be beneficial throughout other areas within financial institutions such as identity validation and real-time antifraud monitoring. The opportunities and benefits when it comes to AI and financial institutions seem to be endless. But there has to be challenges, right?

Artificial Intelligence Challenges

Artificial intelligence isn't perfect. Like any other enhancing technologies, AI comes with its own set of risks and challenges. Some of those risks and challenges include system integration and a gap in skills. With system integration, the data behind AI is equally as critical as the technology itself. In order for the utilization of AI to be beneficial and effective, the data quality and quantity need to be accurate. This involves organizing data and preparing for integration. This means that financial institutions with a core processor will have to coordinate between their core system and their AI technologies. This can often be a complex and costly undertaking and financially burdensome, especially for small financial institutions and community banks. Financial institutions may also run into a more complicated integration processes if their core processors and AI solutions vendor are competitors of the same or similar products and services. This challenge often leads to increased fees and costs for integration. Even if financial institutions are able to work out all the kinks related to system integration, there is always the challenge of obtaining expertly trained staff who are knowledgeable in building and deploying of AI solution. With the rapid advancement and use of AI technologies, it has led to a shortage of skilled AI experts in the broader labor force. While this is a challenge that is expected to improve in the future, at present, it leaves financial institutions competing with large tech companies such as Apple or IBM when recruiting for AI talent.

An even more challenging area associated with artificial

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intelligence and financial institutions is meeting compliance expectations on technologies that are surrounded by so much regulatory uncertainty. Financial institutions are expected to identify and manage all risk related to artificial intelligence and how it is used within the organization. It's not enough for financial institutions to simply employ the technologies of AI, but rather they are expected to understand the data or inputs that drive the outcomes. Financial institutions are expected to ensure that all data used within the various branches of AI, align with regulatory compliance requirements. For example, if the machine learning branch of AI is used in the decision-making for credit, the bank should understand and be prepared to explain what the contributing factors were that the AI system used to make that decision (i.e., what data was inputted to receive the outcome/decision). It is critical that financial institutions are not only able to understand and explain this process, but also that all the data used within the AI system meet regulatory requirements. This means ensuring that the AI system isn't using information that may violate consumer or fair lending laws.

Financial institutions that are utilizing AI should have processes in place that allow for the identification of risk, both new and emerging, as well as controls for managing that risk. Because of the rapidly evolving technologies of AI, there is always the challenge of changes in risk level or even unidentified risk developing. Financial institutions need to be prepared to rise to the occasion when it comes to meeting those regulatory and risk challenges, whether that be through an increased frequency in monitoring and reviewing established controls or contracting with external vendors to conduct robust third-party risk management.

The use of AI technologies within financial institutions has captured the interest of regulators and policymakers

alike. A couple of key concerns are always the safety and soundness of financial institutions and consumer protections. While AI is constantly growing and advancing, many of the banking laws and regulations currently on the books are still a little behind the times, leaving some areas of regulatory uncertainty. Nevertheless, regulators acknowledge the benefits of AI and support the responsible innovation by financial institution. In 2021, the agencies (Consumer Financial Protection Bureau, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Reserve Board) issued RFI's (request for information) on the use of artificial intelligence by financial institutions. In 2022, the OCC (Office of the Comptroller of the Currency) issued supervisory expectations for how banks should manage risks associated with AI. And most recently, in April 2023, a joint statement was issued by the agencies on the enforcement efforts against discrimination and bias in automated systems. The 2023 statement outlines some of the challenges of AI and serves as a reminder that financial institutions must embrace responsible innovation.

Conclusion

For financial institutions to thrive in the industry and remain relevant in the market, they must continue to be forward thinking and responsible in their innovation efforts. Artificial intelligence is an ever evolving technology and convenience of the world in which we live. Financial institutions must engage in the balancing act of supporting new and innovated technologies for its consumers, while also acknowledging the managing the risks and challenges of such growth. It is imperative to fully understand the technologies that our institutions relies on for its operation and that we remain abreast of any arising issues in the regulatory world. Artificial intelligence is the future and it's filled with risks and rewards.

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dents affirming that "Saving money through coupons and discounts is a necessity to make ends meet." Additionally, 33% of respondents indicated they actively seek printed circulars to save money on groceries when faced with high prices, while 29% turn to digital circulars for similar savings during times of economic strain.⁷

These statistics not only highlight the financial priorities of consumers but also underscore the need for brands to offer savings opportunities. Brands that recognize the pressing need for discounts and coupons and adapt their strategies accordingly are better poised to resonate with cost-conscious consumers, forging lasting connections based on shared financial values.

Beyond Discounts: Strategies for Consumer Value

In addition to coupons and discounts, there are other ways brands can provide support and value as consumers navigate challenging economic times:

- **Affordable Pricing:** Brands can offer competitive pricing and value-oriented products to help consumers stretch their budgets further.

- **Product Substitutions:** Brands can offer more budget-friendly alternatives or smaller packaging sizes for their products, allowing consumers to purchase what they need without overspending.

- **Customer Loyalty Programs:** Rewarding loyal customers with exclusive discounts, early access to sales, or points-based systems can help consumers save money over time.

Brands must adapt to consumers' changing preferences and prioritize value, savings, and promotions. By adopting these strategies, brands can show empathy and solidarity with consumers facing economic challenges. Brands that genuinely prioritize consumers' financial well-being are more likely to build trust, loyalty, and long-lasting relationships with their customer base.

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Unified Approach to Third Party Risk Management

By Katie Ferrell, United Bankers Bank

The banking industry relies heavily on third party providers to support tasks of various complexities. The FDIC, OCC, and Federal Reserve have issued guidance around Third Party Risk Management (TPRM) in the past and each have had slightly different perspectives until now.

On June 3, 2023, the agencies issued a standardized approach to TPRM after almost two years from their original proposal and as a result of numerous comments from the industry.

While the new guidance is meant to be uniform and enhance consistency, it promotes flexibility and risk-based frameworks. The guidance also isn't specific to technology providers. It is intended to help evaluate all relationships and firmly states it is not intended to be interpreted as exhaustive or to be used as a checklist.

The primary components of responsibly managing a third-party's life cycle remain mostly consistent with guidance issued in the past, which recommends the following approach:

- Planning;
- Due diligence and third-party selection;
- Contract negotiation;
- Ongoing monitoring in real time; and
- Termination.

Defining 'critical' in the realm of vendor management can be a challenge or a moving target. Critical activities are now formally defined as those that:

1. Cause a banking organization to face significant risk if the third party fails to meet expectations;
2. Have significant customer impacts; or
3. Have a significant impact on the banking organization's financial condition or operations.

Because the definitions still leave room for subjectively, it is 'critical' for various business units to participate in evaluations of new and existing relationships to provide a holistic conclusion regarding the potential impact to the bank's operations and customers. Individuals, which could include outside counsel, involved in the review of contracts, service level agreements (SLAs), and due diligence (such as financial reports), should have the expertise to analyze and provide a thoughtful opinion about any associated risks and criticality. Once a bank has identified the complete third party inventory, a tailored methodology needs to be developed to determine the level of oversight associated with each relationship.

Governance and oversight remains at the forefront of agency expectations. Ensure your TPRM program and reporting fosters board transparency of the third party inventory, TPRM policy, and management's ability to administer the program.

Each bank is unique, and the degree of complexity involving third party relationships ranges from one end of the spectrum to the other. While there is software available to aid in organization, risk assessments, and collection of due diligence, the guidance repeatedly stresses the ultimate responsibility of all third parties, including subcontractors or 'fourth parties,' lies with the bank. Comparing your existing TPRM framework to the guidance will help identify gaps, so enhancements can be implemented to appropriately reflect operations and level of reliance on third parties for support.

United Bankers' Bank can assist you with your Third Party Risk Management program! Visit www.ubbcomplianceservices.com



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