



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

PRESIDENT'S MESSAGE

Issue 5 • 2019

Encouraging evidence for living into our unique vocation a day at a time

The Independent Community Bankers of America has announced three community bank recipients of its 2019 National Community Bank Service Awards and recognized seven others with honorable mentions.

The chosen banks are scattered across the contiguous states, with representation in California, the Midwest, the South, the desert Southwest, and the East Coast.

No doubt the more or less even distribution of winners across the country was only accidental. But it's tempting to think of it as a metaphor for community banking itself—a uniquely American phenomenon that's local, personalized, and connected to the people and enterprises it serves.

If you haven't already read the award recipients' stories in the September Independent Banker, I suggest you circulate that issue through your office some gloomy day and then watch your coworkers' faces light up with satisfaction.

It's a fact that even people who love their work need a dose of inspiration every now and then—reminders that shift our focus to what's possible,

what we've helped achieve, and why we've chosen to do what we do.

This year, the tragic consequences of natural disasters impacted many areas of our country. Community bankers were by no means alone in participating in relief and recovery efforts. However, it's true that untold numbers of relatively small local teams (including bankers) managed to join forces with neighbors, community groups and public agencies on recovery and rebuilding projects in the wake of the disasters. What these collaborations have achieved is remarkable.



Bill Mitchell
President & CEO

The ability to unite in support of the common good is cause for optimism. Even though it seems positive news too often takes a back seat to gloom-and-doom stories these days, real progress is being made.

A major step forward for the financial services industry, consumers and businesses is described on page six of this newsletter. The Fed's decision to develop the FedNowSM Service hinged largely on the views expressed in hundreds of comment letters; maybe yours was one of them. What you do really does matter, so keep up the good work!



2019 Conference on Information Security in Community Banking

AT THE DOUBLE TREE BY HILTON HOTEL DENVER-AURORA

October 23-25

Get shipwrecked on a deserted island with David Peterson, and learn the strategic leadership principles that will enable you to properly manage systems and people to avoid disasters ... and to reduce the negative impact of a crisis.



Greg Schaffer

"No longer must executive management and the board of directors rely on a color-coded rainbow representation of someone's opinion of risk; now they can understand their organization's exposure in the most basic language of business—cost."

Full details & registration at
<https://cvent.me/GWWyw>



David Peterson

ON THE HORIZON

ECONOMIST MARY KELLY, U.S. NAVY (RET)

Military Top Secret Leadership Strategies for Business



Thursday ■ October 24

Conference on Information Security in Community Banking

In her opening keynote address, retired Naval Commander, economist and author Mary C. Kelly will discuss how military approaches can be applied in business to improve teamwork, productivity and results.

How does the military recruit people from diverse environments and unite them into cooperative, powerful teams? **Mary Kelly**, a retired Naval Commander who served 21 years on active duty, will share how businesses can adopt military approaches to unite teams, accomplish more in less time, surmount difficulties, define expectations, and achieve goals.

Mary's passion is helping people and their organizations reach their full productive potential. No matter what role you play in your bank, you'll return with valuable insights.

Find conference info, logistics and registration at <https://CVENT.ME/GGWyw>.

WEBINAR PRESENTATION BY DR. DAVID KOHL

Professor Emeritus ■ Virginia Tech ■ Blacksburg, Virginia



Monday ■ November 25

12³⁰ to 1³⁰ pm MST

1³⁰ to 2³⁰ pm CST

Open to all community banks; geared toward ag lenders, producers, credit analysts, directors & executives.

Information & registration at <https://CVENT.ME/E8Azm>

The agricultural reset seems elongated, raising concern over when it will end. In this hour-long live webinar, **Dr. David Kohl** will connect the dots with a current domestic and global overview for ag lending. He'll look at the spectrum of performance possibilities for credit risk and business development and discuss what is an acceptable burn rate on working capital and core equity. Register now and benefit from Dr. Kohl's insights into the factors affecting ag lending.

ABOUT

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What warrants watching in the world of wires

Rosemary Fuentes-Malone, VP-Wire Transfer & Fed Funds • Bankers' Bank of the West

It's back-to-school season, a good time to brush up on a couple of wire fraud schemes and then review some tactics for reducing those crimes.

TWO FORMS OF EMAIL COMPROMISE

Over time, criminals have developed an arsenal of slick schemes for stealing funds via wire transfer. In a report released in April of this year,¹ the FBI Internet Crime Complaint Center (IC3) indicated 20,373 complaints had been filed by victims of business email compromise (BEC) and email account compromise (EAC) in 2018 alone. One example mentioned in the IC3 report (page 10) describes a 2018 increase in the number of victims having received a spoofed email or text or phone call—appearing to be from someone in a position of authority—instructing them to buy a quantity of gift cards.

ROMANCE SCAMS/CONFIDENCE FRAUD

Sadly, the same communication tools that allow people to form relationships are being used successfully by criminals to defraud trusting victims. The IC3 reported that victims of internet romance scams lost more than \$230 million in 2016, noting those schemes took in more money from victims that year than any other internet crime tactic.²

The most effective deterrent for crimes like these is education. As trusted sources of financial expertise, banks can play a crucial role in keeping customers aware of common scams, indicators of possible fraud, and the importance of protecting private information. Sharing tips—as website postings, in your lobbies, on social media, at chamber events, or other means—can go a long way toward keeping your customers more vigilant and secure.

SUGGESTED HABITS FOR BANK STAFF

The following best practices are highly recommended by our wire transfer specialists. The list is by no means complete: As scammers take up new tricks, bankers have to adapt, too. If you've

already made these recommendations part of your standard routine, you're on the right track:

- ✓ Include as many relevant details as possible in the wiring instructions, including the full name and middle initial of the beneficiary, if available. In the case of an international wire transfer, specifying a complete name will improve the accuracy of your OFAC check.
- ✓ Look for patterns—and notice anomalies. When, how often, and how much has the customer normally wired to a certain beneficiary? If a customer who normally visits the bank abruptly starts texts or faxing instead, do some more fact-checking.
- ✓ Even if the timing and amount of a wire request is in line with a customer's habit, always verify the beneficiary institution and account holder details. The most successful criminals use sophisticated tactics that only a thorough check can detect.
- ✓ Realize that certain destinations require specific coding, and your careful attention to getting the details right will greatly reduce chances of a wire being delayed or rejected.
- ✓ Take extra care with large wires—especially with Friday wires. Crooks know that if they steal and wire funds to themselves on Friday, they'll have a full weekend to vanish with the money before authorities know what's happened. If possible, delay sending until Monday.
- ✓ Don't skip the verification check. The consequences of taking shortcuts can be severe.

If you have questions or an out-of-the-ordinary situation, remember BBW's wire transfer team is just a phone call away—and happy to assist.



MORE ON THIS TOPIC AT BBWEST.COM
UNDER THE "BULLETIN BOARD"

¹2018 Internet Crime Report. (April 2019.) Federal Bureau of Investigation Internet Crime Complaint Center. Retrieved from pdf.ic3.gov/2018_IC3Report.pdf.

²Federal Bureau of Investigation Washington Office of Public Affairs. (Feb. 7, 2018.) FBI Cautions Public to be Wary of Online Romance Scams. Retrieved from <https://www.fbi.gov/contact-us/field-offices/washingtondc/news/press-releases/fbi-cautions-public-to-be-wary-of-online-romance-scams>.

Attuning to the surging heft and complexity of bank governance

Debbie Meyers, Partner, and Dave Nowling, President & Partner • DunamikosGroup

Serving as a bank director has never been more challenging than it is today. While rapid advancements in technology have added complexity to the director's role, other factors have contributed. The 21st century community bank director must also reckon with a changing competitive landscape, heightened regulatory requirements, and a unique economic climate.

Given these demands, it is important that banks periodically review their directors' skillsets in relation to the ever-changing corporate governance requirements they must abide by.

Evaluations of board performance can take several approaches. Examples include a collective review of the board as a group, an "individual basis" appraisal through self-assessment, or a peer-to-peer assessment. The choice of approach often depends in part on the climate in which the bank operates.

But now more and more banks have, or should have, considered some sort of review of their

board's involvement, performance and overall effectiveness in addition to the composition of the directorate's skillsets. These reviews provide critical information to pinpoint gaps in the skills needed for strategic leadership and to identify the possible training needs of directors. Such reviews can also yield insights for effective board succession planning.

While important to ensuring the board remains effective, such assessments can be difficult to administer internally. For this reason, banks often seek outside expertise to independently conduct the reviews. If you'd like to discuss this with someone experienced in providing such services, please call either of us at **Dunamikos Group** (dunamikosgroup.com):



Debbie Meyers
303-898-8707



Dave Nowling
303-941-3966

EMPLOYEE SPOTLIGHT: Long-time colleague primed for new experiences

At the end of December, **Mary Naslund** will retire from BBW, where she has worked on the operations team since 2001.

"I've had a wonderful career with the bank," she said. "And now I just feel the time is right do the things my husband and I have looked forward to for so long."

Mary and her husband, John—who's retired from the Union Pacific Railroad but still doing consulting work—are eager to visit family in the Boise, Portland and Seattle areas. They also want to spend time with their son, Alan, who recently moved to Brooklyn, N.Y.

The couple has made many extended weekend trips in the past to attend concerts of all sorts. In September, they'll be off to Dallas for the Eric Clapton Crossroads Guitar Festival—an event on their bucket list.

"We like a wide variety of music, but especially the blues," she said. "My daughter, Sarah, has flown with us to Chicago each January for the past six years to see Guy, one of our favorites."

Earlier this year, Mary and John started taking ballroom dancing lessons from Sarah, who has taught professionally since 2009 and participated in ballroom dancing competitions in and outside the U.S.

"John and I have enjoyed learning together on the dance floor," Mary said. "Trying new things really appeals to me. That's what excites me most about the future."



Mary is admired by co-workers for her pleasant disposition and work ethic (not to mention her out-of-this-world carrot cake.)



ENLIGHTENING webinar on ECCHO Rules ▪ Friday, October 4 ▪ 1pm Mountain | 2pm Central

In this 90-minute training led by WesPay, participants will learn about the many ways in which checks can be exchanged as well as the similarities and differences in the rules and agreements governing those exchanges. The session will cover the types of image exchange relationships, the underlying regulations, and the rules and other agreements required to define and support image exchange, with special focus on ECCHO rules.

Open to Bankers' Bank of the West customers. To request registration form, email ops@bbwest.com.

How up-front conversations about merchant compliance can clear a path to “yes”

Scott Wintenburg, SVP–Bank Card ▪ Bankers’ Bank of the West

“To a man with a hammer, everything looks like a nail,” Mark Twain observed. Today bankers like us use industry jargon and acronyms instead of a hammer to make a point—which is usually more effective with other bankers than it is with the general population. Most consumers of financial services, merchants included, want a basic grasp of a product or process before delving into details.

If your bank offers merchant services, you already know the major card brands created the Payment Card Industry Security Standards Council (PCI SSC), which established the Payment Card Industry Data Security Standard (PCI DSS) to curb payment card theft and the loss of electronic data. The PCI DSS spells out card-handling practices merchants must follow to accept payment cards. It details how to securely handle, process and store sensitive payment card data. All merchants that accept American Express, Discover, JCB, Mastercard, or Visa are required to comply with the DSS.

Although becoming compliant is a serious obligation, merchants naturally tend to focus mainly on managing and building their business. This presents an opportunity for the community bank to educate its merchants. Data security is central to the operation of any business and important to its customers. By putting PCI compliance in perspective, the community bank will help its merchants recognize that completing the process supports the business by reducing risk.

With the help of our partner, SecurityMetrics, we’ve put together some talking points you can share with your staff and your merchant customers.

MERCHANT DATA SECURITY BASICS

Why should I become compliant?

With hacking threats on the increase, data security is critical. The number of data breaches tracked in the U.S. climbed 40% in 2016 according to a study by the Identity Theft Resource Center. Becoming PCI compliant is a significant advance toward preventing such attacks.

What could happen if I don’t become compliant?

A report on your compliance status could be required by your merchant processor. Unless your PCI validation is current:

- ◆ Your card processing ability could be revoked.
- ◆ Noncompliance fees can be charged by your merchant processor.
- ◆ Your chance of withstanding attacks will be worse than if you were PCI DSS compliant.
- ◆ In case of a data breach, a non-compliant merchant would be subject to steeper fines, penalties, and costs associated with the breach than a merchant certified as PCI DSS compliant.

What does it take to get compliant?

Compliance requirements are based on the way you handle and process payment cards and on the number of transactions you process annually. Every merchant is required to complete a self-assessment questionnaire. Extra requirements could include:

- ◆ External vulnerability scanning
- ◆ Internal vulnerability scanning
- ◆ Penetration testing
- ◆ Security policy implementation

Does PCI compliance need to be validated?

Yes, because compliance is an ongoing process. As a merchant, you must validate your PCI compliance once a year. The process consists of completing a new self-assessment questionnaire and passing the required scans. In addition, you are required and expected to comply with PCI requirements day-in and day-out. A very important aspect of compliance is monitoring the environment to spot suspicious activity and avert a data breach.

INVITATION

All community bankers and merchants are welcome to attend a complimentary **MERCHANT WEBINAR TRAINING** on October 16 from 10 to 11^{am} Mountain Time.

To participate, visit www.gotomeeting.com/webinar/join-webinar. Enter the nine-digit webinar ID **878137963** and click **Join Webinar** to register.

Fed's plan for a real-time payment and settlement service means opportunity for community banks

Chris Hill, SVP & CFO • Bankers' Bank of the West

In August, the Federal Reserve Board announced its plan to develop a round-the-clock real-time payment and settlement service, the FedNowSM Service, to support faster payments in the U.S.

Faster payments enable near-instantaneous transfer of funds day and night, seven days a week, giving individual and business users more flexibility in managing their money and making time-sensitive payments. The Fed's participation in faster payments is a victory for small businesses, community banks and consumers in that it creates an equitable marketplace for processing transactions and allows community banks to play a meaningful role in rulemaking, pricing, and interoperability decisions.

Bankers' Bank of the West submitted a comment letter, co-signed by 71 community banks, in support of the Fed's participation. It was one of more than 400 submitted letters reflecting nearly 800 responses. More than 90 percent of comments supported the Fed's providing services alongside those of private sector operators.

The key gain for U.S. financial institutions is the ability to offer real-time payments to their customers through a modern payment infrastructure that allows innovation and competition to flourish in a safe and efficient way.

The Fed expects the FedNow Service to be available in 2023 or 2024. It said it will also consider expansion of Fedwire Funds Service and National Settlement Service hours, up to 24x7x365. The FedNow Service will, among other things:

- Ensure accessibility for financial institutions of all sizes and all areas of the country by enabling them to join multiple real-time gross settlement (RTGS) services for resiliency through redundancy.
- Continue to provide liquidity and operational continuity to the retail payment system in times of crisis and promote the development and implementation of fraud-mitigation standards for faster payments.
- Stimulate competition, thereby setting the stage for ongoing innovation in RTGS services, lower pricing and improved service quality, all of which will benefit faster payments participants.

Initially, transactions will be US dollar-based and limited to originator sent, credit-push payments of \$25,000 or less sent to domestic financial institutions. The Fed might expand the parameters as the payment system evolves, allowing for debit requests, larger amounts, other currencies, or cross-border payments.

Bankers' Bank of the West's management team recognizes that viable private sector solutions exist. However, the Federal Reserve already has established connections with all financial institutions and processors. It is currently providing payment services to more than 10,000 financial institutions across the U.S. Moreover, it the sole provider of interbank settlement functions for every financial institution. Looking ahead, the Fed expects it will work well alongside private sector services to provide faster payments.

BANKERS' BANK OF THE WEST

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