A TIMELY BIMONTHLY INFORMATION AND IDEA STATEMENT

FINANCIAL INSTITUTIONS INSIGHTS

Delivering bimonthly information critical to community banking professionals while tackling issues ranging from IT security to regulatory compliance to operational improvements

In this issue:

Third-party relationship management: Beyond the regulations

Financial institutions often consider third-party relationship management nothing more than a compliance requirement, a box to check because "we know our vendors." But technological change and market forces mean financial institutions are no longer just managing well-known, long-term local suppliers. They are now interacting with more third-party vendors for products, software and hardware and are often outsourcing or co-sourcing critical functions due to lack of available local staffing or expertise.

So what do the regulators say? According to the Federal Financial Institutions Examination Council's information technology examination handbook:

"Financial institutions should establish and maintain effective vendor and third-party management programs because of the increasing reliance on nonbank providers. Financial institutions must understand the complex nature of arrangements with outside parties and ensure adequate due diligence for the engagement of the relationships and ongoing monitoring."

FFIEC IT Examination Handbook

Beyond the regulatory requirement, it's simply good business. Third-party relationship management (TPRM) truly protects the institution and its customers. The goal of TPRM is to confirm:

LAPORTE CPAs & BUSINESS ADVISORS

RSM US Alliance | RSM

- The vendor is financially stable and capable of fulfilling the business need.
- The vendor has appropriate safety, security and controls to protect the institution and its customers.
- Risk is manageable and appropriate to the financial institution's risk appetite.
- Service levels and expenses are appropriate and in line with expectations.

For TPRM to be effective, it must be more than a checklist. The rationale for the program and why it matters need to be understood by those that select and manage vendors for the institution. Beyond the risk element, cost savings are often achieved by increasing accountability, consolidating vendors and increasing visibility to issues early in a relationship.

How do you start?

Assign an owner for the TPRM program. This person will confirm that the program meets the institution's policy that all vendors are included and rated, and that necessary information concerning each vendor is maintained.

Start by understanding the scope of the program. Inventory current vendors, identify relationship owners and gather information about all vendors, including contracts, services performed and financial information.

With that information gathered, determine how the program will look going forward. Questions to consider include:

- From a people perspective, who should own the relationship and should the process be centralized?
- From a technology perspective, do you need a software solution to manage TPRM? Will it streamline the current process? Create automation? Increase visibility and accountability?
- From a process perspective, how are vendors selected? How are payments approved? What factors determine risk level and ensure proper controls are in place? Where are there handoffs in the process? How frequently do they need to be reviewed?

To read the complete article, go to: http://rsmus.com/our-insights/newsletters/financial-institutions-insights/third-party-relationship-management-beyond-the-regulations.html

Emerging technology trends for financial institutions

Effective technology investments are a landmark of the most efficient and successful financial institutions. Regulatory, security and customer demands are constantly changing, and the right information technology (IT) solutions can help you achieve your business goals. However, before implementing potential solutions, you must first understand the complexities of the IT landscape to find an optimal balance of value, cost and efficiency.

Every institution has unique demands and requirements, but each also has an opportunity to leverage technology to enhance operations. The following are tools that we have identified in our experience with institutions like yours that are gaining quick traction in the industry and that you may be able to leverage for greater effectiveness and productivity.

Cloud hosting, managed services and IT partnerships

Today's institutions are increasingly utilizing outsourcing relationships to strengthen technology infrastructure and get more value out of IT investments. Outsourcing has gained momentum because of several factors, including limited budgets, staffing and internal knowledge, as well as increased security risks and higher customer expectations.

In addition, and perhaps most importantly, qualified internal IT resources are increasingly difficult to find and retain. Outsourcing helps your institution fill those talent gaps with consistent resources and increase internal employees' focus on the customer experience.

Outsourcing is particularly attractive to many financial institutions because it is a flexible solution. You do not have to fully outsource your entire IT infrastructure; instead, you can identify your specific challenges and adopt a range of solutions to address both your short- and long-term challenges, and adjust your strategy as necessary.

To read the complete article, go to: http://rsmus.com/our-insights/newsletters/financial-institutions-insights/emerging-technology-trends-for-financial-institutions.html

Managing competing operational risks under CRS and FATCA

How to address new compliance challenges

The trend toward tax transparency and the exchange of information on financial accounts throughout the world is creating new requirements for taxpayers everywhere. These efforts began with the U.S. government's enactment of the Foreign Account Tax Compliance Act (FATCA) and has culminated with governments around the world adopting similar provisions under the Common Reporting Standard (CRS). FATCA requires foreign financial institutions (FFIs) to agree to report information on U.S. persons holding offshore accounts to avoid 30 percent FATCA withholding on certain payments.

Building on FATCA, CRS requires financial institutions (FIs) to disclose specific information on accounts held by residents of jurisdictions that have adopted CRS and is the new global standard for the automatic exchange of financial information between governments. CRS is expected to significantly affect the compliance obligations of financial institutions around the world that were just starting to get comfortable with FATCA. Is your organization prepared to handle these increased reporting obligations which start in 2017 and which vary by jurisdiction?

A recent survey jointly sponsored by RSM and Hedge Fund Management Week indicates that most firms still consider themselves only "somewhat familiar" with CRS and that only 20 percent rated themselves as "fully prepared" for the impact of CRS. The survey also indicates overwhelmingly that, firms expect to rely on the same systems, resources and processes used for FATCA to comply with CRS, but expect that differences in the format of reports, extensible markup language (XML) schemas and other requirements under local laws for CRS will increase their costs going forward. This article provides an overview of requirements under CRS and highlights key differences between CRS and FATCA.

What are FATCA and CRS?

FATCA requires non-U.S. FIs to agree to report certain information on income and assets of U.S. persons holding offshore accounts and it requires nonfinancial foreign entities to provide information on their substantial (i.e., 10 percent or more) U.S. owners or they will be subject to 30 percent withholding on certain payments that they receive. Leveraging FATCA Model 1 Intergovernmental Agreements, the Organisation for Economic Co-operation and Development (OECD) introduced CRS as a global standard for the sharing of financial information between over 100 countries that have adopted the regime to date. CRS requires FIs to report specific information on accounts held by residents of participating jurisdictions to the FIs' local governments using a particular format. This information is then exchanged with other participating jurisdictions as appropriate to assist the customer's jurisdiction of residence identify potential tax avoidance.

To read the complete article, go to: http://rsmus.com/what-we-do/services/tax/international-tax-planning/global-information-reporting-fatca-crs/managing-competing-operational-risks-under-crs-and-fatca.html

Not your grandfather's boardroom: Building a modern board of directors

One of the biggest challenges for many financial institutions is how to prepare for the next generation of board members. Financial institutions frequently indicate they should have a succession plan in place but don't know where to begin. The modern bank director must be fluent in risk, governance, technology, disaster recovery, security and regulations—all on top of the actual business of banking.

The days of selecting directors based on the largest deposit balances or biggest store in town have passed. For example, I recently spoke to a banker who shared a conversation he recently had with a board member on their special asset committee. The board member asked why they only talked about the "bad loans." Inviting directors to, or leaving directors in, roles for which they are not equipped is not fair to the institution, to the customers or to the directors, and civil money penalties are not a myth.

Getting started

To prevent disruption in your financial institution, implement a strategic succession plan—one that's comprehensive, vetted and ready for you when you need it. Just as you have, or should have, a succession plan for key employees, or a business continuity plan for your information technology areas and key business systems, you must also have a plan in place that addresses departing board members. Not sure where to start? Consider the following:

PLAN

Successful planning can develop a foundation for understanding your current board makeup and when you may need to start thinking about transitioning to new board members. Key steps include:

Complete a board assessment to better understand the current state of your board and its members. This assessment involves several key steps, including:

- Evaluate the number of board members
  - Confirm the board has expertise in an appropriate mix of areas
  - Establish and communicate the expected level of participation and process for removing nonparticipating members
  - Detail committee types, frequency of meetings and data reviewed
  - Indicate specific term limits and retirement information (this isn't about age, it's about the ability to perform the function; some institutions have directors who are over 70 who are excellent and some much younger who aren't)
- Following that, create a formal succession plan and make sure it supports your institution's overall strategic plan, satisfies regulatory needs and allows for recruiting to fill spots with new members who have skills that your present board may lack.

To read the complete article, go to: http://rsmus.com/what-we-do/services/technology/management-consulting/not-your-grandfathers-boardroom-building-a-modern-board-of-direc.html

RSM and PCBB's 2017 Executive Management Road Tour

IN-PERSON EVENT | Aug. 07, 2017

Join us Aug. 7–8 in San Francisco or Sept. 25–26 in Chicago for RSM and PCBB's 2017 Executive Management Road Tour. We will explore how you can capitalize on current trends to overcome regulatory challenges and cyberthreats and the other hurdles between banks and growth.

Register for Aug. 7–8 in San Francisco
Register for Sept. 25–26 in Chicago

LaPorte
CPAs & BUSINESS ADVISORS

111 Veterans Memorial Blvd., Suite 600
Metairie, LA 70005

Address Service Requested

For additional copies or change of address, contact LaPorte CPAs & Business Advisors. For more information, contact Leslie Paull, at +1 504 835 5522 or e-mail her at lpaull@laporte.com. Visit our website at www.laporte.com.

Financial Institutions Insights

May/June 2017

Printed in the U.S.A.

NL-NT-CON-FI-0317