



Get clarity on what's ahead

Crowe 2020 Financial Services Conference

REGULATORY RED FLAGS AND STRATEGIC RISKS

SMART DECISIONS. LASTING VALUE.™



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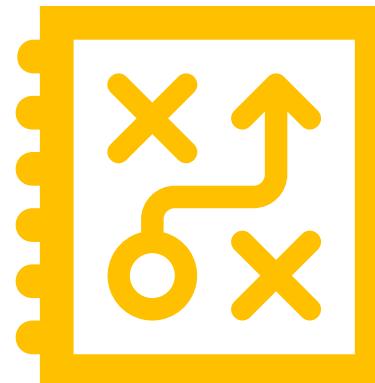
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SESSION DESCRIPTION

George Washington said, “The best defense is a good offense.” The best way to meet strategic goals is to be forward looking and recognize both opportunities and threats. Regulatory violations and strategic risks can derail the best game plans. This session discusses the five key issues that examiners are focused on today, as well as five strategic risks to consider and mitigate.



YOUR PRESENTERS



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AGENDA

- Sustainable Compliance Management Systems
- Bank Secrecy Act
 - Customer Due Diligence and Enhanced Due Diligence
 - Suspicious Activity Monitoring
 - Cannabis Banking
- Compliance Risk Assessments
- Strategic Risks: the Five Cs to Consider

Sustainable Compliance Management



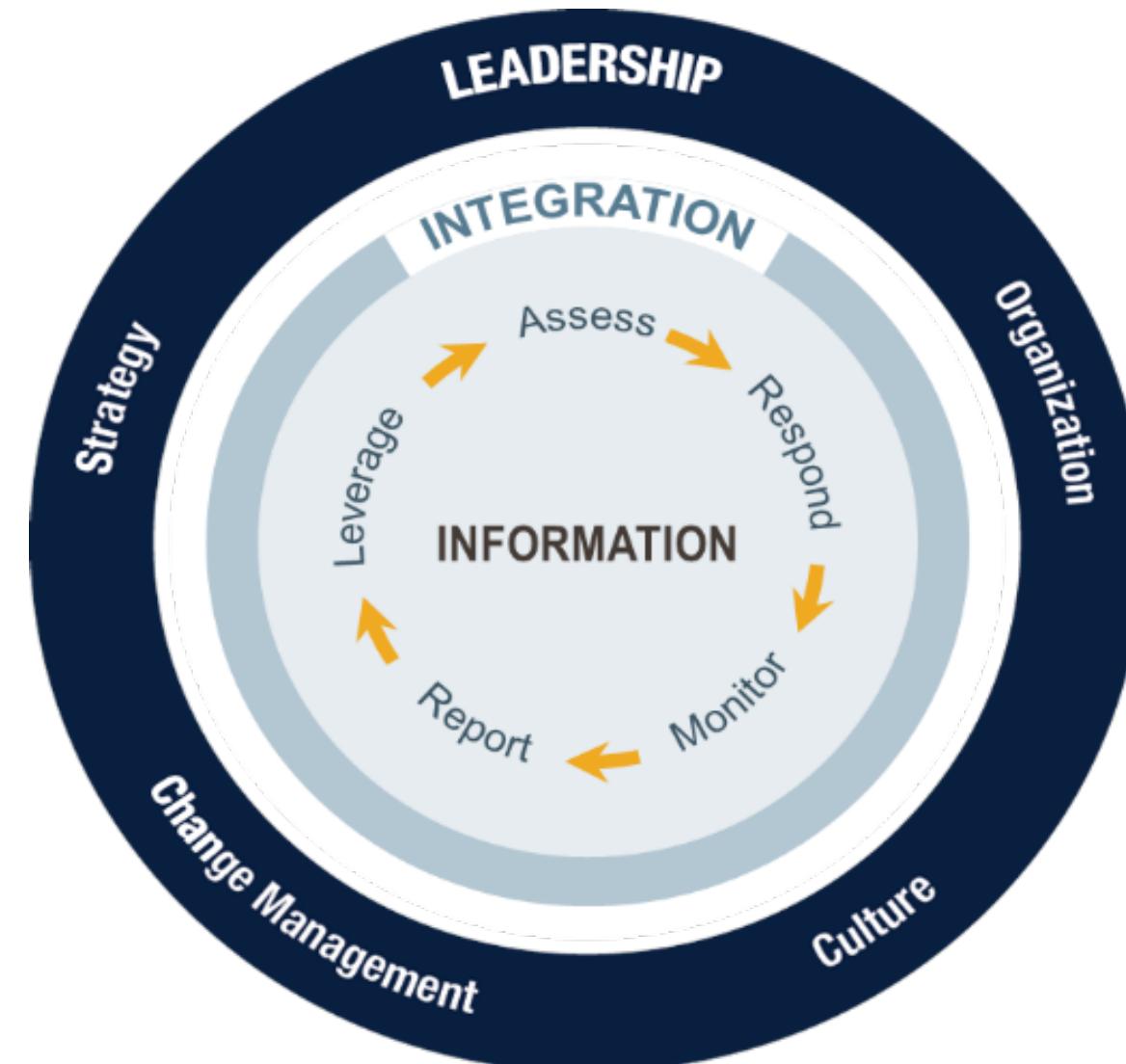
POLLING QUESTION 1

What is your organization's experience with sustainable compliance management programs?

- A. I've never heard of sustainable compliance management
- B. Our regulators mentioned it, but I'm not sure what we've done to address it.
- C. We have three lines defense and everything seems to be working well, but we're actively focusing on building a more sustainable compliance management program.
- D. We're a well-oiled machine with all three lines of defense working together and functioning at a high-level.



SUSTAINABLE COMPLIANCE MANAGEMENT FRAMEWORK



SUSTAINABLE COMPLIANCE MANAGEMENT

Shift in regulatory focus

Three (or more) lines of defense

What regulators expect

Bank Secrecy Act



BANK SECRECY ACT

- Overall, continues to be major regulatory focus on BSA/AML compliance
- Specific focus areas:
 - Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD)
 - Suspicious Activity Monitoring
 - Cannabis Banking



POLLING QUESTION 2

What are your plans to provide banking services to entities in the digital asset ecosystem? (choose all that apply)

- A. We provide traditional banking services (i.e. fiat deposits, fiat loans, etc.) to entities operating in the digital asset ecosystem (i.e. individuals, miners, exchanges, etc.)
- B. We are looking at providing custody services to entities operating in the digital asset ecosystem (either holding digital assets in trust or holding stablecoin fiat reserves on deposit.)
- C. We are providing or considering providing other services, such as loans collateralized by crypto or forms of direct/indirect interaction with digital assets.
- D. We don't currently provide banking services to entities operating in the digital asset ecosystem, but we are assessing it as a potential.
- E. We don't currently provide banking services to entities operating in the digital asset ecosystem and we are unlikely to consider it.



CDD AND EDD

- Account opening
 - Site Visits, Expected Activity
- Customer profile updates
- Banking as a Service
 - Fintechs and other third-party relationships
- Understanding risks of new customer types
 - Digital assets, etc.
- Potential legislation
 - Beneficial ownership



SUSPICIOUS ACTIVITY MONITORING

- Link to CDD and EDD processes
- Sufficient staffing to avoid backlogs
- Model validation and tuning
- Board reporting
 - KRIIs and KPIs



POLLING QUESTION 3

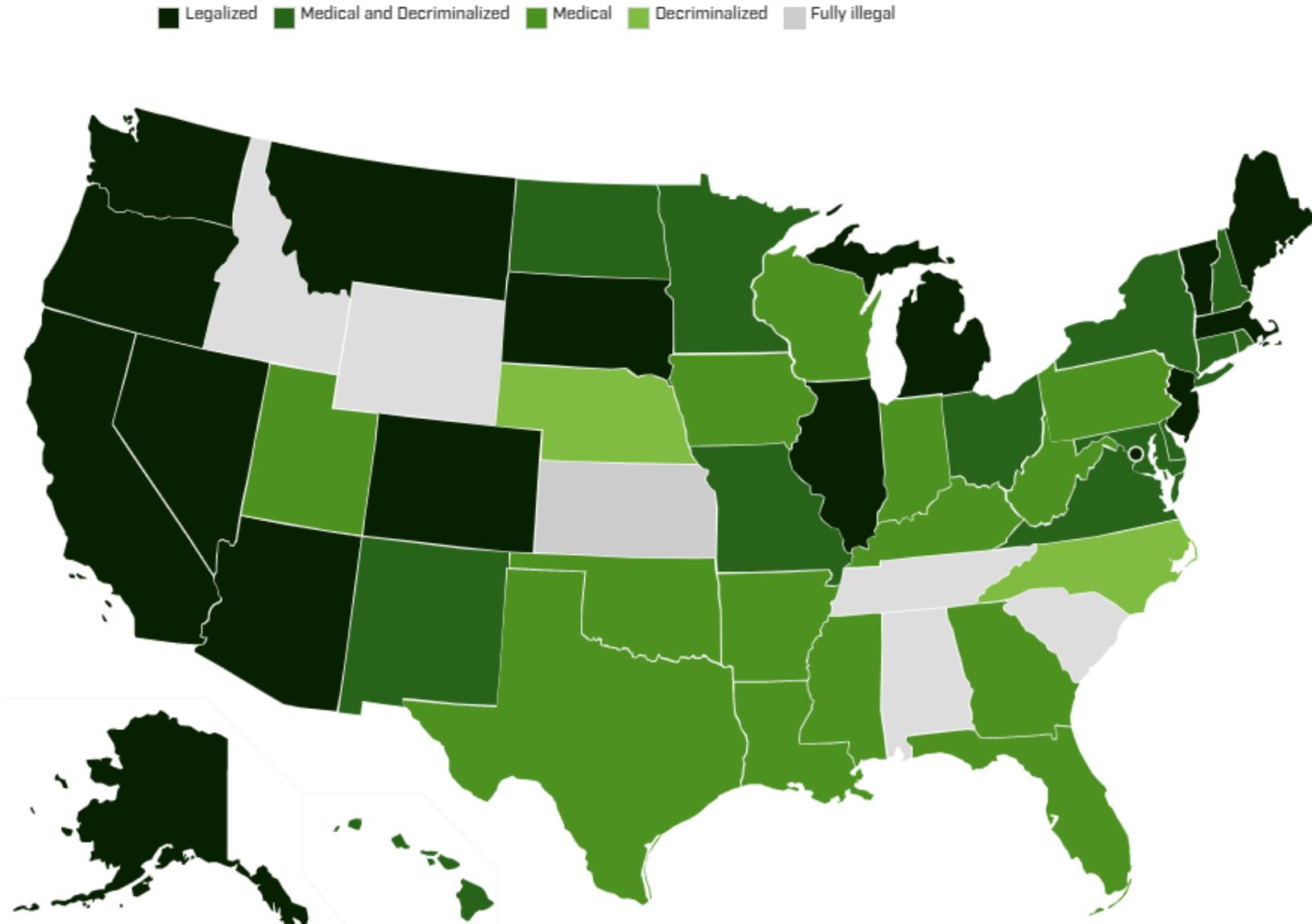
What are your plans to provide banking services to entities in the cannabis space (choose all that apply)?

- Retailers and distributors
- Growers
- Supporting entities
- We are actively evaluating but we do not know yet
- We have concluded we will not for the foreseeable future provide banking services to companies in this space



CANNABIS BANKING

Marijuana legalization map
as of November 2020



CANNABIS BANKING

- Regulatory landscape
- Three tier approach
- Setting policy and risk appetite
 - Where do you draw the line?



Compliance Risk Assessment



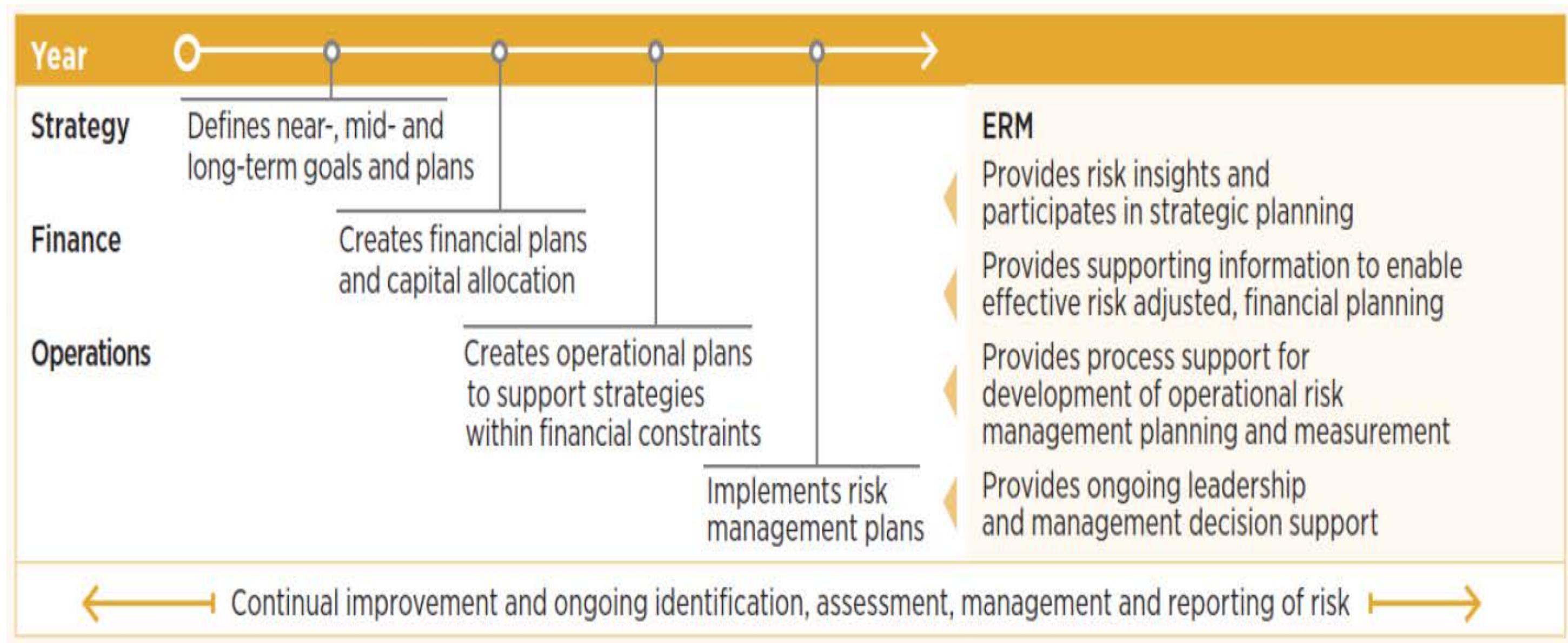
POLLING QUESTION 4

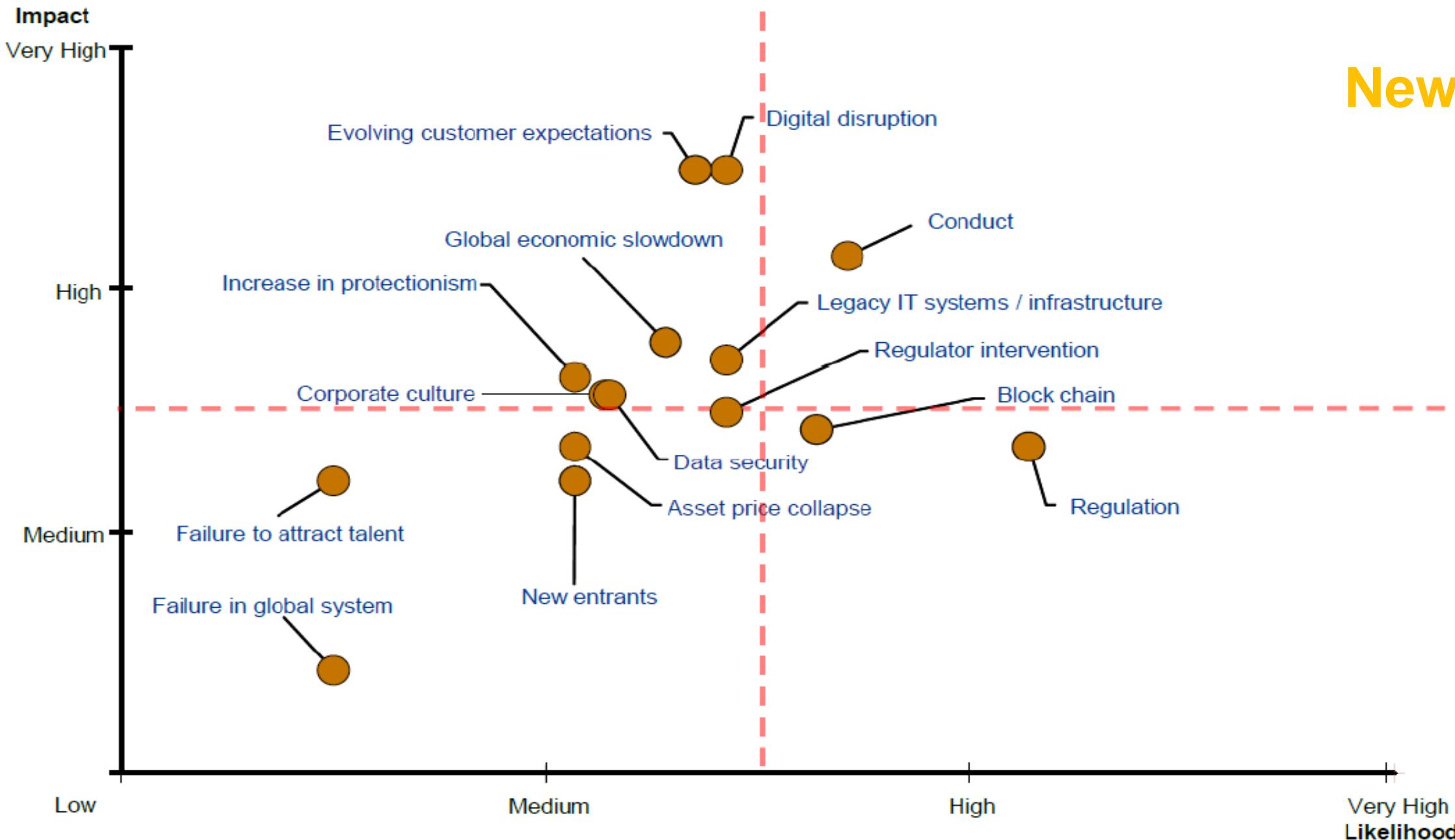
How helpful are your risk assessment process output when planning your organization's strategic initiatives?

- A. How helpful are your risk assessment process output when planning your organization's strategic initiatives?
- B. Our risk assessment process provides reliable and valuable input that we consider in the strategic planning process.
- C. We informally discuss risks when performing strategic planning but do not rely upon the organization's risk assessment process
- D. We focus on strategy and address risks separately as they occur
- E. Risks? What risks?



ALIGNING RISK ASSESSMENTS TO STRATEGY AND EXECUTION





New Considerations

Adaptability

Complexity

Velocity

Persistence

Recovery



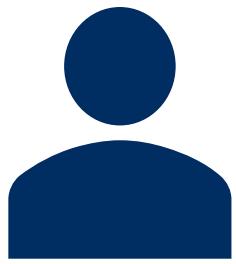
Strategic Risks



STRATEGIC RISKS: FIVE Cs TO CONSIDER



Industry Situation



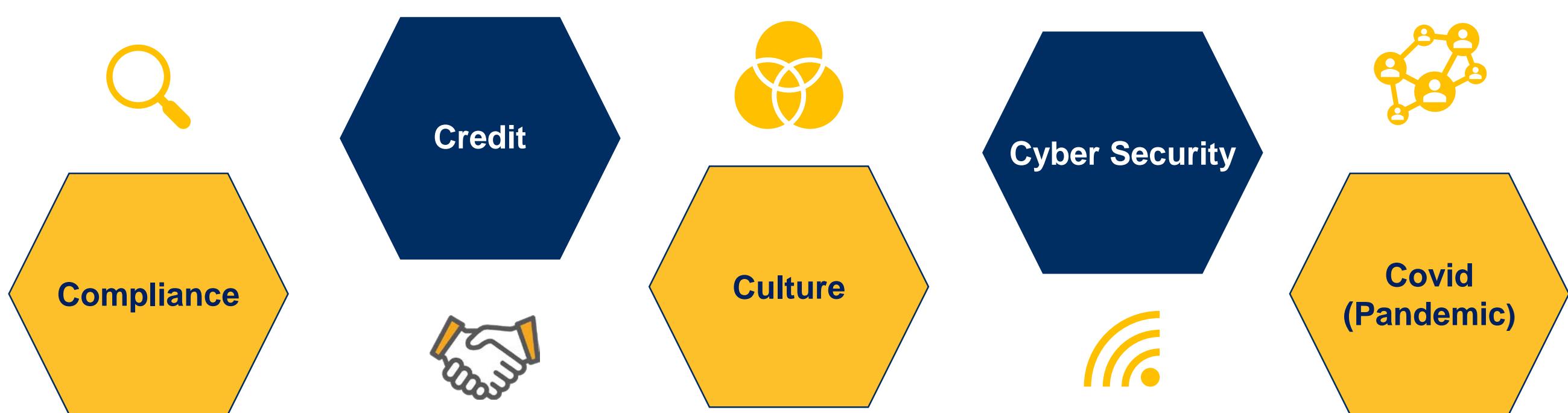
Key Considerations



**What to Do and
What to Avoid**



STRATEGIC RISKS: FIVE Cs TO CONSIDER



QUESTIONS AND RESPONSES



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