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Newsletter for Audit, Compliance, Security, IT, Credit Analyst, Lending, and BSA Officers

Spring 2017

CERTIFICATION NEWS

TECHNOLOGY

How a 3-Year Technology Plan Helps Control Risk, Drive Growth

Aligning your board, your strategy and your technology

By Brad Steppig

Regulators have required financial institutions to develop technology plans for several years. Unfortunately, many financial institutions have viewed this primarily as a regulatory compliance exercise and simply took an existing technology plan template and put their name on it. The plan satisfied regulatory compliance, but offered little value to the organization.

The lack of true long-term information technology (IT) strategy has become an increasingly greater concern, especially as IT spending continues to increase due to regulatory pressures and competitive necessities. For many financial institutions, IT spending has increased more quickly than profit margin growth, making it the largest budget line item for most financial institutions. An increasing IT budget is not a board's only IT concern, however. Regulators expect boards to provide educated and active oversight over all areas, including IT. Further, board members now face civil and criminal accountability regarding cybersecurity. As a result, boards must be more directly involved in IT planning to ef-

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PROFESSIONAL PROFILE

Get to Know Henry Parry, an ICBA Certified Banker in Pennsylvania

By Shirley Ringhand

Henry Parry is director of internal audit at The First National Bank & Trust Company in Newtown, Pennsylvania. He became a Certified Community Bank Internal Auditor in 1991.

*See **Profile**, page 3*

Fact Check

The First National Bank & Trust Co.

Headquarters: Newtown, PA
Retail offices: Twelve
Bank asset size: $917 million
Number of bank employees: 167
Number of staff in auditing and BSA/AML: Four
Website: www.fnbn.com
Taglines/Motto: More than money; people are our business

2017 CERTIFICATION CALENDAR ►

Audit Institute (Week 1)
- Sept. 11-15; Minneapolis

Audit Institute (Week 2)
- Sept. 18-22; Minneapolis

Annual Current Issues/ Certification Conference
- Sept. 25-28; Minneapolis
- Oct. 23-26; Baltimore

Bank Security Institute
- Sept. 10-13; Minneapolis

BSA/AML Institute
- July 31-Aug. 2; Chicago
- Nov. 13-15; San Diego

Community Bank IT Institute
- Aug. 7-11; Minneapolis

Compliance Institute
- June 11-16; Baltimore
- Oct. 1-6; Minneapolis

Consumer Lending Institute
- Sept. 17-20; Minneapolis

Commercial Lending Institute
- Oct. 1-6; Minneapolis

Credit Analyst Institute
- Aug. 20-23; Nashville

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fectively address these risks and concerns, yet it can be difficult for a board to meet these oversight expectations if the board members are not tech savvy, or don't understand their role in the technology management process.

Why develop a 3-year technology plan?

Financial institution IT leadership often struggles with how to educate the board on information security demands and on how IT aligns with and helps to drive the institution's strategy. If the board does not understand the business case for new technology initiatives, it can be a battle to get necessary IT spending approved.

Establishing a meaningful three-year technology plan can provide three key benefits for your institution:

- It provides the necessary business case for your technology spending, which helps prevent budget battles with your board.
- An educated board is more likely to provide effective governance and oversight.
- Better alignment between financial institution leadership and the board minimizes risk for the financial institution as a whole.

Why a three-year plan? A three-year plan helps address both, current and projected, needs. The goal is to move past looking at IT initiatives on an ad hoc basis and instead to help push the financial institution toward an integrated technology approach focused on long term strategy instead of short term needs.

To ensure buy-in and support for the final plan, engage your board during its creation. Keep the plan simple and don't make assumptions about what the board knows or understands. Technology definitions and explanations should be included discussions to prevent unnecessary pushback and to establish more productive conversation.

The final plan should include:

- A summary of your financial institution's organizational structure, business positioning and vision
- A statement on how the financial institution defines "technology" (since no organization defines technology in the same manner)
- A strategic statement, current state summary and proposed future state to help the board understand the journey
- Discussion of the following key areas:
  - o IT governance- define role of the IT steering committee and the board
  - o Data center strategy- include cloud vs. on-premise considerations
  - o Infrastructure- network communications and computing platform
  - o IT department staffing- outsource vs. in-house support
  - o Enterprise applications- core and non-core applications
  - o Electronic and virtual banking- strategy for online customer experience
  - o Information security and cybersecurity- posture and maturation
  - o Disaster recovery and business continuity- ensure all data and necessary financial institution functionalities are included
  - o Vendor management- risk management and dependencies
  - o Appendices:
    - Network architecture diagrams
    - IT steering committee charter
    - Detailed three-year project plan with budget and timeline

A three-year technology plan is not a one-and-done process, but instead must constantly evolve to meet emerging needs. Events that could drive changes to your plan include:

- Changes in regulatory expectations
- Acquisitions or mergers
- IT support model changes
- Competitive pressures
- Cybersecurity risks and newsworthy events
- Availability of new technologies

Outside advisors can be valuable

Many financial institutions use outside advisors as part of the planning process. Qualified advisors will offer extensive experience working with other financial institutions and even other industries, providing a wider perspective on your IT challenges and the full spectrum of available solutions. Since qualified advisors are objective, outside parties, they also can help to facilitate conversations among departments and service lines, which can help to minimize political issues within the organization. Qualified advisors can also provide the resources necessary to get the detailed work done so that your internal resources continue to focus on keeping your operations running smoothly. Finally, as you look to implement your plan, qualified advisors can provide resources that understand your solutions and that can deliver the bandwidth to get discrete projects done quickly and effectively.

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What makes a community bank different from the largest banks?
Parry: With today's technology community banks compete with our larger brethren on most services. The difference is the response time that community bankers can provide to their customers. Community bankers listen closely and respond quickly—a luxury not afforded by larger banks.

What makes you most proud of your bank?
Parry: Our bank charter dates back to 1864. The bank has been operating for 153 years and has since been dedicated to the greater Bucks County area.

How did you find your way into banking?
Parry: I started in banking after college in central Pennsylvania. After a couple of years, I landed an assistant branch manager position with First National Bank & Trust Co. After nine months, they asked if I wanted to be the internal auditor. As they say, the rest is history.

Tell us your biggest and best accomplishment.
Parry: I think my biggest accomplishment was getting certified through ICBA. Management didn't ask me to become certified but they were very supportive. Certification definitely shows a standard of development that is recognized by management and regulators.

What do you like best about the work you do?
Parry: I find audit exciting as you learn how each department works. You end up in all the operations of the bank from trust, loans, deposits, EFT, investments, control, and human resources. It is never dull and there is always something to learn.

What is your bank's customer-service philosophy?
Parry: Our sales philosophy is based on a concept of a low-key, soft sell approach. Our frontline staff are consultants and are encouraged to make sure the customer has received solid banking knowledge about our services.

What's your best advice to a new bank employee?
Parry: Maintain an open mind and discover your focus for a banking career. Once you find your niche, learn all you can so you can provide great service to your customers and fellow employees.

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Compliance Dates to Remember

Effective Date	Regulatory Change
Oct. 3, 2017	Military Lending Act effective date for credit cards
Oct. 19, 2017	Mortgage Servicing Rules amendments effective date
Jan. 1, 2018	HMDA final rule effective date for provisions related to institutional and transactional coverage, data collection, recording, reporting, and disclosure; Lenders will collect the new information in 2018 and report it by March 1, 2019
Apr. 1, 2018	Prepaid Card Rule effective date
May 11, 2018	Must comply with Bank Secrecy Act customer due diligence requirements (beneficial owner rule)