



Presentation for:



10 Financial Industry Trends You Can't Ignore



World's Largest Taxi Company

Does not own any vehicles



World Largest Accommodations Provider

Does not own any real estate



World's Largest Phone Companies

Do not own any telecom infrastructure



World's Most Valuable Retailer

Has no inventory



World's Most Popular Media Owner

Creates no content



World's Largest Movie House

Does not own any cinemas



World's Largest Software Vendors

Do Not write their own apps



What is the Implication for Banking?

World's Largest Bank

Does not...



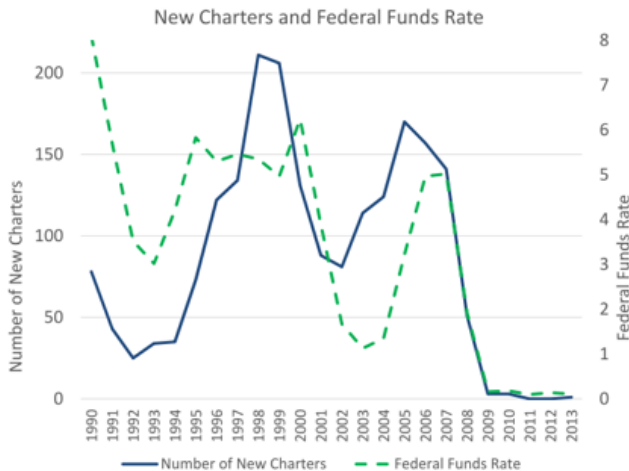
Are We at the End OR The End of the Beginning

- Elan Musk and the Hyperloop
- Immunotherapy
- Driverless cars
- Oil economy



Top Trends for 2018

- Voluntary and Involuntary Merger and Acquisition
- Minimal new charters since 2010
- Human capital availability



- Profitability and Net Interest Margin
- Cost of compliance and risk management

Tea Leaves: There is an appetite for bank formation. Since interest rates aren't rising political advocacy to reduce compliance costs is required to encourage new charters.

- Economic indicators continue to point to a strong economy.
- Life will get more expensive for borrowers
- Watch to see if higher rates lead to lower demand (or when)



Tea Leaves: We have managed IRR since we opened the bank. Continue to focus on our business strategy to grow customer relationships/revenue and deliver new products/services.



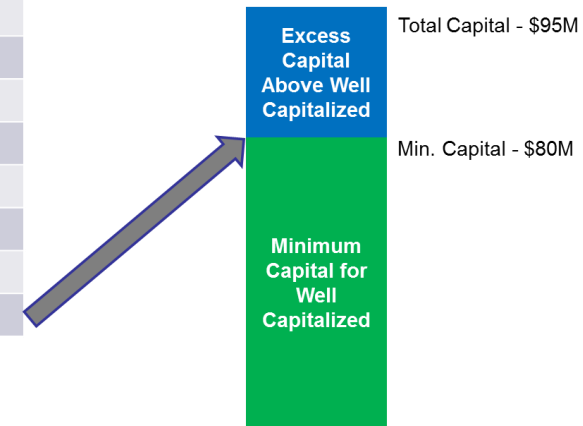
- Good News – Banker training is focused on techniques and practices for sound underwriting
- Portfolio participation rising (Residential, Commercial, Auto, Consumer)
- Non Bank lenders face regulatory oversight (Disruptive, Fairness, Balance Risk v. Innovation)
- Will CRE continue to be a source of growth?
- Will the Amazon Effect spark the next recession?

Tea Leaves: If pricing and compliance costs don't allow institutions to make money, expect large firms (Bank and Non Bank) to win and borrower choice to lose.

- Feld examiners are driving the requirements for DFAST banks downstream as capital planning is not for big banks anymore
- Capital Risk Assessments will emerge in the CFO's and Chief Risk Officer's toolboxes
- Integrate Market and Operational risk scenarios

Capital Risk Assessment

Risk Area	Net Residual Loss Impact
Transaction	\$\$
Information Technology	\$\$\$
Third Party	\$\$
Regulatory Compliance	\$\$\$\$
Business Continuity	\$
Credit	\$\$\$\$\$
Liquidity	\$\$\$\$\$
Interest Rate	\$\$\$
Strategic	\$\$\$
Reputation	\$\$
Total	\$15M



Bottom Line: Bottom-up and Top-down Capital Risk Assessments should result in a similar conclusion (but they don't...yet).

Mobile Payments

Mobile Wallets



Native Merchant Apps



Vs.

Peer-to-Peer Payments



Vs.



Tea Leaves: Four characteristics to count on include connecting consumers, technological innovation, burgeoning data, and evolving regulations.

- Non Banks vs. Traditional Banking
- Fintech vs. Traditional Banking
- New Threats
- Training



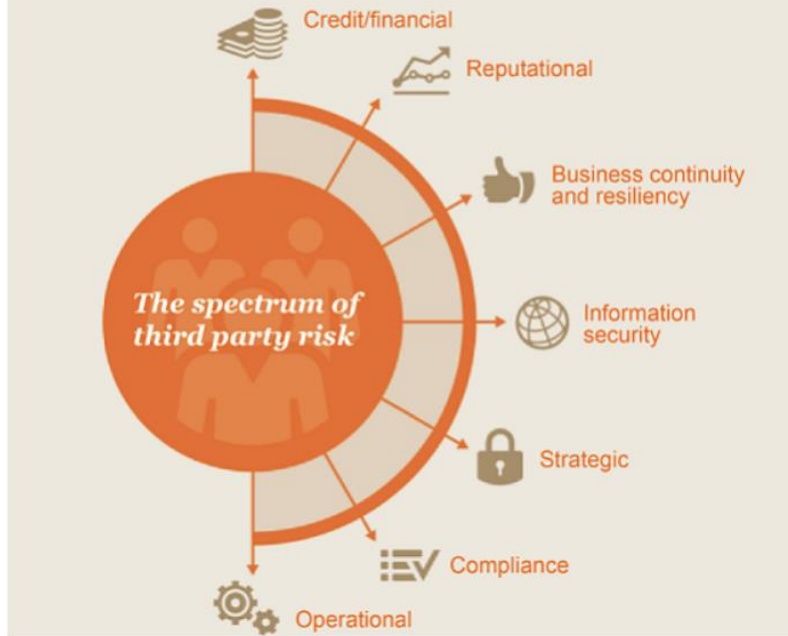
Tea Leaves: Include technological disruption, product innovation, and product distribution in the annual strategic planning process.



- Millennials disrupted societal norms
- Looking beyond them
 - Born after Jan. 1, 2001 and 9/11
 - The Internet of Everything
- “GenZ” will build

Tea Leaves: Millennials big users of consumer loans. They are buying homes and will eventually save for college and retirement. “Builders” need internships now!

Using third parties comes with a broad spectrum of risks



Tea Leaves: The notion of having perimeter security is extinct. We and our vendors need to secure the financial services industry ecosystem.

- Extreme use and reliance of third parties in community banking
- Regulators: “FI’s can’t outsource controls”
- Due Diligence and Vendor Monitoring expanding
 - SOC reporting
 - Legal contracts
 - Financial performance



- 81% of hacking related breaches leveraged either stolen and/or weak passwords
- 66% of malware was installed via email attachments
- 61% of data breach victims are businesses w/ under 1,000 employees

Source: 2017 Verizon Data Breach Investigations Report

Tea Leaves: No institution is too small to be a target. We will deploy more people, modified processes, and new innovative technologies to keep us safe.

*“Amateurs built the ark,
professionals built the Titanic.”*

Unknown

Bottom Line: Let's not delay in trying new approaches.

Thank You



Mike Cohn, CPA, CISA, CGEIT

Member of the Firm, Wolf & Company, P.C.

Director, WolfPAC Solutions Group

(617) 428-5488

E-mail: mcohn@wolfandco.com

LinkedIn: [mikecohn1](#)

Twitter: [@MikeDCohn](#)

Blog: wolfpacsolutions.com/blog/author/mike-cohn

www.wolfandco.com

www.wolfpacsolutions.com